

3 October 2023

Transport | Logistics

FM Global Logistics (FM MK)

Buy (Maintained)

A Slow Start, Promising Outlook; Keep BUY

Target Price (Return): MYR0.68 (17.6%)
 Price (Market Cap): MYR0.58 (USD68.1m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.22m/0.05m

- **Keep BUY, new DCF-derived MYR0.68 TP from MYR0.79, 18% upside.** We believe FM Global Logistics will record softer YoY earnings growth in 1HFY24 amid expectations of a delayed trade recovery. Recovery should resume towards end-CY23, in tandem with the country's and global trade recovery – primarily supported by the US and ASEAN economies. FM is trading at 8.3x FY24 P/E, which we think is undemanding, given its diverse business portfolio, strong cash flow generation, and c.6% FY24F yield.

- **Ocean freight update.** Overall vessel capacity (supply) continues to trend higher than demand amidst the slow cargo market and incoming newbuilding deliveries. Alphaliner reports that the period of Jan-Jul 2023 saw deliveries of 1.2m TEUs of new vessels entering the global fleet, with another 1.2m TEUs expected to be added by the end of the year. Container vessel orderbook projections indicate that 2024 will be a record year for deliveries due to the high number of new vessels ordered in the boom years of 2021 and 2022. The overcapacity of ocean vessels should continue to keep a lid on freight rates from rising.

- **We expect a soft 1HFY24,** in line with our cautious view on the country's 1HCY23 trade performance. With export and import momentum slowing down in July and August, RHB Economics is now expecting a delayed recovery in Malaysia's trade performance, with the possibility of the YoY exports contraction extending into 4QCY23. Our 1HFY24 earnings estimates now stand at MYR19.8m (-6% YoY), as China's economy is expected to remain weak for the remainder of 2H23. Nevertheless, we anticipate a gradual improvement towards end-4Q23, supported by the strength of the US economy and recovery in regional economies (ASEAN).

- **Domestic businesses to support international segment.** Ocean freight forwarding remains the group's core business (c.60% contribution to group revenue and GP). We expect the current market dynamics to continue to weigh down FM's international business. Nevertheless, its domestic businesses such as third-party logistics (3PL), warehousing, and supporting services should continue to bolster the group's earnings.

- **Earnings revision.** We lower our FY24F earnings by 4.6% based on the aforementioned factors. This brings our new DCF TP to MYR0.68, after incorporating a 6% ESG premium based on FM's ESG score of 3.3 (above the country median of 3.0). We maintain our BUY call as FM's current valuation of 8.3x is still attractive compared to its regional peers, while also offering a decent dividend yield of c.6%.

- **Key risks** include slower-than-expected volumes within the sea freight and air freight divisions, higher-than-expected opex, and slowdown in global trade activities.

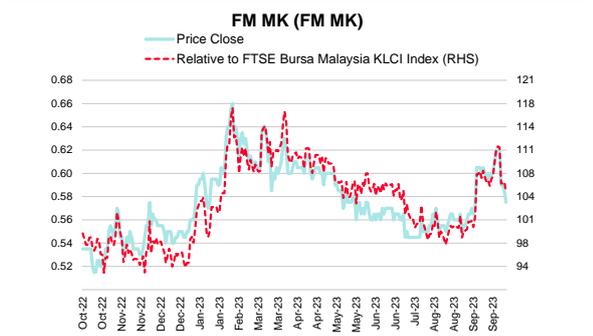
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.5	0.9	1.8	(5.0)	8.5
Relative	9.6	4.0	(1.3)	(4.7)	6.8
52-wk Price low/high (MYR)	0.52 – 0.66				



Source: Bloomberg

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (MYRm)	1,153	948	911	934	950
Recurring net profit (MYRm)	46	42	39	45	47
Recurring net profit growth (%)	56.0	(9.9)	(5.7)	15.3	3.1
Recurring P/E (x)	6.95	7.72	8.18	7.10	6.89
P/B (x)	0.9	0.8	0.8	0.8	0.7
P/CF (x)	10.45	2.40	6.13	4.39	4.21
Dividend Yield (%)	7.0	6.1	6.1	7.0	7.0
EV/EBITDA (x)	4.52	3.70	4.05	3.58	3.40
Return on average equity (%)	13.1	11.3	10.0	10.9	10.6
Net debt to equity (%)	25.5	6.6	6.4	4.1	1.9

Source: Company data, RHB

Overall ESG Score: 3.3 (out of 4)

E: GOOD

FM has made consistent efforts to improve its environmental footprint, including the usage of biodiesels, installation of solar panels, and adoption of EURO III compliant prime movers.

