

25 May 2023

Transport | Logistics

FM Global Logistics (FM MK)

Buy (Maintained)

Meeting Expectations Despite Seasonality; BUY

Target Price (Return): MYR0.90 (55.1%)
 Price (Market Cap): MYR0.58 (USD70.5m)
 ESG score: 3.25 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.14m/0.03m

- **Still BUY, new MYR0.90 TP (DCF) from MYR1.01, 55% upside and c.6% yield.** 9MFY23 (Jun) core earnings met our expectation at 78% despite a seasonally weaker quarter due to FM Global Logistics' fast-growing domestic 3PL business. We lower our FY23F-24F earnings by 9% and 6% to account for the expected weaker freight environment ahead. After accounting for such weakness, the current valuation stays undemanding, trading at only 6.6x FY24F forward P/E, well below peers' 11.8x. The group also declared a second interim dividend of 1 sen/share.
- **Met expectations.** 3QFY23's revenue came in at MYR202m (-37.7% QoQ, -17.7% YoY), dragged by weaker contributions from the international business segment due to lower freight rates and slower global economic activities. Core profit for the quarter was down 9.1% QoQ (-23.9% YoY) as expected, since 3Q is seasonally FM's weakest quarter – the sharper YoY drop was attributed to 3QFY22's high base given pent-up post-lockdown activities. Despite a much-weaker freight operation, 9MFY23 bottomline was partially cushioned by its domestic 3PL business, which booked a commendable YoY growth of 54.2% on a strong customer base, reduction in outsourced activities, and higher distribution volumes. The business-to-business last-mile segment also turned profitable after FM ceased its loss-making retail operations.
- **Resilient 3PL logistics cushioned freight market softness.** While freight forwarding remains FM's core business, the outlook within this area still remains challenging – no thanks to the rise in ocean capacity, port congestion easing, and slow trade activities. The group recently purchased 7.5-8 acres of land and a c.200k sq ft single-storey warehouse (slated to go operational in CY24-25). In turn, we think this will boost contributions from its 3PL segment, as warehouse and logistics solutions demand remains high. RHB's economists have reiterated their core view of a 2H23 trade recovery with Malaysia's GDP forecast growth at 5% YoY, given that the country's economy is showing signs of bottoming out. In its latest Apr 2023 projections, the World Trade Organisation also raised its 2023 trade volume growth estimate to 1.7% from 1% previously – supported by China's re-opening.
- **Earnings revision.** Although results were in line, we lower our FY23F-24F earnings by 9% and 6% to account for a much weaker freight environment ahead. Our DCF-derived TP is now MYR0.91 after rolling over our valuation to FY24. The current valuation is undemanding, trading at 6.6x FY24F forward P/E, well-below its historical mean and regional peers. Key risks include slower-than-expected volumes within the sea and air freight wings, higher-than-expected opex, and a slowdown in global trade activities.
- **ESG framework update.** As there is now greater focus on the E pillar on critical climate change issues, we tweaked our ESG weightage. Henceforth, we assign a 50% weightage to the E pillar, followed by 25% each to the S and G pillars. See our [2 May thematic research](#) for more details.

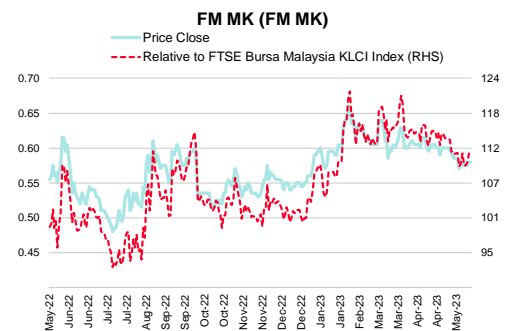
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.5	(4.1)	(4.9)	6.4	4.5
Relative	11.3	(3.2)	(1.7)	12.6	12.5
52-wk Price low/high (MYR)	0.48 – 0.66				



Source: Bloomberg

Forecasts and Valuation	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total turnover (MYRm)	763	1,153	1,144	1,094	1,118
Recurring net profit (MYRm)	30	46	40	44	53
Recurring net profit growth (%)	132.6	56.0	(13.4)	9.3	21.2
Recurring P/E (x)	10.94	7.01	8.09	7.41	6.11
P/B (x)	1.0	0.9	0.8	0.8	0.8
P/CF (x)	17.89	10.54	6.07	3.95	3.94
Dividend Yield (%)	4.3	6.9	6.0	6.9	7.8
EV/EBITDA (x)	5.65	4.55	4.87	4.31	3.66
Return on average equity (%)	8.7	13.1	10.8	11.1	12.7
Net debt to equity (%)	12.9	25.5	28.1	21.9	17.1

Source: Company data, RHB

Overall ESG Score: 3.25 (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.

