



**RESULTS REPORT**

26 May 2011

<b>Freight Management Holdings</b>		<b>Market Price:</b>	RM1.10
		<b>Market Capitalisation:</b>	RM133.9m
		<b>Board:</b>	Main Market
<b>Recommendation:</b>	BUY	<b>Sector:</b>	Trading/Services
<b>Target Price:</b>	RM1.37	<b>Stock Code/Name:</b>	7210/FREIGHT

Analyst: Edmund Tham

**KEY FINANCIALS**

Key Stock Statistics	2011E
Earnings/Share (sen)	17.1
P/E Ratio (x)	6.4
Dividend/Share (sen)	5.0
NTA/Share (RM)	0.90
Book Value/Share (RM)	0.92
Issued Capital (mil shares)	121.7
52-weeks share price (RM)	0.765 – 1.15
Major Shareholders:	%
.Chew Chong Keat	26.2
.Singapore Enterprises Pte Ltd	20.0
.Yang Heng Lam	18.4

3Q/ 31 Mar	3Q11	3Q10	yov %	2Q11	qoq%
Rev (RMm)	68.7	66.5	3.3	73.5	(6.6)
EBIT (RMm)	4.4	4.5	(1.4)	5.6	(21.7)
NPAT^(RMm)	4.2	3.7	13.3	5.2	(18.9)
EPS (sen)	3.4	3.0	13.3	4.2	(18.9)

^NPATMI

9M/ 31 Mar	9M11	9M10	yov %
Rev (RMm)	214.2	190.9	12.2
EBIT (RMm)	15.0	14.9	0.4
NPAT^(RMm)	13.8	11.8	17.5
EPS (sen)	11.4	9.7	17.5

^NPATMI

**PERFORMANCE – 9M/FY11**

Freight Management Holdings' (FMH) results were generally within our earlier expectations. The third quarter is generally a weaker one for FMH due to the occurrence of a long Chinese New Year break and the shorter working month of February during the quarter.

**“Within expectations”**

FMH's 3Q/FY11 revenue grew by 3.3% y-o-y from RM66.4 million in 3Q/FY10 to RM68.6 million. The increase in revenue was mainly due to the positive contribution from its Airfreight, Warehouse & Distribution, Haulage and Landfreight business segments. However, the performance for its Railfreight, Tug & Barge and Customs Brokerage business segments had decreased y-o-y. Nevertheless, the total revenue contribution from overseas subsidiaries improved marginally from RM15.2 million in 3Q/FY10 to RM15.4 million during 3Q/FY11.

The group had recorded a profit before tax (PBT) of RM4.3 million in 3Q/FY11, a slight decrease

Per Share Data	2008	2009	2010	2011E
Book Value/Sh. (RM)	0.61	0.69	0.78	0.92
Earnings/Sh. (sen)	10.0	11.1	13.5	17.1
Dividend/Sh. (sen)	4.5	4.5	5.0	5.0
Div. Payout Ratio (%)	33.5	30.3	27.8	21.9
P/E Ratio (x)	11.0	9.9	8.1	6.4
P/Book Value (x)	1.8	1.6	1.4	1.2
Dividend Yield (%)	4.1	4.1	4.5	4.5
ROE (%)	16.4	16.2	17.2	18.7
Net Gearing (or Cash)(x)	0.18	0.03	0.12	(0.04)

P&L Analysis (RM mil)	2008	2009	2010	2011E
<b>Year end: Jun 30</b>				
Revenue	222.0	229.4	265.5	289.6
Operating Profit	18.2	20.9	23.2	27.7
Depreciation	(3.9)	(5.4)	(6.4)	(7.5)
Interest Expenses	(1.6)	(1.6)	(1.5)	(2.0)
Pre-tax Profit	16.5	19.3	21.8	25.7
Effective Tax Rate (%)	18.9	22.2	21.7	17.8
NPATMI	12.2	13.6	16.4	20.8
Operating Margin (%)	8.2	9.1	8.8	9.6
Pre-tax Margin (%)	7.5	8.4	8.2	8.9
NPATMI Margin (%)	5.5	5.9	6.2	7.2

\*50 sen par value

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as compared to RM4.4 million in 3Q/FY10. However, the group reported a net profit after tax and minority interest (NPATMI) of RM4.2 million in 3Q/FY11, an increase of 13.3%. This increase was mainly due to the adjustment for over-provision of CY2010 corporate-tax amounting to RM0.6 million during 3Q/FY11.

