

**RESULTS – 4Q/FY10**

27 Aug 2010

For period Apr-Jun 2010

Freight Management Holdings		Market Price:	RM0.925
		Market Capitalisation:	RM112.4m
		Board:	Main Board
Stock Code/Name:	7210/FREIGHT	FBM Index:	Fledgling
Recommendation:	BUY	Sector:	Trading/Services

Analyst: Edmund Tham

Key Stock Statistics	2011F
EPS (sen)	16.1
P/E (x)	5.7
Dividend/Share (sen)	5.3
NTA/Share (RM)	0.89
Book Value/Share (RM)	0.90
Issued Capital (mil shares)	121.7
52-weeks share price (RM)	0.58 – 1.07
Major Shareholders:	%
Chew Chong Keat	26.2
Singapore Enterprises Pte Ltd	20.0
Yang Heng Lam	18.5

4Q/ 30 Jun	4Q10	4Q09	yoy %	3Q10	qoq%
Rev (RMm)	74.6	53.8	38.7	66.5	12.3
EBIT (RMm)	6.6	5.6	16.4	4.5	46.8
NPAT (RMm)	4.7	4.0	15.7	3.7	26.6
EPS (sen)	3.8	3.3	15.7	3.0	26.6

12M/ 30 Jun	FY10	FY09	yoy %
Rev (RMm)	265.5	229.4	15.7
EBIT (RMm)	21.5	18.0	19.6
NPAT (RMm)	16.4	13.6	21.2
EPS (sen)	13.5	11.1	21.2

Per Share Data	2008	2009	2010	2011F
Book Value (RM)	0.61	0.69	0.78	0.90
Earnings (sen)	10.0	11.1	13.5	16.1
Dividend (sen)	4.5	4.5	5.0	5.3
Payout Ratio (%)	33.5	30.3	27.8	24.7
PER (x)	9.2	8.3	6.8	5.7
P/Book Value (x)	1.5	1.3	1.2	1.0
Dividend Yield (%)	4.9	4.9	5.4	5.7
ROE (%)	16.4	16.2	17.2	17.8
Net Gearing (cash) (x)	0.18	0.03	0.12	0.06

PERFORMANCE

Freight's (FMH) latest FY10 results revealed steady revenues and profits that were **within, but at the higher-end of our earlier expectations** for full year FY10.

“FMH reports strong FY10 results”

FMH had recorded a strong y-o-y revenue growth of 38.7% or RM20.8 million to RM74.6 million during its 4Q/FY10 (4Q/FY09: RM53.8 million), contributed by the strong demand for seafreight and airfreight services. The group's strong seafreight volumes (in TEUs) resulted in segment revenues that were more than 10% above our earlier expectations.

“Seafreight volumes higher than expected”

During 4Q/FY10, revenue from the group's core business segment - Seafreight services had increased by 56.8% or RM16.8 million. Its Airfreight segment similarly enjoyed a healthy y-o-y growth of 76.7% or RM3.3 million during 4Q/FY10. Meanwhile, FMH's support services segments such as Warehouse & Distribution, Haulage and Landfreight grew by 23.1%, 35.0% and 85.7% y-o-y respectively during 4Q/FY10.

P&L Analysis (RM mil)	2008	2009	2010	2011F
Year end: Jun 30				
Revenue	222.0	229.4	265.5	291.7
Operating Profit	18.2	20.9	23.2	27.6
Depreciation	(3.9)	(5.4)	(6.4)	(6.9)
Interest Expenses	(1.6)	(1.6)	(1.5)	(1.5)
Pre-tax Profit	16.5	19.3	21.8	26.3
Effective Tax Rate (%)	18.9	22.2	21.7	22.4
Net Profit	12.2	13.6	16.4	19.6
Operating Margin (%)	8.2	9.1	8.8	9.5
Pre-tax Margin (%)	7.5	8.4	8.2	9.0
Net Margin (%)	5.5	5.9	6.2	6.7

*50 sen par value

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The group's Land Transport service which was launched in FY09 to transport loose and full-truck cargoes between Malaysia and Thailand had gained popularity among its existing customers. The expansion in demand for the group's international freight services had provided further impetus for growth in its domestic logistics services, such as Warehouse & Distribution, Custom Brokerage and Haulage services.

During 4Q/FY10, the group's profit before tax (PBT) had expanded by RM0.9 million or 15.6% to RM6.6 million (4Q/FY09: RM5.7 million), while the group's net profit after tax after minority interest (NPATMI) had increased by RM0.7 million to RM4.7 million (4Q/FY09: RM4.0 million). For FY10 ending 30th June 2010, the group had recorded PBT of RM21.8 million against RM19.3 million, a growth of 12.9% y-o-y. The group achieved a growth of 21.2% in NPATMI, an increase of RM2.8 million to RM16.4 million (FY09: RM13.6 million).

OUTLOOK/CORP. UPDATES

FMH's management remains very focused on its core business in the provision of freight services. Additionally, the group continues to seek opportunities to grow its businesses through potential acquisition within the industry both in domestic and regional markets. FMH's freight (sea and air) volumes (TEUs) had recovered well in its FY10. The steady performance across most of FMH's business segments in FY10 and the general improvement in both global and domestic business sentiments augurs well for FMH's overall performance during its FY11 ending 30th June 2011.

“Bright prospects during FMH's FY11”

In April 2010, The International Monetary Fund (IMF) stated that the global economy will grow at a faster-than-expected rate this year as it continues to rebound from the crippling financial crisis. In its World Economic Outlook report, the IMF had forecast global economic growth of 4.2% for 2010 and 4.3% for 2011.

