

<b>Grand-Flo Solution Berhad</b>		<b>Price:</b>	RM0.325
		<b>Market Capitalisation:</b>	RM40.4m
		<b>Board:</b>	Mesdaq
		<b>Sector:</b>	Technology
		<b>Index Component:</b>	NIL
<b>Stock Code:</b>	0056	<b>Recommendation:</b>	HOLD

Key Stock Statistics	FY08	FY09F	FY10F
EPS (sen)	(0.3)	2.4	2.5
P/E on EPS (x)	(121.5)	13.6	13.0
Dividend/Share (sen)	1.0	1.0	1.0
NTA/Share (sen)	13.0	12.4	14.3
Book Value/Share (sen)	13.0	12.4	14.3
Issued Capital (m shares)	124.5	135.9	135.9
52-weeks Share Price Range (sen)	32.5 - 47.5		

**Major Shareholders:**

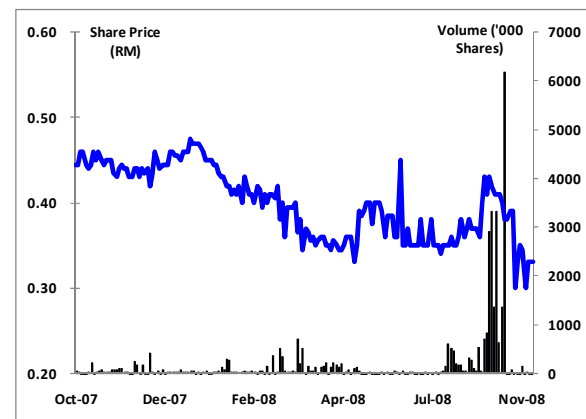
	%
Grand-Flo Corporation	18.9%
Tan Bak Leng	9.2%
Cheng Ping Liong	5.4%
Othman Bin Bakri	5.4%

as at 2 January 2009

Per Share Data	FY07	FY08	FY09F	FY10F
Year-end 31 Dec				
Book Value (sen)	18.4	13.0	12.4	14.3
Cash Flow (sen)	4.7	2.6	2.1	4.0
Earnings (sen)	5.0	(0.3)	2.4	2.5
Dividend (sen)	2.0	1.0	1.0	1.0
Payout Ratio (%)	39.7	n.a.	42.0	39.9
PER (x)	6.4	n.a.	13.6	13.0
P/Cash Flow (x)	6.8	12.3	15.2	8.1
P/Book Value (x)	1.8	2.5	2.6	2.3
Dividend Yield (%)	6.2	3.1	3.1	3.1
ROE (%)	16.9	(1.0)	9.6	8.9
Net Gearing (%)	n.c.	27.0	26.1	21.7

n.c. – net cash

P&L Analysis (RMm)	FY07	FY08	FY09F	FY10F
Year-end 31 Dec				
Revenue	64.7	36.9	46.2	48.5
Operating Profit	11.6	1.9	5.9	6.3
Depreciation	(1.9)	(0.9)	(1.1)	(1.2)
Interest Expenses	(0.1)	(0.4)	(0.4)	(0.4)
Pre-tax profit	8.9	0.5	4.3	4.5
Effective Tax Rate (%)	(12.9)	(60.8)	(12.9)	(12.9)
Net Profit	6.3	(0.3)	3.2	3.4
Operating Margin (%)	18.0	5.1	12.7	12.9
Pre-tax margin (%)	13.8	1.5	9.4	9.4
Net margin (%)	9.7	(0.9)	7.0	7.0

**Share Price Chart**

**1. 4QFY08 Results Highlights:**

Year-ended 31 Dec	4QFY08 RMm	4QFY07 RMm	Chg %
Revenue	8.9	18.6	(51.9)
Operating profit	(1.9)	3.3	11.8
Depreciation	(0.3)	(0.4)	n.a.
Interest Expense	(0.2)	(0.1)	n.a.
Pre-tax profit/(loss)	(2.4)	2.7	40.2
Net profit/(loss)	(2.2)	2.2	>100
Operating Margin (%)	(21.5)	17.9	
Pre-tax Margin (%)	(26.6)	14.7	
Net-Margin (%)	(24.4)	11.8	

Grand-Flo's (GF) 4QFY08 results were below expectations. Although revenue of RM8.9m was in line with our forecast, the group recorded pre-tax loss of RM2.4m. The poor performance was mainly due to higher cost of operations, written off of the research and development (R&D) cost and general provision of doubtful debts.

Overall, GF's operations will be adversely affected by the current economic downturn. Forecast figures include maiden contribution from their acquisition of CL Solutions (China) Limited (CLS), which was concluded last month. Nonetheless, the company has progressively build on its regional position in the bar code and bar code labelling industry, and we believe it to be well placed to benefit in the longer term when economic environment improves. We maintain our **HOLD** recommendation.