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Financial Exhibits

Asia	Financial summary (MYR)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Malaysia	Recurring EPS	0.05	0.08	0.07	0.08	0.09
Transport	DPS	0.03	0.04	0.04	0.04	0.05
FM Global Logistics	BVPS	0.60	0.65	0.68	0.72	0.77
FM MK	Return on average equity (%)	8.7	13.1	10.8	11.1	12.7
Buy						
	Valuation metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Valuation basis	Recurring P/E (x)	10.94	7.01	8.09	7.41	6.11
DCF	P/B (x)	1.0	0.9	0.8	0.8	0.8
	FCF Yield (%)	2.0	6.8	1.0	13.0	12.4
	Dividend Yield (%)	4.3	6.9	6.0	6.9	7.8
Key drivers	EV/EBITDA (x)	5.65	4.55	4.87	4.31	3.66
Growth in demand for logistics services in tandem with broad-based economic growth and increased cross-border trade activities	EV/EBIT (x)	8.27	6.09	7.02	6.17	5.02
	Income statement (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Key risks	Total turnover	763	1,153	1,144	1,094	1,118
Key risks include slower-than-expected volumes within the sea and air freight wings, higher-than-expected opex, and a slowdown in global trade activities.	Gross profit	194	229	276	274	296
	EBITDA	66	94	91	99	113
	Depreciation and amortisation	(21)	(24)	(28)	(30)	(31)
	Operating profit	45	70	63	69	82
	Net interest	(3)	(6)	(7)	(8)	(8)
	Pre-tax profit	42	67	58	63	77
	Taxation	(13)	(17)	(14)	(16)	(19)
	Reported net profit	27	46	40	44	53
	Recurring net profit	30	46	40	44	53
Company Profile						
FM Global Logistics provides multi-modal freight services in Malaysia and other countries. Its services include sea freight, air freight, 3PL & warehousing, land freight, and others.	Cash flow (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Change in working capital	(26.8)	(35.3)	(16.1)	7.1	(3.5)
	Cash flow from operations	18.1	30.7	53.3	82.1	82.2
	Capex	(11.5)	(8.8)	(50.0)	(40.0)	(42.0)
	Cash flow from investing activities	(3.3)	(9.8)	(50.0)	(40.0)	(42.0)
	Dividends paid	(14.0)	(11.2)	(19.5)	(22.3)	(25.1)
	Cash flow from financing activities	(17.8)	31.2	(17.8)	(20.5)	(23.3)
	Cash at beginning of period	58.0	54.8	106.0	91.6	113.2
	Net change in cash	(2.9)	52.1	(14.4)	21.6	17.0
	Ending balance cash	63.3	114.8	91.6	113.2	130.1
	Balance sheet (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Total cash and equivalents	56	107	93	115	131
	Tangible fixed assets	307	346	368	379	391
	Total investments	6	10	12	14	16
	Total assets	574	754	781	803	840
	Short-term debt	40	95	41	42	42
	Total long-term debt	61	108	164	166	168
	Total liabilities	231	377	381	377	382
	Total equity	344	377	401	426	458
	Total liabilities & equity	574	754	781	803	840
	Key metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Revenue growth (%)	38.4	51.0	(0.8)	(4.4)	2.3
	Recurrent EPS growth (%)	132.6	56.0	(13.4)	9.3	21.2
	Gross margin (%)	25.4	19.8	24.1	25.1	26.5
	Operating EBITDA margin (%)	8.6	8.1	8.0	9.0	10.1
	Net profit margin (%)	3.5	4.0	3.5	4.0	4.7
	Dividend payout ratio (%)	51.6	49.0	48.8	51.1	47.4
	Capex/sales (%)	1.5	0.8	4.4	3.7	3.8
	Interest cover (x)	13.8	12.3	8.9	8.8	10.4

