

**RESULTS – 3QFY10**

27 May 2010

For period Jan-Mar 2010

Freight Management Holdings		Market Price:	RM0.78
		Market Capitalisation:	RM94.9m
		Board:	Main Board
		FBM Index:	Fledgling
Stock Code/Name:	7210/FREIGHT	Sector:	Trading/Services
Recommendation:	BUY		

Analyst: Edmund Tham

Key Stock Statistics	2011F
EPS (sen)	13.9
P/E (x)	5.6
Dividend/Share (sen)	5.5
NTA/Share (RM)	0.86
Book Value/Share (RM)	0.87
Issued Capital (mil shares)	121.7
52-weeks share price (RM)	0.575 – 0.895
Major Shareholders:	%
Chew Chong Keat	26.2
Singapore Enterprises Pte Ltd	20.0
Yang Heng Lam	18.5

3Q/ 31 Mar	3Q10	3Q09	yoy %	2Q10	qoq%
Rev (RMm)	66.5	49.7	33.7	65.6	1.3
EBIT (RMm)	4.5	3.4	30.7	5.4	(16.7)
NPAT (RMm)	3.7	2.8	32.4	4.2	(12.4)
EPS (sen)	3.0	2.3	32.4	3.5	(12.4)

9M/ 31 Mar	9M10	9M09	yoy %
Rev (RMm)	190.9	175.6	8.7
EBIT (RMm)	14.9	12.3	21.0
NPAT (RMm)	11.8	9.5	23.5
EPS (sen)	9.7	7.8	23.5

Per Share Data	2008	2009	2010E	2011F
Book Value (RM)	0.61	0.69	0.78	0.87
Earnings (sen)	10.0	11.1	12.4	13.9
Dividend (sen)	4.5	4.5	5.0	5.5
Payout Ratio (%)	33.5	30.3	30.2	29.6
PER (x)	7.8	7.0	6.3	5.6
P/Book Value (x)	1.3	1.1	1.0	0.9
Dividend Yield (%)	5.8	5.8	6.4	7.1
ROE (%)	16.4	16.2	16.0	15.9
Net Gearing (cash) (x)	0.18	0.03	0.08	0.03

PERFORMANCE

Freight's (FMH) latest 9M/FY10 results revealed annualized steady revenues and profits that were well **within our earlier expectations** for full year FY10.

“Steady results in-line with expectations”

The group's revenue had grown by 33.7% from RM49.7 million in 3Q/FY09 to RM66.5 million in 3Q/FY10. FMH's performance during 3Q/FY10 was promising as most of business segments registered positive growth with the exception of Railfreight and “Tug & Barge” services. The highest y-o-y increase was recorded by Seafreight and Airfreight services which grew by 62% (RM15.2 million) and 51.3% (RM2.0 million) as compared to 3Q/FY09.

The growth during 3Q/FY10 was underpinned by the strong demand for domestic and international freight services due to the recovery in the global economy. FMH's support services, namely Haulage, Customs Brokerage and “Warehouse & Distribution” services had enjoyed similar growth ranging from 21.7% to 47.5%. However, “Tug & Barge” services declined by 27.8% or RM1.9 million due to the stiffer competition with the increase in supply of barges returning from the Middle East, particularly from Dubai. Like in recent quarters, the declining

P&L Analysis (RM mil)	2008	2009	2010E	2011F
Year end: Jun 30				
Revenue	222.0	229.4	249.8	272.9
Operating Profit	18.2	20.9	21.2	23.9
Depreciation	(3.9)	(5.4)	(6.7)	(7.5)
Interest Expenses	(1.6)	(1.6)	(1.6)	(1.6)
Pre-tax Profit	16.5	19.3	19.7	22.5
Effective Tax Rate (%)	18.9	22.2	18.2	19.8
Net Profit	12.2	13.6	15.1	16.9
Operating Margin (%)	8.2	9.1	8.5	8.8
Pre-tax Margin (%)	7.5	8.4	7.9	8.2
Net Margin (%)	5.5	5.9	6.1	6.2

*50 sen par value

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performance for Railfreight services was further affected by the disruption in service due to the inconsistent supply of locomotives.

FMH achieved a profit before tax (PBT) of RM4.4 million in 3Q/FY10, a marginal y-o-y increase of RM0.1 million or 2.3% from RM4.3 million in 3Q/FY09. With the strengthening of the Malaysian Ringgit, the gain on foreign exchange which was captured as "Other Operating Income" had declined by about RM1.0 million as compared to 3Q/FY09. The group reported a net profit after tax and minority interest (NPATMI) of RM3.7 million against RM2.8 million in 3Q/FY09, an increase of RM0.9 million or 32.4%.