S: EXCELLENT

The group has a well-diversified employee base across gender and age groups. Notably, it has maintained zero incidents of workplace-related injuries since FY16.

G: GOOD

In addition to good management accessibility, FM adheres to FTSE4Good Bursa Malaysia and Global Reporting Initiative or GRI sustainability reporting standards.

Note:

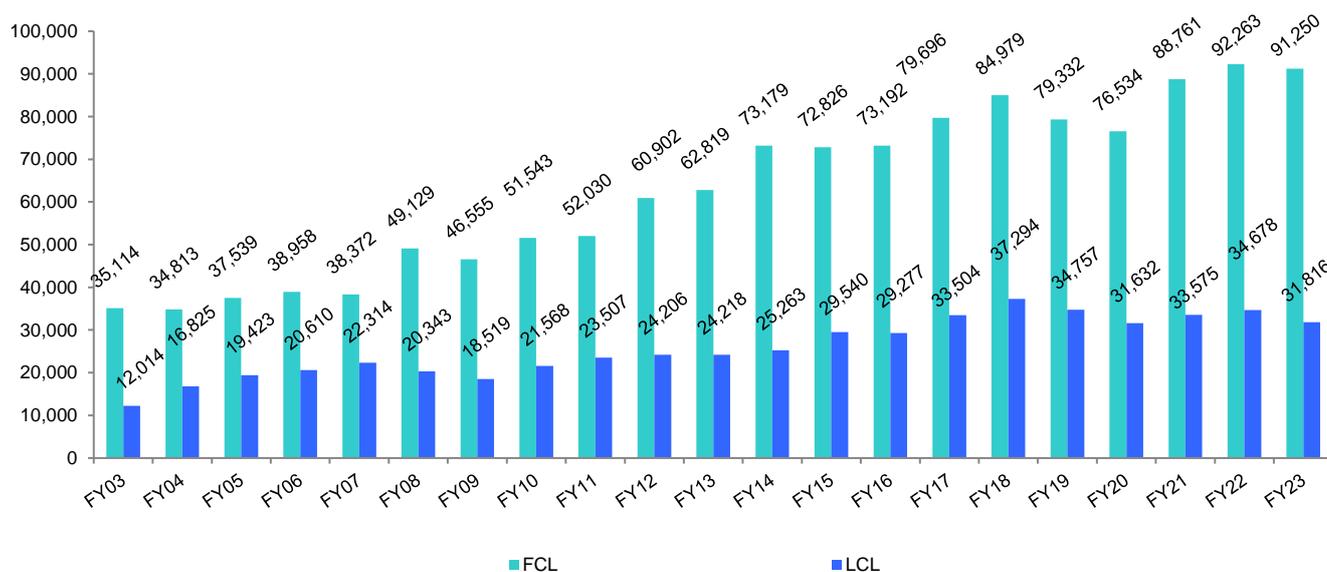
Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia	Financial summary (MYR)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Malaysia	Recurring EPS	0.08	0.07	0.07	0.08	0.08
Transport	DPS	0.04	0.04	0.04	0.04	0.04
FM Global Logistics	BVPS	0.65	0.69	0.72	0.76	0.81
FM MK	Return on average equity (%)	13.1	11.3	10.0	10.9	10.6
Buy						
	Valuation metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Valuation basis	Recurring P/E (x)	6.95	7.72	8.18	7.10	6.89
DCF	P/B (x)	0.9	0.8	0.8	0.8	0.7
	FCF Yield (%)	6.8	41.7	3.8	9.7	10.0
	Dividend Yield (%)	7.0	6.1	6.1	7.0	7.0
Key drivers	EV/EBITDA (x)	4.52	3.70	4.05	3.58	3.40
Growth in demand for logistics services in tandem with broad-based economic growth and increased cross-border trade activities	EV/EBIT (x)	6.05	5.30	5.95	5.11	4.86
	Income statement (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Key risks	Total turnover	1,153	948	911	934	950
Downside risks include:	Gross profit	229	229	227	246	252
i. Softer-than-expected volume in the sea freight division;	EBITDA	94	97	89	98	101
ii. Weaker-than-expected operating margins	Depreciation and amortisation	(24)	(29)	(28)	(29)	(30)
	Operating profit	70	67	60	69	71
	Net interest	(6)	(8)	(6)	(6)	(6)
	Pre-tax profit	67	62	57	66	68
	Taxation	(17)	(15)	(14)	(16)	(17)
	Reported net profit	46	42	39	45	47
	Recurring net profit	46	42	39	45	47
	Cash flow (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Change in working capital	(35)	49	(10)	(3)	(2)
	Cash flow from operations	31	134	52	73	76
	Capex	(9)	0	(40)	(42)	(44)
	Cash flow from investing activities	(10)	(10)	(40)	(42)	(44)
	Dividends paid	(11)	(22)	(20)	(22)	(22)
	Cash flow from financing activities	31	(110)	(18)	(21)	(21)
	Cash at beginning of period	55	106	106	107	117
	Net change in cash	52	14	(6)	10	11
	Ending balance cash	107	120	100	117	128
	Balance sheet (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Total cash and equivalents	107	124	125	135	146
	Tangible fixed assets	346	354	366	378	392
	Total investments	10	11	13	15	18
	Total assets	755	689	716	746	778
	Short-term debt	95	52	46	46	47
	Total long-term debt	108	99	107	108	109
	Total liabilities	378	285	288	292	295
	Total equity	377	405	428	454	483
	Total liabilities & equity	755	689	716	746	778
	Key metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Revenue growth (%)	51.0	(17.7)	(4.0)	2.5	1.8
	Recurrent EPS growth (%)	56.0	(9.9)	(5.7)	15.3	3.1
	Gross margin (%)	19.8	24.2	24.9	26.4	26.5
	Operating EBITDA margin (%)	8.1	10.2	9.8	10.5	10.6
	Net profit margin (%)	4.0	4.4	4.3	4.8	4.9
	Dividend payout ratio (%)	49.0	46.5	49.8	49.4	47.9
	Capex/sales (%)	0.8	0.0	4.4	4.5	4.6
	Interest cover (x)	12.3	8.6	10.5	11.9	12.1

