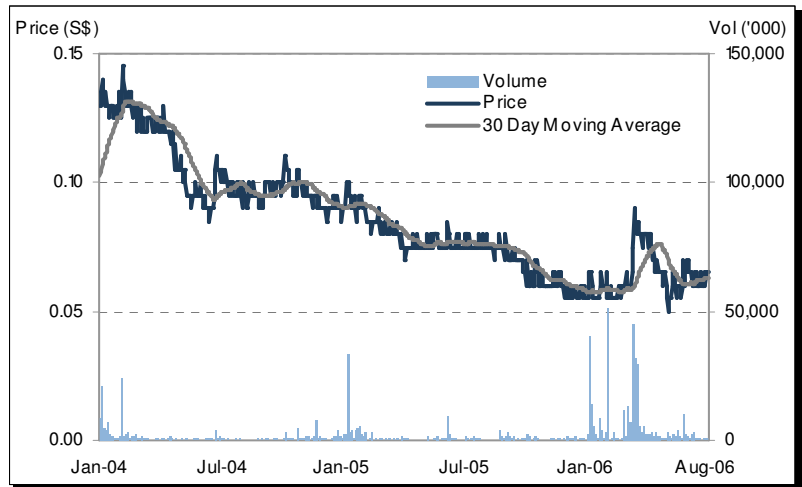


Freight Links Express Holdings

Recommendation:

BUYBloomberg: **FLE SP**Price: **S\$0.06**12-Month Target Price: **S\$0.097**Date: **August 31, 2006****Board:** Main**Sector:** TSC**GICS:** Industrials / Air Freight & Logistics**Market Value -Total:** S\$107.6 mln

Summary: Freight Links Express Holdings (Freight Links) is an international freight forwarder and total logistics provider.

Analyst: Yeow Kit Peng**Highlights**

- Under the stewardship of Mr Eric Khua Kian Keong (Executive Director and CEO), Freight Links turned around in FY04 (Apr.) with a net profit of S\$4.7 mln after bleeding for five years. Net gearing drastically improved from 2.2x to 0.5x in FY06.
- Going forward, earnings growth momentum will be driven by: (1) its new chemical logistics business; and (2) the Chinese logistics market. The chemical logistics business has already made a significant impact in FY06 to account for 23% of the group's revenues. It has also jump-started its China logistics business through strategic acquisitions.

Investment Risks

- Risks to our recommendation and target price include: (i) an economic slowdown that would cause a decline in freight rates, storage rates and shipment volumes; (ii) cut-throat pricing which may lead to a loss of contracts; and (iii) execution risks in new markets, new acquisitions and joint ventures.

Recommendation

- We initiate coverage on Freight Links with a Buy recommendation and a 12-month target price of S\$0.097 per share.
- Our target price is based on a discounted cash flow valuation (key assumptions: WACC of 8.0%; risk-free rate of 4.0%; risk premium of 6.1%; terminal growth rate of 1.5%). The historical PER and P/BV band are not feasible given that Freight Links returned to profitability only in FY04.
- At S\$0.06, Freight Links is trading at undemanding PER of 10.0x when compared with its peer sector average of 15.3x.
- On the back of a stronger balance sheet and having repositioned itself, Freight Links is on track for more profit growth and to capture a slice of the China logistics market.

Key Stock Statistics

	2006	2007F
FY Apr.		
Reported EPS (cents)	0.6	0.6
PER (x)	10.0	10.9
Dividend/Share (cents)	0.2	0.2
NTA/Share (S\$)	0.04	0.05
Book Value/Share (S\$)	0.04	0.05
No. of Outstanding Shares (mln)	1,793.6	
52-week Share Price Range (S\$)	0.050 -0.095	
Major Shareholders:	%	
Vibrant Capital Pte Ltd	60.3	

Per Share Data

	2004	2005	2006	2007F
FY Apr.				
Book Value (S\$)	0.03	0.04	0.04	0.05
Cash Flow (cents)	1.1	1.0	0.8	0.8
Reported Earnings (cents)	0.7	0.7	0.6	0.6
Dividend (cents)	0.1	0.2	0.2	0.2
Payout Ratio (%)	14.3	30.2	26.7	28.9
PER (x)	8.9	8.2	10.0	10.9
P/Cash Flow (x)	5.7	6.1	7.3	7.9
P/Book Value (x)	2.0	1.7	1.4	1.2
Dividend Yield (%)	1.7	3.3	3.3	3.3
ROE (%)	21.6	21.2	15.0	12.0
Net Gearing (%)	220.9	26.2	48.3	41.1

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Freight Links Express Holdings

Recommendation: **BUY**

Bloomberg: FLE SP

Price: S\$0.06

12-Month Target Price: S\$0.097

Date: August 31, 2006

Background

Corporate Profile

Freight Links is a leading provider of integrated logistics management services in Singapore. The group provides services such as international freight forwarding, warehousing services, chemical logistics, documentation services, and international relocation. The company also manages international exhibitions and events. Freight Links has offices in Singapore, Malaysia, Thailand, Australia, Hong Kong, China and UAE.

