



**RESULTS REPORT**

25 Aug 2011

<b>Freight Management Holdings</b>		<b>Market Price:</b>	RM1.08
		<b>Market Capitalisation:</b>	RM131.5m
		<b>Board:</b>	Main Market
<b>Recommendation:</b>	BUY	<b>Sector:</b>	Trading/Services
<b>Target Price:</b>	RM1.51	<b>Stock Code/Name:</b>	7210/FREIGHT

Analyst: Edmund Tham

**KEY FINANCIALS**

Key Stock Statistics	2012F
Earnings/Share (sen)	18.9
P/E Ratio (x)	5.7
Dividend/Share (sen)	5.0
NTA/Share (RM)	1.05
Book Value/Share (RM)	1.06
Issued Capital (mil shares)	121.7
52-weeks share price (RM)	0.765 – 1.18
<b>Major Shareholders:</b>	%
.Chew Chong Keat	26.2
.Singapore Enterprises Pte Ltd	20.0
.Yang Heng Lam	18.4

**PERFORMANCE – 4Q/FY11**

4Q/ 30 Jun	4Q11	4Q10	yov %	3Q11	qoq%
Rev (RMm)	81.3	74.6	8.9	68.7	18.3
EBIT (RMm)	6.9	6.6	4.6	4.4	55.6
NPAT^(RMm)	5.9	4.7	25.6	4.2	40.2
EPS (sen)	4.8	3.8	25.6	3.4	40.2

^NPATMI

12M/ 30 Jun	FY11	FY10	yov %
Rev (RMm)	295.5	229.4	28.8
EBIT (RMm)	21.9	21.5	1.9
NPAT^(RMm)	19.7	16.4	20.0
EPS (sen)	16.2	13.5	20.0

^NPATMI

Ratios Analysis	2009	2010	2011	2012F
Book Value/Sh. (RM)	0.69	0.78	0.91	1.06
Earnings/Sh. (sen)	11.1	13.5	16.2	18.9
Dividend/Sh. (sen)	4.5	5.0	5.0	5.0
Div. Payout Ratio (%)	30.3	27.8	23.1	19.8
P/E Ratio (x)	9.2	7.6	6.4	5.7
P/Book Value (x)	1.5	1.3	1.1	1.0
Dividend Yield (%)	4.4	4.9	4.9	4.6
ROE (%)	16.2	17.2	17.7	17.7
Net Gearing (or Cash)(x)	0.03	0.12	0.09	0.05

\*excluding impact of proposed bonus

P&L Analysis (RM mil)	2009	2010	2011	2012F
<b>Year end: Jun 30</b>				
Revenue	229.4	265.5	295.5	315.1
Operating Profit	20.9	23.2	25.9	30.5
Depreciation	(5.4)	(6.4)	(7.7)	(8.6)
Interest Expenses	(1.6)	(1.5)	(1.9)	(2.3)
Pre-tax Profit	19.3	21.8	24.0	28.2
Effective Tax Rate (%)	22.2	21.7	17.7	18.3
NPATMI	13.6	16.4	19.7	23.0
Operating Margin (%)	9.1	8.8	8.8	9.7
Pre-tax Margin (%)	8.4	8.2	8.1	9.0
NPATMI Margin (%)	5.9	6.2	6.7	7.3

\*50 sen par value

Freight Management Holdings' (FMH) full year results were generally within our earlier expectations.

**“FY11 within expectations”**

The group's revenue during 4Q/FY11 of RM81.3 million was higher by 8.9% y-o-y versus 4Q/FY10. The higher revenue was mainly due to the strong performance recorded by FMH's "3PL & Warehousing", Landfreight and Customs Brokerage business segments. 3PL refers to Third Party Logistics.

**“New 3PL corporate clients”**

The improved performance by the "3PL & Warehousing" segment was mainly due to the additional businesses secured from Shell Malaysia Trading Sdn Bhd and a few other corporate clients. FMH's Customs Brokerage segment also benefited from the growth in "3PL & Warehousing". The increase in Landfreight services was mainly due to the launching of the

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full-truck-load (FTL) services between Penang and Bangkok in April 2011. The group's NPATMI (net profit after tax and minority interest) of RM5.9 million was higher by 25.6% y-o-y.

FMH performed better in 4Q/FY11 by 18.3% compared to 3Q/FY11 in terms of revenue. Most of FMH's business segments recorded q-o-q growth during the quarter, except for "Tug & Barge", which recorded a slight drop. Group NPATMI during 4Q/FY11 was better than the preceding 3Q/FY11 by 40.2%.

## OUTLOOK/CORP. UPDATES

### "FMH's outlook – positive & resilient"

We foresee that FMH would continue to enjoy positive results during its FY11. The group has managed to maintain its sea freight volumes (in TEUs), aided in part by a strong performance in its LCL (less than a container load) segment. FMH's sea freight volumes are still growing while its air freight volumes were quite flat in 4Q/FY11. We note that FMH's freight business is focused on intra-Asia trading, as such the group would not be affected that much by the weak business sentiment in the US and Europe

### "Cautious outlook by IMF"

According to the IMF's (International Monetary Fund) June 2011 World Economic Outlook (WEO), economic activity slowed down temporarily during the 2<sup>nd</sup> quarter, downside risks had increased again and global expansion remains unbalanced. Growth in many advanced economies is still weak, considering the depth of the recent recession. Growth in most emerging and developing economies continues to be strong. Overall, the global economy expanded at an annualized rate of 4.3% in the first quarter, and forecasts for 2011–2012 were broadly unchanged.

