

1Q FYE DEC 2011 RESULTS REPORT

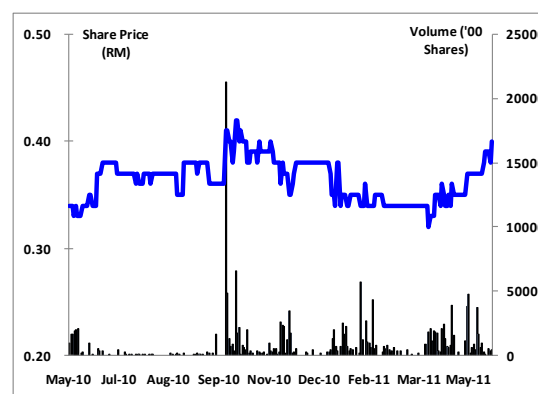
27 May 2011

Name of PLC: Grand-Flo Solution Berhad		Target Price:	RM 0.49
Business Summary : Specialise in the provision of comprehensive Enterprise Data Collection and Collation System (EDCCS) Solutions			
Major Shareholders : Grand-Flo Corporation Sdn Bhd, (16.24%) Tan Bak Leng, (7.91%) CL Solutions Services Limited, (7.86%)			
PLC Website : http://www.grand-flo.com		Recommendation:	Buy
IR Contact : Yap Li Li, Executive Director Email : liliyap@grand-flo.com		Market Capitalisation:	RM 57.3m
		Current Price :	RM 0.395
		Market / Sector:	ACE Market / Technology
		Stock Code:	0056
Analyst : Lim Boon Ngee Tel : +603 2163 3200; Email : bnlim@nra.com.my			

Key Stock Statistics	FY08	FY10	FY11F	FY12F
EPS (sen)	2.3	4.9	6.2	6.8
P/E (x)	16.8	8.0	6.4	5.8
Dividend/Share (sen)	-	1.0	1.0	1.0
NTA/Share (sen)	11.3	18.3	23.4	29.0
Book Value/Share (sen)	11.3	18.3	23.4	29.0
Issued Capital (m shares)	135.9	145.1	145.1	145.1
52-weeks Share Price Range (RM)	0.33 - 0.44			

Per Share Data	FY09	FY10	FY11F	FY12F
Year-end 31 Dec				
Book Value (sen)	11.3	18.3	23.4	29.0
Opt Cash Flow (sen)	2.2	1.5	5.5	6.3
Earnings (sen)	2.3	4.9	6.2	6.8
Dividend (sen)	-	1.0	1.0	1.0
Payout Ratio (%)	-	19.8	16.2	14.7
P/E (x)	16.8	8.0	6.4	5.8
P/Cash Flow (x)	18.0	25.6	7.2	6.3
P/Book Value (x)	3.5	2.2	1.7	1.4
Dividend Yield (%)	-	2.5	2.5	2.5
ROE (%)	9.3	16.3	16.8	16.1
Net Gearing (%)	21.4	20.0	11.7	3.4

P&L Analysis (RMm)	FY09	FY10	FY11F	FY12F
Year-end 31 Dec				
Revenue	46.5	68.7	79.0	86.9
Operating Profit	4.9	7.8	9.5	10.4
Net Interest Expense	(0.6)	(0.7)	(0.6)	(0.5)
Associate	0.7	1.2	1.2	1.2
Pre-tax profit	5.0	8.6	10.1	11.1
Effective Tax Rate (%)	(15.5)	(10.8)	(10.8)	(10.8)
Net Profit	3.2	7.3	9.0	9.9
Operating Margin (%)	10.6	11.4	12.0	12.0
Pre-tax margin (%)	10.8	12.5	12.7	12.8
Net margin (%)	6.8	10.7	11.3	11.4

Share Price Chart

1. 1QFY11 Results Highlight / Review

Year-ended 31 Dec	1QFY11 RMm	1QFY10 RMm	Chg %
Revenue	17.0	14.0	22.0
Operating profit	2.3	1.8	28.4
Interest expense	(0.2)	(0.2)	n.m.
Associate	0.2	0.6	(72.5)
Pre-tax profit	2.3	2.2	5.1
Net profit	2.1	1.8	17.7
Operating Margin (%)	13.3	12.6	
Pre-tax Margin (%)	13.4	15.6	
Net-Margin (%)	12.3	12.7	

- Grand-Flo Solution (GF)'s 1QFY11 results were in line with our expectations. Revenue grew 22.0% y-o-y to RM17.0m compared to RM14.0m in 1QFY10.