Source: Company data, RHB

Figure 1: Container volume trend



Source: Company, RHB

Figure 2: Container throughput assumptions

Container volumes	FY24F	FY25F	FY26F
Sea freight (TEU)	104,716	106,810	108,946
Air freight (kg '000)	9,923	10,121	10,323
Land freight (TEU)	14,123	14,547	14,983
Growth (%)	-5.0%	2.0%	2.0%
Sea freight (TEU)			
Air freight (kg '000)	-4.0%	2.0%	2.0%
Land freight (TEU)	10.0%	3.0%	3.0%

Source: RHB

3 October 2023

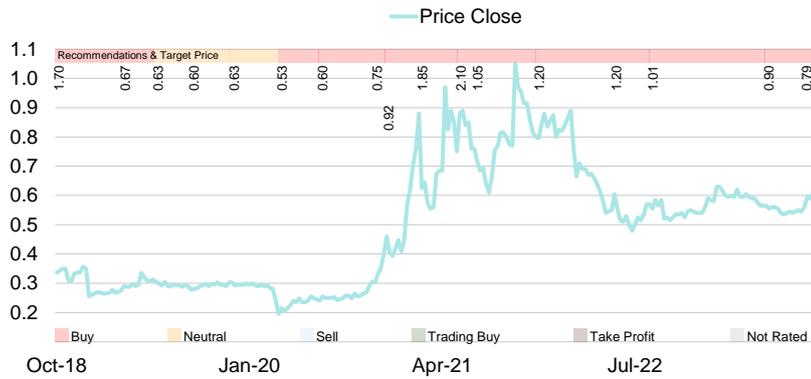
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Figure 3: DCF valuation

