



COMPANY UPDATE

28 Feb 2011

Freight Management Holdings		<i>Market Price:</i>	RM1.04
		<i>Market Capitalisation:</i>	RM126.6m
		<i>Board:</i>	Main Board
<i>Stock Code/Name:</i>	7210/FREIGHT	<i>FBM Index:</i>	Fledgling
<i>Recommendation:</i>	BUY	<i>Sector:</i>	Trading/Services

Analyst: Edmund Tham



Source: FMFF website

Currently, about 63% of Freight’s revenues are derived from sea freight (with Port Klang and Penang Port as the hubs), while the other segments contribute to the other 37%. Currently, Freight is operating 9 tugs and 8 barges. The barges are mainly used to carry items such as metal ores and building materials between southern Thailand, Sumatra, Peninsular Malaysia and Singapore.

BACKGROUND

Freight was listed on Bursa Malaysia’s Second Board in February 2005. In December 2007, Freight was upgraded to the Main Board on Bursa. Based near North Port harbour in Klang, Freight is basically involved in providing freight (sea, rail, air), tug/barge, warehouse/distribution and customs brokerage services. Freight’s main stakeholders are Chew Chong Keat (MD), Yang Heng Lam (director) and Singapore Enterprises Ptd Ltd, which is wholly owned by Freight Links Express Holdings Ltd from Singapore.

Freight focuses on a “multimodal” concept, providing the full range of freight services, with consolidation of both LCL (less than a container load) and FCL (full container load). Though there are various players in the broader logistics industry, there are few truly multimodal freight players. Listed logistic sector rivals include Century Logistics, ILB, Nationwide, TN Logistics, Haisan, Tasco and Yinson.

PERFORMANCE – 1H/FY11

Freight’s (FMH) annualized 1H/FY11 results revealed revenues and net profits were **within our earlier expectations** for full year FY11. This was despite of a weaker “peak season” recorded in the October-December quarter.

“Q2 within expectations”

During FMH’s 2Q/FY11, higher revenue was recorded as compared with the previous year’s 2Q/FY10 revenue by RM7.8 million or 12.0%. This was mainly due to the contributions from FMH’s Seafreight, Airfreight, Warehouse & Distribution, Haulage and Landfreight business segments.

However the group’s Railfreight, “Tug & Barge” and Customs Brokerage segments reported negative growth y-o-y. Meanwhile, the group’s revenue contribution from overseas subsidiaries rose from RM14.7 million in 2Q/FY10 to RM16.9 million in 2Q/FY11.

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During 2Q/FY10, FMH had reported a profit before tax (PBT) of RM5.6 million, compared to a PBT of RM5.4 million recorded in 2QFY10, a marginal increase of 3%. Comparing q-o-q versus 1Q/FY11, FMH reported a decline in profit before tax of RM0.2 million or 3.9%. However, the group's net profit after tax and minority interest (NPATMI), an increased by RM0.7 million or 15.6% from of RM4.5 million to RM5.2 million.

OUTLOOK/CORP. UPDATES

We foresee that FMH would continue to enjoy a positive results performance in its 2H/FY11, despite of the traditionally weak January-March quarter for the logistics sector. 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.

Nevertheless, post-recession, the industry still faces some weakness in airfreight volumes, probably due to a slower "peak season" demand, less restocking, cost cutting and also cautiousness on the part of freight customers.

"Burgeoning warehouse segment"

As usual, we remain prudent on our projections of FMH for its FY11 ending 30th June 2011. Nevertheless, some of FMH's business segments had provided optimism by surpassing our expectations – such as its "Warehouse & Distribution" and Land Freight segments.

In January 2011, FMH has purchased a 90,000sf warehouse for a consideration of RM14.5 million, due to its burgeoning business in its Warehouse & Distribution segment. This was partly due to the group obtaining a contract to store oil lubricants. 40,000sf of the new warehouse would be used for a CFS (Container Freight Station)(which is currently housed at a Northport warehouse) while the remaining 50,000sf would be used for both new and existing customers

"More expansion and M&A ahead"

FMH's management remains very focused on its core business in the provision of freight services and supporting services. Additionally, besides growing organically, the group continues to seek opportunities to grow its businesses through potential acquisitions within the industry both in domestic and regional markets.

"Uneven economic growth rates"

In the latest World Economic Outlook (WEO) report (January 2011), the International Monetary Fund (IMF) opined that global economic recovery has continued, though unevenly by regions. As expected, growth has been stronger in emerging economies, as compared to advanced economies. Global economic output is projected to expand by 4.5% in 2011, an upward revision of about 0.25% relative to IMF's previous forecast in October 2010.

Global economic activity had expanded at an annualized rate of just over 3.5% in the third quarter of 2010. This positive performance was better than forecast earlier, owing to the stronger-than-expected consumption in the United States and Japan. Growth in emerging and developing economies remained robust in the third quarter of 2011, buoyed by private demand, the still-accommodative policy stances, and resurgent capital inflows.

"Domestic economy still growing respectably"

The latest available Malaysian economic data (December 2010) revealed reasonably positive growth rates in y-o-y percentage terms, for instance: IPI (+4.2 y-o-y), and Manufacturing Sales (+11.4% y-o-y), Exports (+4.6% y-o-y) and Imports (+11.5% y-o-y). Malaysia had reported a very respectable 4Q/2010 GDP growth of +4.8% (+7.2% for full year 2010) and CPI of 2.4% (January 2011) while Bank Negara Malaysia (BNM) had last reaffirmed its overnight policy rate (OPR) of 2.75% in January 2011.

