Pandemic-linked record profits are over, says FM Global Logistics chief

BY **KANG SIEW LI**

FM GLOBAL

International freight services provider FM Global Logistics Holdings Bhd's overall growth is set to slow in the financial year ending June 30,2023 (FY2023), as freight rates have come down from peak Covid-19 levels and demand is slowing against a backdrop of a global economy reeling from high inflation and rapid interest rate increases.

The supply chain disruptions caused by the pandemic propelled FM Global's earnings to a record RM45.59 million in FY2022, a 69% increase from RM27.04 million the previous year. Revenue rose 51% to RM1.15 billion in FY2022 from RM763.43 million in FY2021.

Those results won't be repeated this year, according to its co-founder and group managing director Chew Chong Keat.

"The first half of 2023 has been fraught with challenges, many of which are likely to continue for the foreseeable future. It would be difficult to surpass what we did in FY2022, which was a record year for us," Chew, 61, tells *The Edge* in an interview.

For 9MFY2023, FM Global's net profit grew 4% year on year to RM34.27 million, while revenue fell 8% y-o-y to RM750.92 million.

"The global economic slowdown has been quite telling this year, and that has affected market demand. Consumer countries are buying less. Because of that, freight rates have come down. But not all markets are the same. [Freight rates in] some markets have fallen more than others. For example, at the height of the pandemic, the cost of shipping a 20ft container from Malaysia to Australia was from US$3,000. The rate has fallen to several hundred dollars. On the other hand, some ports on the Indian subcontinent are still facing congestion. Because of that, freight rates to Bangladesh and Pakistan have not come down that much.

"But generally speaking, [container spot rates] on major routes such as Europe and the US have returned to pre-pandemic levels. Like other shipping players, we are affected as well," says Chew.

The Drewry World Container Index of US$1,535.75 per 40ft container as at June 22 is 85% below the peak of US$10,377 reached in September 2021. However, it remains 8% higher than average 2019 pre-pandemic rate of US$1,420.

Chew notes that the normalisation of freight rates had caught the group by surprise "a little bit" as it was expecting the reopening of China to help propel global growth as it had before the pandemic. "From the look of it, China's economy is also facing challenges."

Meanwhile, Chew says air freight rates have also come off their pandemic highs. However, the fall is not as drastic as ocean freight rates.

FM Global Logistics Holdings Bhd's financial performance

YEAR ENDED JUNE 30	2018	2019	2020	2021	2022	9MFY2023
Revenue (RM mil)	511.59	545.35	551.61	763.43	1,152.95	750.92
Net profit/(loss) (RM mil)	19.70	13.60	12.05	27.04	45.59	34.27
Gross dividend per share (sen)	5.00	3.50	2.00	4.00	4.00	2.00

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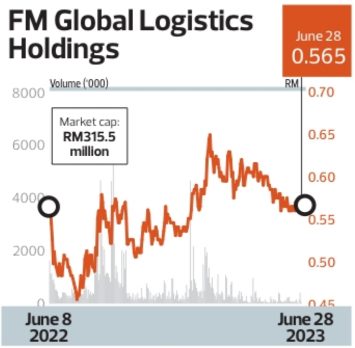
Eyeing market share growth

Weighed down by the effects of the war in Ukraine, stubbornly high inflation, tighter monetary policy and financial market uncertainty, the volume of world merchandise trade is expected to grow by 1.7% this year, following 2.7% growth in 2022, the World Trade Organization said in its latest April projections. Drawing on WTO forecasts, FM Global is looking to grab a bigger share of the existing market for growth.

"If you look at the number of containers that we move against the industry's volume, there are still opportunities for us to increase



market share and get customers to support us with more business. Many of our customers very often do not want to deal with just one freight forwarder. This is where we will try to persuade them with better freight rates and one-stop service level to push for more volume.

"We carry about 120,000 TEUs [twenty-foot equivalent unit] a year as a group, but Malaysia's container port throughput is more than 20 million TEUs. And if you include the markets where we are represented in such as Thailand, Indonesia and the Philippines, the cargo traffic easily surpasses 100 million TEUs. So there is always room to grow market share," says Chew.

"Domestically, it is just the ability for us to spread out into different segments of the logistics market. The coverage is not just purely on freight alone, but we will look at opportunities that are available, such as the distribution business."

FM Global's efforts to establish its presence in multiple countries hold it in good stead going forward. The group is today present in nine markets, namely the Philippines, Vietnam, Thailand, Indonesia, Singapore, Australia, India, the US and the United Arab Emirates, via joint ventures (JVs) or the establishment of its own offices.

Overseas operations account for 30% to 35% of the group's gross profit. Malaysia remains the leading market, contributing about 65% to 70%.

Asked whether FM Global would consider a JV or it must have a controlling interest over the overseas operations, Chew says: "It doesn't matter because at the end of the day, they generate profits and we can account for the profits in our books. In a way, we have coverage in those markets. For example, we have full control of our offices in the US, while we own majority stakes in the outfits in Vietnam, Indonesia, Thailand and Australia."

In markets where FM Global does not have a presence, the group relies on a network of 200 independent agents. "This gives us flexibility to move elsewhere and we can work with multiple partners or agents in any location that we wish to. If we have a foreign partner, while we can tap into their network, we may not be able to participate and grow in those overseas markets where they are in. In our case, we are multi-market centric. It gives us an additional ability to look at business to and from another country. [Under the current shareholding structure] we have a greater chance of exploring more markets," he says.

FM Global's annual report 2022 shows that its largest shareholder is Chew, with a 24.16% stake. This is followed by its non-executive director Khua Kian Keong who holds 20.05% of the group's shares and executive director Yang Heng Lam, with 18.72% equity interest.

Getting the best out of the markets it is in

Chew says the group has no plans to continue its overseas expansion this year, but it will instead focus on strengthening its position in its existing markets.

"Right now, I feel we are in a good place with regard to our overseas offices and the businesses that we are in. I don't think we would want to diversify too much, but to keep [our] focus on our core businesses, especially in these challenging times," he says.

FM Global, which celebrates its 35th anniversary this year, will continue to be on the lookout for logistics and related businesses for acquisition. "We won't stray from that. However, nothing has been finalised," says Chew.

At end-March this year, the group had cash reserves of RM104.56 million while borrowings totalled RM112.6 million, leading to a RM8.04 million net debt position.

Meanwhile, the group will allocate between RM10 million and RM15 million for its regular annual capital expenditure in FY2024 to renew its fleet of trucks, prime movers and trailers. In addition to this, FM Global is investing RM30 million to RM35 million over the next two financial years in the construction of a 200,000 sq ft warehouse at its recently-purchased site in Port Klang, Selangor.

Chew says FM Global currently operates 822,000 sq ft of warehouse space, of which some is leased. "The warehouse is slated to go operational latest in early 2025. We will look at the opportunities at that point in time. We may give up some of our leased space in order to enjoy some savings. But if we are short of warehouse space, we may keep the existing leased space."

FM Global's share price hit a two-year high of RM1.08 in October 2021, during the pandemic. The stock is down 48% since the peak to close at 56.5 sen apiece last Wednesday, giving it a market capitalisation of RM315.5 million. E