Freight Links was incorporated in 1981 and listed on the Sesdaq Board of the Singapore Exchange in Aug. 1995. It was subsequently upgraded to the Main Board of the Singapore Exchange in Feb. 1998.

Mr Khua Hock Su (Non-Executive Chairman) and Mr Eric Khua Kian Keong (Executive Director and CEO) are some of the shareholders behind Vibrant Capital, which holds a 60.3% stake in Freight Links. Freight Links' Board consists of three independent Directors (out of seven). No material corporate governance issues have been noted.

Under the stewardship of Mr Eric Khua, Freight Links underwent a major restructuring exercise in 2003-2004, which turned the company around from five years of consecutive losses to a net profit of S\$4.7 mln in FY04 (Apr.). Net gearing was also slashed from a high of 2.2x to 0.5x in FY06.

Corporate Structure

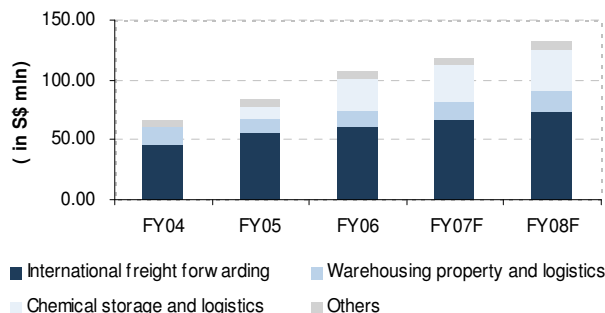


Source: Company data

Business

Freight Links' business units can be segmented into international freight forwarding, warehousing property and logistics, and chemical storage and logistics.

Revenues Breakdown by Business Segment



Source: Company data, S&P Equity Research

International freight forwarding

International freight forwarding, which comprised 57% of revenue, grew by S\$5 mln to S\$60.9 mln in FY06 on favorable freight rates and a robust global economy. As a result, operating margins (before unallocated corporate cost) improved to 7.0% in FY06 as compared with 4.6% in FY05.

Freight Links is one of the largest international cargo handlers in Singapore. The company operates its international freight forwarding business through a network covering over 600 destinations and more than 120 freight forwarding agents worldwide. It provides ocean & air freight services, consolidation & deconsolidation of cargo, transshipment, project handling, documentation, customs clearance & transportation, and inland trucking to Peninsular Malaysia.

International freight forwarding business is expected to provide a stable base load for the group.

Warehousing property and logistics

Revenues of S\$14.8 mln from the warehousing property and logistics division accounted for 14% of the group's revenues. In FY06, operating margins (before unallocated corporate cost) improved to 1.2% on the back of higher occupancy and storage rates. In FY05, the division had incurred an operating loss of S\$0.3 mln due to an oversupply of warehouse space in Singapore, which put pressure on storage rental rates.

Currently, its 1.5 mln sqf of warehouse space in Singapore are achieving rents of S\$1.00-S\$1.50 psf. Occupancies have also improved to more than 90% currently. Two of its warehouses are equipped with Automated Storage and Retrieval System (ASRS) and have more than 31,000 pallet positions. The group also provides other logistics services such as vendor hub services, transportation & distribution, customs brokerage, and supply chain management. The warehouses are enabled with web-based Warehouse Management System (WMS) and online inventory tracking to provide a cost effective, productive and total logistic solution to customers. The company's major customers include: TNT Express, Goodyear, Cannon and GE Supply Asia.

We expect warehousing contribution to be boosted by full-year rental income from the newly acquired warehouses at Pandan Loop (July 2005) and Tuas Ave 8 (Sep. 2005) in FY07. These properties are being leased

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Freight Links Express Holdings

Recommendation:

BUY

Bloomberg: FLE SP

Price: S\$0.06

12-Month Target Price: S\$0.097

Date: August 31, 2006

to 3rd parties for a period of 10 years and are expected to have property yields of around 11.0%. The group has sold its investment property in Australia, Melbourne International Airfreight Centre, in Aug. 2005, and is actively looking for new acquisition opportunities.

Chemical storage and logistics

Freight Links ventured into the chemical storage and distribution business with the acquisition of a 51% stake in LTH Logistics (LTH) in Nov. 2004.