The group had reported a decline of 18.5% in profit before tax for 3Q/FY10 compared to the immediate preceding 2Q/FY10 as this is historically its slower quarter due to the festive period and a shorter working month in February. Comparing q-o-q versus 2Q/FY10, the group's NPATMI in 3Q/FY10 had declined by 12.4%. Higher vendor freight rates were also a factor during the quarter but these were partly offset by the higher freight volumes.

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. The logistics sector in Malaysian had recorded lower volumes due to the global economic crisis, which had the most impact during 1H/. Nevertheless, FMH's freight (sea and air) volumes (TEUs) are recovering well.

FMH's focus on intra-Asian trade, with less exposure to the US and Europe trade markets, has enabled the group to recover faster 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. Nevertheless, FMH's profit margins could be impacted during times of sudden foreign exchange and freight rate fluctuations.

In April 2010, The International Monetary Fund (IMF) said that the global economy will grow at a faster-than-expected rate this year as it continues to rebound from a crippling financial crisis. In its latest World Economic Outlook report, the IMF had

forecast global economic growth of 4.2% for 2010 and 4.3% for 2011.

"Economic recovery to drive top-line growth"

Looking at the economic data from various markets, it appears that many of the economies are bottoming out and many are already on the upswing to recovery. With the recovery of Malaysia's foreign trade (exports/imports), IPI (Industrial Production Index) and Manufacturing Sales numbers in the coming quarters – this would augur well for FMH's freight volumes and hence FY10-FY11 results. The latest Malaysian economic data (March 2010) revealed strong numbers - IPI (+14.1 y-o-y), and Manufacturing Sales (+27.7% y-o-y), Exports (+36.4% y-o-y) and Imports (+45.3% y-o-y).

Malaysia had reported a strong 1Q/2010 GDP growth of +10.1%. Meanwhile, Bank Negara Malaysia (BNM) had increased its overnight policy rate (OPR) to 2.50%, given that economic conditions have improved. The latest available CPI (consumer price index) of +1.5% y-o-y was reported for the month of April 2010. This uptrend in GDP growth, OPR and CPI points to a solid phase of economic recovery in Malaysia.

"Regional expansion – progressing well"

FMH is getting a steady contribution from its rather new subsidiaries in Indonesia and Thailand. During 9M/FY10, about 22.4% of FMH's revenue was derived from overseas i.e. Singapore, Australia, Thailand and Indonesia. FMH's management is also exploring JV opportunities in other ASEAN countries, such as Vietnam. FMH's low-entry-cost and asset light business model appears to be successful in Indonesia and Thailand.

In March 2010, Icon Line (M) SB, a wholly owned subsidiary of FMH 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 incorporated a JV company in Ho Chi Minh City, Vietnam known as Icon Freight Services Company Ltd.

Meanwhile, in May 2010, FMH had received a deposit amounting to RM153,000 for the disposal of a property at Kawasan Perusahaan Bandar Sultan Suleiman, Port Klang for a consideration of RM5.1 million. The disposal is pending the execution of a formal S&P agreement.

Results Coverage

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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.

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. It also has sufficient capabilities, reserves and flexibility to expand and to explore new JV and M&A opportunities.

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 has declared a gross interim dividend of 2.5 sen per share less tax for its FY10 ending 30 June 2010. The dividend will be paid on 15th July 2010 to shareholders in FMH's Record of Depositors at the close of business on 30th June 2010. This is a higher gross interim dividend per share (DPS) than before. As such, we expect a higher DPS in FMH's FY11 as well, assuming that the group would stick to its recent-years' dividend payout ratio of around 30% of its annual net earnings. FMH appears to have one of the best dividend payout ratios within the local freight and logistics sector.

“Better DPS than before”

With a weak adjusted beta of 0.79 to the KLCI, FMH has slightly underperformed the KLCI this year (by -3.1% vs. -0.5% YTD). We believe that the recent weakness in FMH's share price is partly due to the overall share market sentiment despite of FMH's strong fundamentals. As FMH is not a large market-cap stock, this may be a dampener on its market visibility and trading volume.

“FMH: Substantial upside”

Based on our forecast of FMH's FY11 EPS and conservative P/E of 7 times, we set a FY11-end target price (TP) of RM0.97. This TP nevertheless represents a substantial 24.9% upside from its current market price. Our TP for FMH reflects a P/BV of 1.1 times over its FY11F BV/share. Meanwhile, the local transportation service sector's average P/E is 10.6 times.

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, growth strategy, attractive value (low P/E and P/BV), attractive dividend yield and strong ROE. 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.

Freight: 6-month Share Price



Source: NextView

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