## OUTLOOK/CORP. UPDATES

### “Overall - positive outlook”

We foresee that FMH would continue to enjoy positive results for the remainder of 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.

### “Exciting Warehouse segment”

Some of FMH’s business segments had provided optimism by their positive performance – such as its “Warehouse & Distribution”, Haulage and Land Freight segments. Eventhough FMH had acquired a 90,000sf warehouse for RM14.5 million in January 2011, FMH is still on the lookout for more warehouses and storage space. This is due to strong demand from its existing customers and also new 3PLs (third party logistics).

Nevertheless, the freight 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. Air freight margins have also been affected by the higher freight rates. Meanwhile, FMH’s Railfreight, “Tug & Barge” and Customs Brokerage business segments are also facing very specific issues.

### “Global economic growth”

According to the IMF’s April 2011 **World Economic Outlook** (WEO), world real-GDP growth is forecast to be about 4.5% in 2011 and 2012, slightly lower from 5% in 2010. Real GDP in advanced economies and, emerging and

developing economies is expected to expand by about 2.5% and 6.5%, respectively. Downside risks continue to outweigh upside risks. In advanced economies, weak sovereign balance sheets and still-weak real estate markets continue to present major concerns, especially in certain European countries. Financial risks appear to be on the downside due to the high funding requirements of banks and sovereigns.

The IMF also views that new downside risks are building due to commodity prices (notably oil), geopolitical uncertainty as well as the overheating/booming asset markets in emerging markets. However, there is also the potential for upside surprises to growth in the short term, owing to the strong corporate balance sheets in advanced economies and buoyant demand in emerging and developing economies.

**Malaysia** had reported a respectable 1Q/2011 GDP growth of +4.6%, stable 4Q/2010 unemployment rate of 3.2% and CPI of 3.2% (April 2011). BNM had raised its overnight policy rate (OPR) of 2.75% to 3.0% and the statutory reserve requirement (SRR) of 2% to 3% to rein-in inflationary pressures. March 2011 economic data revealed positive growth rates in y-o-y percentage terms, for instance: IPI (+2.4%), Manufacturing Sales (+14.1%), Exports (+7.8%) and Imports (+12.1%).

FMH’s management remains very true to its core business - the provision of freight services and supporting services. To grow organically, FMH continually seeks to expand its customer and agent base and to explore new destinations. Additionally, the group continues to seek opportunities to grow its businesses via new business wins, potential JVs and acquisitions both locally and regionally. FMH’s management closely monitors its business volumes, operational efficiency, receivables collection, cost structure, industry trends, freight rates and economic conditions.

### “Regional growth”

During 9M/FY11, about 21.8% 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 has also started to contribute to its group revenues.

In March 2011, TCH Marine Ptd Ltd, FMH's 51%-owned subsidiary had entered into a S&P Agreement with Thahin Numchai Co Ltd to dispose a Flat-top-deck cargo barge (Namthong-18) for around RM2.0 million. This transaction was completed in April 2011. Meanwhile, in April 2011, FMH's wholly-owned subsidiary, Freight Management (M) S/B entered into a S&P agreement with Poly Glass Fibre (M) S/B to acquire a 2.1-acre piece of property (land and building) in Seberang Perai, Pulau Pinang for a cash consideration of RM4.1 million.

## 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 dividend will be paid on 15<sup>th</sup> July 2011 to the holders of FMH shares in the Record of Depositors at the close of business day on 30<sup>th</sup> June 2011. 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 a relatively weak adjusted beta of 0.78 to the KLCI, FMH (+13.4% YTD) has managed to outperform the KLCI (+1.6% YTD) this year. In recent months, FMH's stock price have steadily maintained above the RM1.00 level. Nevertheless, 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 FY11 EPS and an estimated P/E of 8 times (within its historical range), we set a **FY11-end Target Price (TP) of RM1.37**. This TP represents an attractive 24.5% upside from its current market price. Our TP for FMH reflects a P/BV of 1.5 times over its FY11F BV/share. Meanwhile, the local

transportation service sector's average P/E and P/BV is 17.4 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 may even be in a net cash position during its FY11.

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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