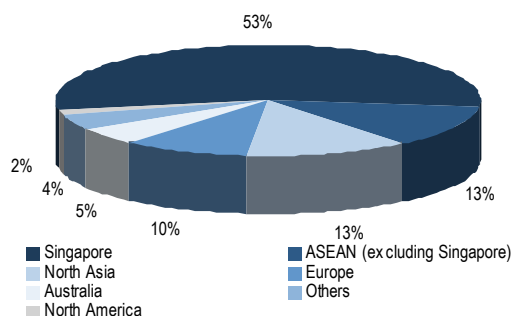
LTH is a leading chemical logistics company in Singapore, handling both hazardous and non-hazardous chemical, and petrochemicals. It also operates in West Malaysia (Pasar Gudang, Klang, Seremban and Gebeng), Indonesia (Jakarta and Cilegon) and Thailand (Bangkok and Laem Chabang). In Singapore, it has over 230,000 sqf of warehouse space for drumming, storage and bulk distribution. In Malaysia, it has another 90,000 sqf of warehouse space in Pasar Gudang, Johor. Some of its customers include petroleum companies such as BP, Chevron, Petronas and Shell, and chemical companies such as Dow.

The acquisition will expand the group's customer base and enlarge its regional presence in Southeast Asia. Management plans to tap on LTH's network of customers that have a presence in China to jump-start Freight Links' business in the robust China logistics market.

In FY06, the division generated an operating profit of S\$1.4 mln on revenues of S\$24.7 mln. This division is expected to be the fastest growing within the group going forward.

Others

The group also provides services such as event management, document storage and record management, and international relocation services. Earlier, the group had organized overseas exhibition projects such as the aerospace exhibition show in South Africa and the health exhibition show in Australia and New Zealand. The group has recently opened an office in UAE to explore the market in that region.

FY06 Revenue Breakdown by Geography

Source: Company data

Currently more than half of Freight Links' revenues are derived from Singapore. Going forward, one of Freight Links' key strategic initiatives is to increase its presence in the growing China logistics market.

It has jump-started its China logistics business through strategic acquisitions. It acquired a 36.3% stake in Shenzhen-based transport company, China GSD Logistics, for US\$6.0 mln in June 2005. The group also went on to invest S\$3.3 mln in convertible bonds in China Baisui Logistics.

The investments will allow the group to cross-sell its services, and make use of the extensive network of branches of the above companies to capture a slice of the US\$81 bln China logistics market which is predicted to grow 12% p.a. to hit US\$143 bln by 2010 (source: Datamonitor Inc).

Competition is keen, however. There are around 50 foreign logistics companies on the mainland and hundreds of thousands of domestic players (source: China Logistics Industry Association). Nonetheless, few players have the capability to offer comprehensive solutions in logistics management, and this is an area in which Freight Links can add value.

Earnings Outlook

Growth momentum is expected to continue in FY07 and FY08 albeit at a more moderate pace when compared with FY06, which was given a boost from the full-year contribution from LTH Logistics.

We are forecasting a 2-year net profit CAGR growth of 6.8% p.a. (excluding exceptional items) to S\$9.9 mln in FY07 and S\$10.3 mln in FY08, mainly on the back of expected higher shipment volumes and strong contribution from its chemical storage and logistics division.

We have not factored in the potential impact of the dilutive effect of the outstanding 896.8 mln warrants in our projection because they were issued in April 2006 and will mature in March 2009. To be exercised at S\$0.05, the warrants are currently in the money.

We expect the company to maintain a gross dividend of 0.20 cents per share in FY07 (FY06: 0.20 cents per share), which translates into a gross dividend yield of 2.9%. Net gearing is also sustainable at a reasonable 0.4x-0.5x level, a drastic improvement from 2.2x in FY04.

On the back of a stronger balance sheet and having repositioned itself, Freight Links is back on track for profit growth.

Valuation

We initiate coverage on Freight Links with a Buy recommendation and a 12-month target price of S\$0.097 per share. Although the 61.6% share price upside would typically justify a more aggressive recommendation, we prefer to recommend a Buy because the absolute low share price will exaggerate any change in % terms.

Our 12-month target price of S\$0.097 per share is based on a discounted cash flow valuation (key assumptions: WACC of 8.0%; risk-free rate of 4.0%; risk premium of 6.1%; terminal growth rate of 1.5%) and includes the projected net dividend per share of 0.20 cents. Given that Freight Links returned to profitability only in FY04, the historical PER and P/BV band methodologies are not feasible.

At S\$0.06, Freight Links is trading at an undemanding PER of 10.0x when compared with its peer sector average of 15.3x.