The growth in Malaysia's foreign trade (exports/imports), IPI (Industrial Production Index) and Manufacturing Sales in recent quarters – would augur well for FMH's freight volumes and FY11 results. The latest available Malaysian economic data (June 2010) revealed slowing growth rates in y-o-y percentage terms but still very strong numbers nevertheless, for instance - IPI (+9.4 y-o-y), and

Manufacturing Sales (+13.8% y-o-y), Exports (+17.2% y-o-y) and Imports (+30.1% y-o-y). Malaysia had reported a strong 2Q/2010 GDP growth of +8.9% while Bank Negara Malaysia (BNM) had increased its overnight policy rate (OPR) to 2.75% to stifle inflationary pressures, given that overall economic conditions have improved.

“Asia to drive global growth”

FMH's traditional focus on intra-Asian trade, with less exposure to the US and Europe trade markets, has enabled the group to recover faster (compared to some competitors) from the lower trade volumes during the global recession last year. Furthermore, global economic growth in the next few years would be led by Asian countries, such as **China and India**.

During FY10, 22.7% of FMH's revenues were derived from its overseas operations in Singapore, Australia, Indonesia and Thailand. FMH is getting a steady contribution from its newer subsidiaries in Indonesia and Thailand. FMH's management is also exploring JV opportunities in other ASEAN countries. FMH's low-entry-cost and asset light business model has so far proved successful in Indonesia and Thailand.

“Latest venture – Vietnam”

In March 2010, Icon Line (M) SB, a wholly owned subsidiary of FMH had entered into a MOU with Mr Dang Anh Binh to form a JV company for the purpose of starting a freight forwarding business in Vietnam. In April 2010, Icon Line had entered into a JV agreement with Mr Dang to incorporate a JV company in Ho Chi Minh City, Vietnam known as Icon Freight Services Company Ltd.

In July 2010, Icon Line (Malaysia) SB had subscribed VND255 million in Icon Freight Services Co Ltd, representing 51% of total issued and paid-up capital of Icon Freight Services Co Ltd. Thereafter, Icon Freight Services Company Ltd will be a 51% owned subsidiary of Icon Line (M) SB. Currently, FMH is working on setting-up its freight operations in Ho Chi Minh City, Vietnam.

To grow organically, FMH also continually seeks to expand its customer and agent base and to explore new destinations. Additionally, FMH has intensive marketing programmes to meet customers' demands and also continue to provide value-added services to them. FMH's management closely monitors its business volumes, receivables collection, industry trends and economic conditions.

Results Coverage

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Nevertheless, there remain notable risks to global economic growth rates, such as the end of various governments' stimulus packages, financial turbulence in Europe and the sustained high unemployment levels in the US. Furthermore, FMH's profit margins could be impacted during times of sudden or extreme **foreign exchange (FX) and freight rate fluctuations**. Post global recession, freight rates are now firmly on the ascent.

FMH is committed towards good **corporate social responsibility (CSR)** practices in the community, workplace and environment. The company has contributed for the betterment of community (donations to the underprivileged), workplace (medical benefits, recognition awards, sports clubs, trips, training) and environment (pollution minimization, recycling, and energy savings).

VALUATION

FMH's board of directors (BOD) has recommended for the approval of shareholders a final dividend of 2.5 sen gross dividend per share (DPS) less tax, for its FY10 ended 30th June 2010. In July 2010, FMH had paid out a gross interim dividend of 2.5 sen per share less tax for its FY10 ending 30 June 2010, an amount totalling approximately RM2.3 million.

“Better DPS expected”

FMH's FY10 higher gross dividend per share (DPS) was just as we expected. Given FMH's strong performance and its dividend payout track record, we feel that FMH could still decide to give out an even higher gross DPS for its FY11.

“FMH outperforms the KLCI YTD”

Even with an adjusted beta of 0.87 to the KLCI, FMH has managed to outperform the KLCI this year by 3.9% (by +14.9% vs. +11.0% year-to-date (YTD)). Recently FMH's stock price seems to have settled at a higher trading range than earlier in the year. This could be partly due to the stronger overall stock market and economic conditions compared to before. Nevertheless, as FMH is not a large market-cap stock, this may put a dampener on its market visibility and trading volume.

“Revise Target Price upwards”

We have tweaked upwards our Target Price (TP) for FMH after reviewing its strong FY10 performance.

Based on our forecast of FMH's FY11 EPS and estimated P/E of 8 times, we set a **FY11-end Target Price (TP) of RM1.29**. This TP represents a substantial 29.2% upside from its current market price. Our TP for FMH reflects a P/BV of 1.4 times over its FY11F BV/share. Meanwhile, the local transportation service sector's average P/E and P/BV is 11.4 times and 1.3 times, respectively.

“Solid business model”

Even during the times of economic weakness, FMH's business model has proven to be very solid and resilient. We like FMH due to its business model, calculated growth strategy, attractive value (low P/E and reasonable P/BV), attractive dividend yield and strong ROE. With a strong management team and a multimodal, asset-light, tight cost-control, operationally efficient and low-gearing business model, FMH seems well-set to grow steadily during the current stage of economic recovery. FMH also has ample capabilities, financial reserves and operational flexibility to expand organically and also to explore new JV and M&A opportunities.

“FMH: Substantial upside”

We believe that with FMH's solid fundamentals and steady earnings growth, there would be further share price upside. Hence we **reiterate our Buy Call** on FMH. Further earnings upside would be dependent on factors such as freight volumes, regional expansion, economic growth and also any future JVs and M&As.

Freight: 6-month Share Price



Source: NextView

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