

Grand-Flo Solution

Recommendation: **HOLD**Stock Code: **0056**Bloomberg: **GFLO MK**Price: **MYR0.33**12-Month Target Price: **MYR0.35**Date: **March 3, 2009****Board:** Mesdaq**Sector:** Technology**GICS:** Information Technology/Data Processing & Outsourced Services**Market Value - Total:** MYR40.4 mln

Summary: Listed in November 2004, Grand-Flo Solution (Grand-Flo) is mainly engaged in enterprise data collection and collation system (EDCCS) related businesses in Malaysia and Southeast Asia.

Analyst: Chok Wai Lee, CFA

Results Review & Earnings Outlook

- Grand-Flo's 2008 net loss of MYR332,854 (vs. 2007 net profit of MYR6.4 mln) was significantly below our expectations. The main variances were a MYR1.4 mln write-off of research and development costs and a MYR0.4 mln provision of doubtful debts.
- 4Q08 revenue of MYR9.0 mln was 51.9% lower YoY, due to postponement of some projects and the cessation of Simat Technologies (Simat) (SIMAT TB, THB2.26, Not Ranked) as a subsidiary of Grand-Flo. Simat is now an associate company (36.8% owned vs. 49.0% previously) following its listing in Thailand in December 2007.
- The investment in Simat Labels (new labels business division in Thailand) is still making losses on the back of global economic slowdown and prolonged political uncertainties in Thailand. This was mitigated by contributions from the newly acquired Labels Network Sdn Bhd (LNSB, 55%-owned). LNSB has exceeded its profit guarantee of MYR1.0 mln in 2008. According to management, Simat Label has managed to secure substantial orders in the beginning of 2009 and it is expected to be profitable in 2009.
- We are revising upward our 2009 earnings forecast by 58.9% to MYR5.3 mln, taking into account the higher contribution by CL Solutions (China) following the completion of the acquisition. We also introduce our 2010 net profit forecast of MYR6.1 mln.

Recommendation & Investment Risks

- We maintain our Hold recommendation with a higher 12-month target price of MYR0.35 (from MYR0.33) following our earnings revisions.
- Our target price is based on a blend of PER and P/B valuations. We have ascribed multiples of 8.0x PER and 1.5x P/B (both unchanged) on our estimated 2009 EPS and BVPS, respectively (these multiples are within the stock's historical trading ranges).
- The recent acquisition of CL Solutions (China) Ltd shall enable Grand-Flo to penetrate the growing tracking solutions market in Hong Kong and China. In addition, it also presents another opportunity for the group to cross-sell its label products and establishes a larger clientele base and distribution networks.
- In our view, we believe both organic growth at its existing businesses in Malaysia and Thailand, as well as its plan for expansion into other Asian markets (e.g. Vietnam and China) will continue to underpin Grand-Flo's earnings growth momentum in the longer term.
- Risks to our recommendation and target price include a significant slowdown in the region's EDCCS market, intensifying competition, and higher-than-expected costs. We also note that the stock's thin trading volume could result in unusual share price fluctuations.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	-0.3	3.9
PER (x)	NM	8.3
Dividend/Share (sen)	2.0	0.0
NTA/Share (MYR)	0.13	0.14
Book Value/Share (MYR)	0.25	0.25
No. of Outstanding Shares (mln)	124.5	
52-week Share Price Range (MYR)	0.30 - 0.43	
Major Shareholders:	%	
Grand-Flo Corporation Sdn Bhd	18.9	
Tan Bak Leng	9.2	
Cheng Ping Liong	5.4	

*Stock deemed Shariah compliant by the Securities Commission.

Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	0.23	0.27	0.25	0.25
Cash Flow (sen)	5.0	6.3	0.4	4.6
Reported Earnings (sen)	3.4	5.1	-0.3	3.9
Dividend (sen)	2.0	2.0	2.0	0.0
Payout Ratio (%)	48.5	33.2	NM	0.0
PER (x)	9.5	6.3	NM	8.3
P/Cash Flow (x)	6.5	5.2	72.7	7.0
P/Book Value (x)	1.4	1.2	1.3	1.3
Dividend Yield (%)	6.2	6.2	6.2	0.0
ROE (%)	17.6	17.6	-1.0	16.6
Net Gearing (%)	0.0	0.0	27.0	35.5

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FY Dec. / MYR mln	4Q08	4Q07	% Change
Reported Revenue	9.0	18.6	-51.9
Reported Operating Profit	-2.3	1.7	NM
Depreciation & Amortization	0.2	-0.5	NM
Net Interest Income / (Expense)	-0.2	-0.1	>100
Reported Pre-tax Profit	-2.4	2.7	NM
Reported Net Profit	-2.2	2.2	NM
Reported Operating Margin (%)	-25.4	9.1	-
Reported Pre-tax Margin (%)	-26.6	14.7	-
Reported Net Margin (%)	-24.4	11.8	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	64.9	36.9	58.4	65.3
Reported Operating Profit	8.2	0.6	7.3	8.6
Depreciation & Amortization	-2.4	-0.9	-1.0	-1.0
Net Interest Income / (Expense)	-0.1	-0.5	-0.8	-0.9
Reported Pre-tax Profit	9.1	0.5	6.5	7.7
Effective Tax Rate (%)	12.7	60.8	13.3	13.4
Reported Net Profit	6.4	-0.3	5.3	6.1
Reported Operating Margin (%)	12.7	1.7	12.6	13.1
Reported Pre-tax Margin (%)	14.0	1.5	11.2	11.8
Reported Net Margin (%)	9.8	-0.9	9.1	9.4

Source: Company data, S&P Equity Research

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

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Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, 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 KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

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Recommendation and Target Price History

Date	Recommendation	Target Price
3-Mar-09	Hold	0.35
27-Nov-08	Hold	0.33
3-Sep-08	Buy	0.49
2-Jan-08	Buy	0.70
11-Sep-07	Buy	0.55
9-Jul-07	Buy	0.60
16-Feb-07	Strong Buy	0.70
6-Sep-06	Strong Buy	0.56
18-May-06	Buy	0.54
29-Mar-06	Buy	0.58
3-Mar-06	Hold	0.52