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Freight Links Express Holdings

Recommendation:

BUY

Bloomberg: FLE SP

Price: **S\$0.06**

12-Month Target Price: **S\$0.097**

Date: **August 31, 2006**

Comparative Valuation

	Freight Links Express	Sembawang Kimtrans ¹	CWT ¹	Eng Kong Holdings ²	Poh Tiong Choon Logistics ³
Share Price (S\$) @ Aug. 30, 06	0.06	0.64	0.61	0.19	0.15
Mkt. Cap (S\$ mln)	107.6	266.7	181.6	39.7	32.4
Ave. Daily Vol. ('000)	1,083.6	1,872.6	176.9	65.7	71.6
PER FY05 (x)	8.9	18.1	87.1	38.0	15.0
PER FY06 (x)	11.0	16.7	20.3	12.7	11.5
P/NTA	1.4	3.8	0.9	1.0	0.8
Yield (%)	3.1	1.9	0.0	2.6	5.3

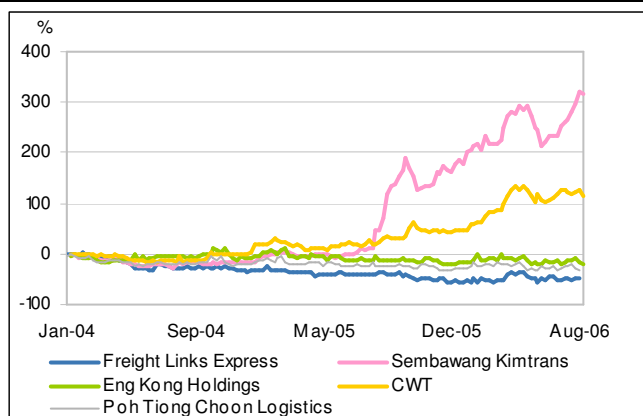
¹ FY04 (Dec) and FY05 (Dec)

² FY05 (Jun) and FY06 (Jun)

Sembawang Kimtrans (SBKT SP, Not Ranked); CWT (CWT SP, Not Ranked); Eng Kong Holdings (ENKG SP, Not Ranked); Poh Tiong Choon Logistics (PTC SP, Not Ranked)

Source: Bloomberg, Company data

Relative Share Price Performance of Comparables



Source: Bloomberg, S&P Equity Research

Recent Developments

July 2006: Incorporated a wholly-owned subsidiary in Dubai. The principal business activities of the subsidiary are international project management, event and exhibition management, design and build of exhibition set-ups, and PR and marketing communication.

July 2006: Increased its stake from 73% to 76% in its Australian subsidiary, Freight Links Express Holdings (Australia).

July 2006: Increased its stake from 19% to 49% in Freight Links Express (Thailand).

June 2006: Announced an 83.5% jump in FY06 net profit to S\$10.7 mln on a 26% growth in revenue to S\$106.3 mln. FY06 net profit included a revaluation gain of S\$1.7 mln from its warehouse properties.

May 2006: Subsidiary, Lee Thong Hung Trading & Transport (Lee Thong), acquired a 50% stake in LTH Peninsular Logistics. LTH Peninsular Logistics provides warehousing and transportation services.

March 2006: Lee Thong entered into a joint venture with E-Response Management (ERASB) by acquiring a 50% stake in the company. ERASB has not commenced operations.

Profit & Loss

FY Apr. / S\$ mln	2005	2006	2007F	2008F
Reported Revenue	84.3	106.3	118.8	132.5
Reported Operating Profit	1.2	10.9	12.3	12.6
Depreciation & Amortization	-3.4	-4.0	-3.8	-3.7
Net Interest Income / (Expense)	-1.3	-2.5	-2.6	-2.5
Reported Pre-tax Profit	4.0	13.0	12.6	13.1
Effective Tax Rate (%)	-46.5	17.6	20.0	20.0
Reported Net Profit	9.5	10.7	9.9	10.3
Reported Operating Margin (%)	1.4	10.2	10.3	9.5
Reported Pre-tax Margin (%)	4.7	12.2	10.6	9.9
Reported Net Margin (%)	11.3	10.1	8.3	7.8

Source: Company data, S&P Equity Research

Balance Sheet

FY Apr. / S\$ mln	2004	2005	2006
Total Assets	121.0	144.7	204.4
Fixed Assets	86.8	50.0	50.5
Current Assets	21.8	71.4	65.5
Other LT Assets	12.3	23.3	88.4
Current Liabilities	24.5	40.3	36.5
LT Liabilities	68.7	35.1	84.0
Share Capital	8.4	17.9	47.9
Shareholders' Funds	25.4	64.1	79.1

Source: Company data, S&P Equity Research

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Glossary

Strong Buy: Total return is expected to outperform the total return of the ST Index, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the ST Index, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the ST Index, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the ST Index, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the ST Index, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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