FYE 30 Jun (MYR m)	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY32F	Terminal
CFO	52.3	73.2	76.3	77.3	81.2	82.6	84.1	85.8	95.5	97.7	
+ Interest (1 - Tax Rate)	4.0	4.1	4.1	4.1	4.2	4.2	4.3	4.3	4.3	4.4	
- capital expenditure	(40.0)	(42.0)	(44.1)	(46.3)	(48.6)	(51.1)	(53.6)	(56.3)	(59.1)	(62.1)	
Free cash flow to firm (FCFF)	16.4	35.3	36.3	35.1	36.7	35.8	34.8	33.8	40.7	40.0	446.3
Discount factor	0.91	0.82	0.75	0.68	0.61	0.56	0.51	0.46	0.42	1.00	0.42
PV of FCFF	14.8	29.0	27.1	23.8	22.6	19.9	17.6	15.5	17.0	40.0	186.0
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Risk-free	3.9%										
Beta	1.1										
Cost of Equity	12.0%										
WACC	10.2%										
Terminal growth	1.0%										
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Enterprise Value (MYR m)	413.4										
Cash	54.8										
- Debt	(100.8)										
- NCI	(11.2)										
Equity Value (MYR m)	356.2										
No of shares (m)	558.4										
Intrinsic Value (MYR)	0.64										
+6% ESG Premium	0.04										
TP (MYR)	0.68										

Source: RHB

Recommendation Chart

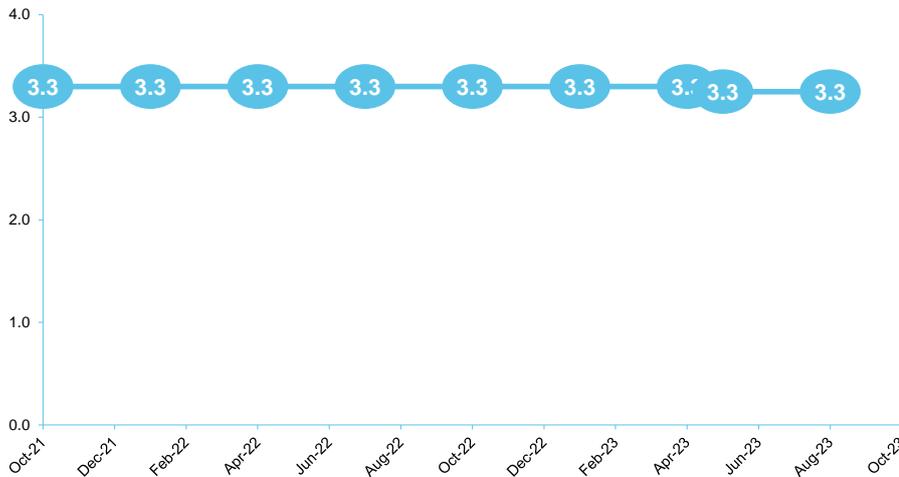


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-08-24	Buy	0.79	0.55
2023-05-25	Buy	0.90	0.56
2022-08-23	Buy	1.01	0.60
2022-05-27	Buy	1.20	0.56
2022-02-23	Buy	1.20	0.81
2021-11-25	Buy	1.20	0.85
2021-08-20	Buy	1.05	0.77
2021-07-01	Buy	1.05	0.73
2021-05-21	Buy	2.10	0.76
2021-02-19	Buy	1.85	0.89
2020-11-29	Buy	0.92	0.41
2020-11-02	Buy	0.75	0.35
2020-08-25	Buy	0.60	0.27
2020-06-24	Buy	0.60	0.26
2020-03-19	Buy	0.53	0.20

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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