Source: Company data, RHB

Figure 1: 3QFY23 earnings snapshot

FYE Jun (MYRm)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	324.6	245.6	202.1	(17.7)	(37.7)	819.1	750.9	(8.3)
Gross Profit	59.8	63.5	58.2	(8.3)	(2.7)	164.3	182.3	11.0
<i>GP margin (%)</i>	18.4	25.8	28.8			20.1	24.3	
Adjusted EBITDA	25.8	23.9	22.5	(5.6)	(12.7)	68.7	71.9	4.7
<i>Adjusted EBITDA margin (%)</i>	7.9	9.7	11.1			8.4	9.6	
Depreciation	(5.6)	(7.1)	(7.3)	2.8	30.3	(16.8)	(20.8)	23.8
Adjusted EBIT	20.2	16.8	15.2	(9.2)	(24.6)	51.9	51.1	(1.6)
<i>EBIT margin (%)</i>	6.2	6.8	7.5			6.3	6.8	
Interest Expense	(1.4)	(2.0)	(1.9)	(8.4)	29.1	(3.7)	(5.9)	57.8
Share of loss in associated companies	0.0	2.0	0.0	(100.0)	nm	0.0	2.0	
Share of profit in JV	0.6	0.6	0.9	33.4	40.5	1.8	2.3	
EI	(1.1)	0.6	0.9	53.3	(185.3)	(1.0)	1.5	(258.6)
Reported PBT	18.3	18.0	15.1	(15.8)	(17.4)	49.0	51.1	4.2
Tax	(5.1)	(4.7)	(3.7)	(21.7)	(27.7)	(12.7)	(13.0)	2.4
<i>Effective tax rate (%)</i>	27.8	26.1	24.3			25.9	25.5	
Minority Interest	(1.3)	(1.8)	(0.7)	(63.6)	(49.1)	(3.3)	(3.8)	15.8
Net Profit	11.9	11.4	10.8	(5.8)	(9.5)	33.0	34.3	3.8
Core Profit	13.0	10.9	9.9	(9.1)	(23.9)	34.0	32.7	(3.6)
<i>Core net margin (%)</i>	4.0	4.4	4.9			4.1	4.4	

Source: Company data, RHB

Figure 2: DCF valuation

FYE 30 Jun (MYRm)	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	Terminal
CFO	82.1	82.2	85.7	87.1	89.0	92.1	95.2	98.6	111.1	
+ Interest (1 - tax rate)	5.5	5.5	5.6	5.6	5.7	5.7	5.8	5.9	5.9	
- capital expenditure	(40.0)	(42.0)	(44.1)	(46.3)	(48.6)	(51.1)	(53.6)	(56.3)	(59.1)	
Free cash flow to firm (FCFF)	47.6	45.8	47.2	46.4	46.1	46.8	47.4	48.2	57.9	628.5
Discount factor	0.91	0.82	0.75	0.68	0.61	0.56	0.50	0.46	0.41	0.41
PV of FCFF	43.1	37.6	35.2	31.4	28.2	26.0	23.9	22.0	24.0	259.9

Risk-free	4.0%
Beta	1.1
Cost of Equity	12.1%
WACC	10.3%
Terminal growth	1.0%

Enterprise value (MYRm)	531.1
Cash	54.8
- Debt	(100.8)
- NCI	(11.2)
Equity value (MYRm)	473.9
Number of shares (m)	558.4
Intrinsic value (MYR)	0.85
+6% ESG premium	0.05
TP (MYR)	0.90

Source: RHB

Recommendation Chart

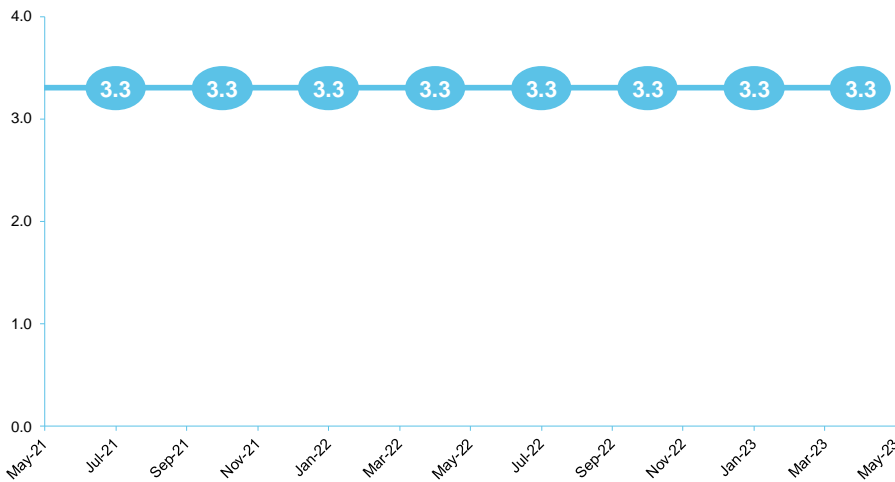


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-11-26	Neutral	0.63	0.31
2020-02-21	Neutral	0.63	0.30
2020-03-19	Buy	0.53	0.20
2020-06-24	Buy	0.60	0.26
2020-08-25	Buy	0.60	0.27
2020-11-02	Buy	0.75	0.35
2020-11-29	Buy	0.92	0.41
2021-02-19	Buy	1.85	0.89
2021-05-21	Buy	2.10	0.76
2021-07-01	Buy	1.05	0.73
2021-08-20	Buy	1.05	0.77
2021-11-25	Buy	1.20	0.85
2022-02-23	Buy	1.20	0.81
2022-05-27	Buy	1.20	0.56
2022-08-23	Buy	1.01	0.60

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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