- The growth in revenue was due to an increasing demand for Enterprise Data Collection and Collation System (EDCCS) and Labels business in Malaysia and Hong Kong, underpinned by the recovery in the global economy.
- Operating profit increased to RM2.3m in 1QFY11 from RM1.8m in 1QFY10, underpinned by higher operating margin of 13.3% (1QFY11) as compared with 12.6% (1QFY10). This was attributed to better product mix, especially software and lower operating overhead.
- Lower net profit from its Thai's associate (Simat) resulted in a moderate 5.1% increase in 1QFY11's pre-tax profit of RM2.3m from RM2.2m in 1QFY10. The sharp drop in net profit contribution from Simat, declining by 72.5% to RM0.2m from RM0.6m achieved in 1QFY10. This was mainly due to further provision of doubtful debt on a government project where payment was delayed.

Review of segmental revenue

Segmental Revenue breakdown	1Q10	2Q10	3Q10	4Q10	1Q11
	(RM m)	(RM m)	(RM m)	(RM m)	(RM m)
EDCCS					
- Malaysia	7.0	9.0	10.4	10.0	9.3
- Other countries	1.8	2.3	2.2	3.5	1.8
Subtotal	8.8	11.3	12.6	13.5	11.1
Labels					
- Malaysia	5.1	6.1	5.3	6.0	5.6
- Other countries	-	-	-	-	0.3
Subtotal	5.1	6.1	5.3	6.0	5.9
Total Revenue	14.0	17.4	17.8	19.5	17.0

- In 1QFY11, Malaysia operation continued to be the main contributor to group's revenue and earnings, accounting for 87.6% of group's revenue, while the remaining 12.4% was contributed by other countries (China/Hong Kong). China market showed some improvement, where the labels business recorded its maiden revenue of RM0.3m in 1QFY11.
- For 1QFY11, revenue contribution from its EDCCS business increased 26.4% y-o-y to RM11.1m from RM8.8m in 1QFY10, while the label business increased 8.8% y-o-y to RM5.9m from RM5.1m in 1QFY10.
- Traditionally, 1Q is a slower quarter due to a shorter working period in February; we foresee that consumer demand for EDCCS and label business in Malaysia and China to pick-up in the subsequent quarters. In addition, the delayed capex expansion by its customers arising from economic downturn will be revived due to the growing demand for GF's products and services

2. Earnings Outlook

- Growing demand for EDCCS and labels product is expected to continue on the back of positive economic outlook for Malaysia for 2011. Higher sales from new projects and addition of new customers will drive company's growth going forward. At the same time, maintenance contracts should also continue to increase as projects momentum is sustained.
- Stripping out the provision for doubtful debt of RM0.2m in 1QFY11, GF's associate would have recorded a net profit of RM0.4m as compared with RM0.6m in 1QFY10. Going forward, in the worst case scenario, if the remaining doubtful debt were to be written off in FY11, the loss impact to GF would be another RM0.4m. We have not factor in this into our earnings forecast for FY11, as the management is confident to recover the outstanding amount in FY11.

3. Valuation and Recommendation

- GF's growth will be underpinned by higher project sales from existing customers, as well as addition of new customers.
- GF is currently trading at a P/E of 6.4x based on our EPS forecast of 6.2 sen for FY11. We are maintaining our BUY recommendation on the stock. We have arrived at a target price of RM0.49 based on a target P/E of 8.0x for FY11.

Disclosures/Disclaimer

Investment ratings:

Buy (generally >10% upside over the next 12 months)

Hold (generally negative 10% downside to positive 10% upside over the next 12 months)

Sell (generally >10% downside over the next 12 months)

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