- Revenue dropped -51.9% y-o-y to RM8.9m in 4QFY08 from RM18.6m in 4QFY07. Revenue performance was undermined by customers' postponement of projects as a result of the economic slowdown. Further, subsidiary, Simat Technology (ST) has been converted to being an associate company of the Group pursuant to the dilution of GF's equity interest of 49% to 36.75% in ST, subsequent to the successful listing of ST in the Market for Alternative Investment in Thailand (MAI) on 12 December 2007.
- During the quarter under review, the group reported pre-tax loss of RM2.4m compared to pre-tax profit of RM2.7m in 4QFY07. This was mainly due to higher cost of sales, higher operating overheads and start-up cost for the group's new label business in Thailand (SL). In addition, the group has also writing off its R&D costs of RM1.4m due to a technology refresh of GF's Enterprise Data Collection and Collation System (EDCCS) and a general provision of doubtful debts of RM0.4m.

## 2. **FY08 Results Highlights:**

Year-ended 31 Dec	FY08 RMm	FY07 RMm	Chg %
Revenue	36.9	64.7	(43.0)
Operating Profit	1.9	11.6	(83.6)
Depreciation	(0.9)	(1.9)	n.a.
Interest Expense	(0.5)	(0.3)	n.a.
Pre-tax Profit	0.5	8.9	(94.4)
Net Profit	(0.3)	6.3	(>100)
Operating Margin (%)	5.1	18.0	
Pre-tax Margin (%)	1.5	13.8	
Net-Margin (%)	(0.9)	9.7	

- For the full year FY08, revenue dropped -43.0% y-o-y to RM36.9m from RM64.7m in the same period last year, attributed to weaker operations, and the dilution of equity interest in ST.
- Nonetheless, contribution from label business through the newly acquired subsidiary (acquisition completed in February 2008), Label Network Sdn Bhd (LNSB), has been positive. For the full year FY08, the label business accounted for 38.4% of the group's total turnover. Going forward, LNSB is expected to sustain its positive contribution to group revenue and earnings.
- At the pre-tax profit level, GF reported a marginal profit of RM0.5m in FY08. However, the group recorded net loss of RM0.3m due to minority interest of RM0.5m and income tax expense of RM0.3m. The Group's investment in Simat Labels Company Limited (SL) remains disappointing. The joint venture between ST and LNSB in Thailand has yet to record any positive results, undermined by the unfavourable economic environment, and the political uncertainties in Thailand. However, GF indicated that SL managed to secure substantial orders in the beginning of 2009 which is expected to contribute to the group's earnings in FY09.
- Earnings contribution from its Thai associate (ST) was also lower than expected as a result of slower sales.

## Balance Sheet

- GF's recorded a net debt of RM8.2m in FY08, representing a net gearing of 27% (from a net cash in FY07). Higher gearing mainly reflected the acquisition of CLS which will provide the Group with a strategic access into the Hong Kong and China markets. Barring any new acquisition exercises or expansion programme, we expect GF's gearing to ease going forward.

### **Earnings outlook**

- The global economic slowdown is expected to affect demand for both EDCCS and labelling business in Malaysia as well as Thailand. Customers are more cautious in planning their capex and expansion strategy going forward. .
- Following completion of the acquisition exercise on the entire share of CL Solutions (China) Limited (CLS) on 28 February 2009, we have revised up our FY09 net profit forecast by 33% to RM3.2m to factor in contribution from CLS. We expect the contribution from CLS to mitigate the slower demand in its existing markets in both Malaysia and Thailand. To recap, the acquisition of CLS comes with a cumulative net profit guarantee of RM3.8m over a 2 years period (RM1.7m in FY08 and RM2.1m in FY09).

### **Recent Development**

- Further to the proposed acquisition of CL Solutions (China) Limited (CLS) on 10 September 2008, the company have on 10 February 2009 received an approval letter from Bursa Malaysia for the issuance of 11,398,176 new ordinary shares of RM0.10 each in Grand-Flo at an issue price of RM0.42 per share as part payment to the purchase consideration. To recap, the purchase consideration of RM10.8m is to be funded by way of RM5.8m in cash and the issuance of new shares in GF. The acquisition was completed on 28 February 2009.

### **3. Recommendation**

- Based on our EPS forecasts of 2.4 sen and 2.5 sen over the next two years, GF trades on PER valuation of 13.6x and 13.0x respectively.
- Overall, GF's operations will be adversely affected by the current economic downturn. Forecast figures include maiden contribution from their acquisition of CLS, which was concluded last month. Nonetheless, the company has progressively build on its regional position in the bar code and bar code labelling industry, and we believe it to be well placed to benefit in the longer term when economic environment improves. We maintain our **HOLD** recommendation. .

---

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)

Netresearch-Asia Sdn Bhd is a participant of the CMDF-Bursa Research Scheme and receives a compensation for each stock covered under the Scheme. The information and opinion in this document has been obtained from various sources believed to be reliable. This publication is for information purpose only, and must not be relied upon as authoritative or taken in substitution for the exercise of judgment. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. Opinions expressed in this publication are subject to change without notice and any recommendation herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. No representation, express or implied, is made with respect to the accuracy, completeness or reliability of the information or opinions in this publication. Accordingly, neither we nor any of our affiliates nor persons related to us accept any liability whatsoever for any direct, indirect or consequential losses (including loss and profit) or damages that may arise from the use of information or opinions in this publication.

Netresearch-Asia Sdn Bhd and its related companies, their associates, directors, connected parties and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may materially be interested in any such securities. Netresearch-Asia Sdn Bhd and its related companies may from time to time perform advisory, investment, communications or other services for, or solicit such advisory, investment, communications or other services from any entity mentioned in this report. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.