However, IMF views that greater-than-anticipated weakness in U.S. activity and renewed financial volatility from concerns about the depth of fiscal challenges in the Euro area

pose greater downside risks. Risks also draw from persistent fiscal and financial sector imbalances in many advanced economies, while signs of overheating are becoming apparent in many emerging and developing economies.

**Malaysia** had reported a CPI of 3.4% (July 2011). In early July 2011, Bank Negara Malaysia (BNM) had maintained its overnight policy rate (OPR) at 3.0% but raised the statutory reserve requirement (SRR) for banks from 3% to 4% in order to rein-in inflationary pressures. According to BNM, Malaysia's 2Q/2011 GDP rose by 4%, following a revised 4.9% GDP growth in 1Q/2011. At the moment, BNM is still expecting a full-year GDP growth of around 5.0% for Malaysia. Recent June 2011 data include: IPI (+1.0% y-o-y), Manufacturing Sales (+12.9% y-o-y), Exports (+8.6% y-o-y) and Imports (+6.3% y-o-y).

### "Expanding 3PL & Warehousing segment"

FMH's "3PL & Warehousing" business segment had provided optimism by its positive performance and securing a few new corporate clients – a major business-win being **Shell Malaysia Trading Sdn Bhd**, where FMH beat some top names in the industry.

Currently, FMH operates 5 warehouses within the Klang Valley, with a combined warehousing space of close to 500,000 sq ft. FMH has a flexible approach in terms of owning versus leasing warehouses. FMH is also considering adding warehouse capacity on its 5 acres of available land. The group is constantly on the lookout for more warehouses and storage space. This is due to growing demand from its existing customers and also new 3PL corporate clients.

### "Steady regional growth"

During FY11, about 22.8% of FMH's revenues were derived from its overseas operations in **Singapore, Australia, Indonesia, Vietnam and Thailand**. FMH is getting a steady contribution from its subsidiaries in Indonesia and Thailand, while Vietnam's new revenue contributions are also improving.

Yesterday, FMH had announced 2 non inter-conditional proposals on bonus and warrants.

(1) The **Proposed Bonus Issue** of around 40.6 million shares of RM0.50 each in FMH on a 1-for-3 basis;

(2) The **Proposed Warrant Issue** of around 24.3 million free Warrants in FMH on a 1-for-5 basis, held on the same entitlement date for the proposed Bonus Issue;

The bonus and free warrants are meant to reward FMH's loyal shareholders. Concurrently, these proposals would add to FMH's share base and hence lead to enhanced share trading liquidity. These proposals are expected to be completed in early 2012.

## VALUATION/CONCLUSION

FMH's Board of Directors (BOD) had declared an interim gross dividend per share (DPS) of 2.5 sen (less tax) for its FY11 ending 30<sup>th</sup> June 2011. The interim dividend was duly paid out on 15<sup>th</sup> July 2011. The BOD has recommended a final dividend of 2.5 sen (less tax) for its FY11. The book closure and payment date will be decided later, after shareholders' approval at the next AGM. Given FMH's strong earnings performance and its dividend payout track record, we opine that FMH would maintain or better its total gross DPS for its FY11.

Even with an adjusted beta of 0.78 to the KLCI, FMH (+11.3% YTD) has managed to outperform the KLCI (-3.4% YTD) this year. Market conditions have also been volatile in recent months, impacted by the Arab Spring uprisings in the Middle East/North Africa, the major Tohoku natural disaster in Japan, debt-ceiling issue in the US and sovereign debt issue in Europe. As FMH is not an especially large market-cap stock, this may put a dampener on its market visibility and trading volume.

### “Maintain Buy Call”

Based on our forecast of FMH's FY12 EPS and an estimated P/E of 8 times (within its historical range), we set a **FY12-end Target Price (TP) of RM1.51**. This TP represents an attractive 40.0% 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 24.6 times and 1.4 times, respectively.

Even during the times of economic weakness, FMH's business model had proven to be very solid and resilient. We like FMH due to its business model, calculated growth strategy, attractive value (undemanding P/E and P/BV valuations), reasonable dividend yield and ROE. FMH's net gearing position is also quite minimal.

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. FMH also has ample capabilities, financial reserves and operational flexibility to expand organically and also to explore new JV and M&A opportunities. Further earnings upside would be dependent on factors such as freight volumes, freight rates, FMH's regional business expansion, global economic growth and also any future JVs and M&As.

There remain notable risks to the global economy - such as a weak US Dollar, sovereign debt turbulence in Europe, the Tohoku disaster in Japan, high crude oil prices, the sustained high unemployment levels in the US and political upheaval in the Middle East/North Africa. FMH's profit margins could also be impacted during times of sudden or extreme foreign exchange (FX) and freight rate fluctuations.

### Freight: Share Price



Source: NextView

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