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“Focusing on Asia – good timing”

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 recent global recession. Furthermore, global economic growth in the next few years would be led by Asian countries, such as **China, India and Indonesia**. As such, we view this focus on Asia in a favourable way.

During 1H/FY11, 21.9% 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 has also started to contribute to its group revenues. FMH’s management is also exploring JV opportunities in other ASEAN countries. FMH’s low-entry-cost and asset light business model has thus far proved to be successful in Indonesia and Thailand.

“Parcel courier service”

In November 2010, FMH had entered into a S&P agreement to subscribe for 2 shares of RM1 each for a total consideration of RM250,000, representing 100% of total issued and paid-up capital of Exterian Enterprise SB. Exterian specializes in parcel courier services and FMH is adding this service as part of its integrated services on offer.

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, freight rates and economic conditions.

There remain notable risks to global economic growth rates, such as the weak US Dollar, debt turbulence in Europe, the sustained high unemployment levels in the US and more recently, political uprisings in the Middle East.

Furthermore, FMH’s profit margins could be impacted during times of sudden or extreme foreign exchange (FX) and freight rate fluctuations. Nevertheless, post global recession, freight rates have been normalizing.

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

During FMH’s AGM in November 2010, the group’s shareholders approved the final dividend of 2.5 sen gross dividend per share (DPS) less tax, for its FY10 ended 30th June 2010. The final dividend was paid on 20th January 2011 to FMH’s shareholders listed by the registrar as at 31st December 2010.

“Room for higher FY11 DPS”

Earlier in July 2010, FMH had paid out a gross interim dividend of 2.5 sen per share less tax for its FY10 ending 30th June 2010, an amount totalling approximately RM2.3 million. FMH’s FY10 higher gross dividend per share (DPS) was as we expected. Given FMH’s strong earnings performance and its dividend payout track record (close to 30% dividend payout ratio), we opine that FMH could give out an even higher gross DPS for its FY11.

Even with a relatively weak adjusted beta of 0.67 to the KLCI, FMH has managed to outperform the KLCI this year (by +7.2% vs. -1.95% year-to-date (YTD)). In recent months, FMH’s stock price have steadily maintained above the RM1.00 level. Nevertheless, as FMH is not a particularly large market-cap stock, this may put a dampener on its market visibility and trading volume.

Based on our forecast of FMH’s FY11 EPS and estimated P/E of 8 times, we set a **FY11-end**

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Target Price (TP) of RM1.27. This TP represents a substantial 22.4% 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 18.1 times and 1.4 times, respectively.

“Solid business model”

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 (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. 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, freight rates, FMH's regional business expansion, global economic growth and also any future JVs and M&As.

Freight: 6-month Share Price



Source: NextView

KEY FINANCIALS

Key Stock Statistics	2011E
EPS (sen)	15.9
P/E (x)	6.5
Dividend/Share (sen)	5.2
NTA/Share (RM)	0.89
Book Value/Share (RM)	0.90
Issued Capital (mil shares)	121.7
52-weeks share price (RM)	0.67 – 1.13
Major Shareholders:	%
Chew Chong Keat	26.2
Singapore Enterprises Pte Ltd	20.0
Yang Heng Lam	18.5

Per Share Data	2008	2009	2010	2011E
Book Value (RM)	0.61	0.69	0.78	0.90
Earnings (sen)	10.0	11.1	13.5	15.9
Dividend (sen)	4.5	4.5	5.0	5.2
Payout Ratio (%)	33.5	30.3	27.8	24.5
PER (x)	10.4	9.3	7.7	6.5
P/Book Value (x)	1.7	1.5	1.3	1.2
Dividend Yield (%)	4.3	4.3	4.8	5.0
ROE (%)	16.4	16.2	17.2	17.6
Net Gearing (cash) (x)	0.18	0.03	0.12	(0.05)

P&L Analysis (RM mil)	2008	2009	2010	2011E
Year end: Jun 30				
Revenue	222.0	229.4	265.5	291.9
Operating Profit	18.2	20.9	23.2	26.2
Depreciation	(3.9)	(5.4)	(6.4)	(7.3)
Interest Expenses	(1.6)	(1.6)	(1.5)	(1.9)
Pre-tax Profit	16.5	19.3	21.8	24.4
Effective Tax Rate (%)	18.9	22.2	21.7	18.8
Net Profit	12.2	13.6	16.4	19.4
Operating Margin (%)	8.2	9.1	8.8	9.0
Pre-tax Margin (%)	7.5	8.4	8.2	8.4
Net Margin (%)	5.5	5.9	6.2	6.6

*50 sen par value

2Q/ 31 Dec	2Q11	2Q10	yoy %	1Q10	qoq%
Rev (RMm)	73.5	65.6	12.0	72.1	1.9
EBIT (RMm)	5.6	5.4	4.9	4.9	14.6
NPAT (RMm)	5.2	4.2	22.4	4.5	15.6
EPS (sen)	4.2	3.5	22.4	3.7	15.6

1H/ 31 Dec	1H11	1H10	yoy %
Rev (RMm)	145.6	124.4	17.0
EBIT (RMm)	10.6	10.4	1.2
NPAT (RMm)	9.6	8.1	19.4
EPS (sen)	7.9	6.6	19.4

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