FM Global eyeing more overseas expansion



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ONE of the beneficiaries of trade flows recovery around the world is FM Global Logistics Holdings Bhd, which has been chalking up steady growth even as the Covid-19 pandemic unfolded globally.

The company had seen strong growth in the financial year ended June 30, 2021 (FY21) and FY22 when net profit had about doubled year-on-year in each of these years as it had capitalised on the increased global trade flows.

Even as global trade growth is expected to normalise to the mean this year, its group managing director Chew Chong Keat continues to be sanguine on this area, moving forward.

The company would like to capitalise on the pockets of opportunities present despite a coming recession that economists have warned of and wants to also continue expanding its overseas operations.

"They are projecting on the macro side of things but we still see opportunities for us to grow. We are still confident of achieving a steady growth for FY23, based on what we have seen in our figures historically," Chew tells StarBizWeek.

"The World Trade Organisation is still predicting a growth in trade albeit a slower one. Trade is still going to grow. There will be opportunities for us to gain new customers as well," he adds.

One of the ways to capitalise on these opportunities is to also focus on expanding its overseas operations, which now contribute about 30% of its gross profit.

"Over the last FY22, one of the things that turned out very well for us was the growth in our overseas operations, with some countries recorded very strong growth.

"I believe there will be simultaneous growth in both Malaysian and overseas operations but we are aiming for overseas operations to eventually contribute 50% of our profit in the medium term of about five to 10 years," Chew says.

The company now has its presence through joint ventures or subsidiaries in various countries such as the Philippines, Indonesia and Vietnam.

"A lot of these has been about teaming up with people on the ground there, after which they became shareholders.

"This is what we think is the best formula since this method would enable us to assimilate to the work cultures in the other countries," Chew says.

Further away from home, FM Global also has its presence through similar joint-venture arrangements in Australia, India and Dubai.

It had also acquired a majority stake in a US company that does freight forwarding and domestic logistics during the lockdown.

"We expand in a very controlled manner bearing in mind the risks, as they will need to bear fruits in terms of earnings to shareholders.

"Valuations must be fair for any acquisition. Apart from that, the acquired company must be able to assimilate into the group's business," Chew says.

There could also be further expansion opportunities in the countries in which it already has its presence, as some of these offer big markets.

"In these countries, they have multiple main ports such as Australia and India. We also invest to get good people, so that our organic growth continues to drive us forward," Chew says.

Another catalyst for growth could come from the reopening of China, of which Chew says trade could see upward momentum after the Chinese New Year festivities.

"For us, our China operations have never really tapered down – even during the lockdowns, trade was still present and we are still receiving business from the various partners we work with in different parts of China," he adds.

In its note after FM Global released its first-quarter ended Sept 30 results, RHB Research says it expects the continued global trade flows recovery to support FM Global's volume throughput, moving forward.

This would also help mitigate the impact of normalising freight rates, it says.

RHB Research also notes that the company's ongoing customer-acquisition effort within both the freight forwarding and third-party logistics (3PL) segments can help to support growth, moving forward.

"We gather that the company will continue to enhance its clientele portfolio for the 3PL segment, prioritising customers with quicker inventory turnovers and better credit terms," it says.

"Elsewhere, the lifting of the lockdowns in China should boost trade volumes for FM Global.

"Its additional warehousing space ought to help capture the high demand at present for warehousing amid the eCommerce boom, which will act as a catalyst for the company's currently underperforming 3PL business," it adds.

FM Global trades at a historical price-to-earnings ratio (PER) of about seven times and a dividend yield of close to 8%.

Its shares closed at 59 sen on Friday.

At current prices, RHB Research, which maintained its "buy" call on the stock and a target price of RM1.01, says the company's PER is undemanding, given its resilient business profile and dividend track record.

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