STANDARD & POOR'S

Grand-Flo Solution

Recommendation: **BUY**

Stock Code: 0056 | Bloomberg: GFLO MK | Price: MYR0.46 | 12-Month Target Price: MYR0.55 | Date: September 11, 2007

Board: Mesdaq

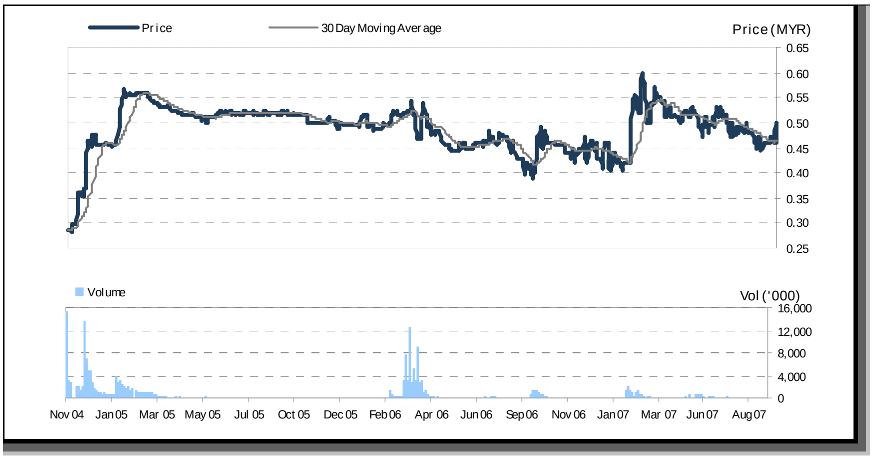
Sector: Technology

GICS: Information Technology/Data Processing & Outsourced Services

Market Value - Total: MYR57.1 mln

Summary: Listed in Nov. 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: Joy Lee, CFA



Results Review & Earnings Outlook

- Grand-Flo reported a net profit of MYR1.4 mln (up 94.4% YoY) on revenue of MYR14.2 mln (up 60.2% YoY) for 2Q07, driven mainly by contribution from Spritvest and Data Centrix acquired in Oct. 2006. 1H07 net profit reached MYR2.6 mln on revenue of MYR27.8 mln, below our expectations and accounted for 35.1% and 35.5% of our previous 2007 estimates, respectively, due to weaker-than-expected contribution from its overseas operations.

- 1H07 operating profit margin dropped to 14.2% (vs. our 2007 estimate of 18.4%) from 19.8% in 1H06, mainly due to lower profit margin achieved by its overseas operations. The local business was boosted by the new acquisitions and generated an operating profit of MYR2.3 mln (up 38.6% YoY) during the period.

- Following the results, we trim our 2007 and 2008 earnings forecasts by 7.1% and 8.2% to MYR6.9 mln and MYR7.7 mln, respectively, reflecting our less aggressive assumptions for overseas market contributions.

- Nevertheless, we expect a stronger 2H07 given that the company has secured MYR6.5 mln worth of contracts locally (including a MYR2.9 mln contract from Pos Malaysia for Pos Laju document tracking) and MYR20 mln worth of contracts in Thailand (including MYR10 mln contract from C.P. Seven Eleven and MYR10 mln project from Tesco).

Recommendation & Investment Risks

- We maintain our Buy recommendation on the stock with a revised 12-month target price of MYR0.55 (from MYR0.60) given our moderate earnings forecast revisions. We expect a dividend yield of 5.4% and a 3-year earnings CAGR of 15% between 2007 and 2010 to provide support to the share price.

- Our new target price is based on a blend of PER, P/B and DCF valuations, plus a projected net DPS of 1.8 sen. We have ascribed 12.0x PER (unchanged) and 2.5x P/B (unchanged) on our estimated 2007 EPS and BVPS, respectively, which are at the lower end of the stock's historical trading ranges. In our DCF valuation, we have assumed a WACC of 10.0% and a terminal growth rate of 3%.

- Longer term, we expect both organic growth at its existing businesses in Malaysia, Thailand and Singapore, as well as its plan for expansion in other Asian markets (e.g. Indonesia) to continue to underpin Grand-Flo's earnings growth momentum. Its plan to develop radio frequency identification solutions business may also create new catalysts.

- Risks to our recommendation and target price include a slowdown in the region's EDCCS market, intensifying competition, higher-than-expected cost of imported auto-ID equipment and a weakening of the THB against the MYR. Meanwhile, the company's expansion in overseas markets may involve higher execution risks, in our view.

Key Stock Statistics

FY Dec.	2006	2007E
Reported EPS (sen)	3.8	5.6
PER (x)	12.2	8.2
Dividend/Share (sen)	2.0	2.5
NTA/Share (MYR)	0.12	0.23
Book Value/Share (MYR)	0.23	0.34
No. of Outstanding Shares (mln)	124.2	
52-week Share Price Range (MYR)	0.39 - 0.60	
Major Shareholders:	%	
Grand-Flo Corporation Sdn Bhd	19.0	
Tan Bak Leng	9.2	

Per Share Data

FY Dec.	2004	2005	2006	2007E
Book Value (MYR)	0.11	0.13	0.23	0.34
Cash Flow (sen)	3.4	3.6	5.3	7.2
Reported Earnings (sen)	2.3	2.5	3.8	5.6
Dividend (sen)	0.0	0.0	2.0	2.5
Payout Ratio (%)	0.0	0.0	44.1	32.2
PER (x)	20.4	18.3	12.2	8.2
P/Cash Flow (x)	13.7	12.8	8.7	6.4
P/Book Value (x)	4.2	3.4	2.0	1.3
Dividend Yield (%)	0.0	0.0	4.3	5.4
ROE (%)	NA	20.7	19.4	19.8
Net Gearing (%)	0.0	0.0	0.0	0.0

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Quarterly Performance

FY Dec. / MYR mln	2Q07	2Q06	% Change
Reported Revenue	14.2	8.9	60.2
Reported Operating Profit	1.9	1.6	20.1
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-0.1	0.0	72.6
Reported Pre-tax Profit	1.9	1.6	18.9
Reported Net Profit	1.4	0.7	94.4
Reported Operating Margin (%)	13.7	18.2	-
Reported Pre-tax Margin (%)	13.3	17.8	-
Reported Net Margin (%)	9.9	8.2	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	30.2	47.0	75.2	79.9
Reported Operating Profit	5.7	8.4	12.7	13.9
Depreciation & Amortization	-1.1	-1.6	-1.9	-2.2
Net Interest Income / (Expense)	-0.1	-0.1	-0.2	-0.2
Reported Pre-tax Profit	5.5	8.3	12.5	13.7
Effective Tax Rate (%)	29.2	26.8	14.4	13.2
Reported Net Profit	2.5	4.0	6.9	7.7
Reported Operating Margin (%)	18.7	18.0	16.9	17.4
Reported Pre-tax Margin (%)	18.1	17.6	16.6	17.2
Reported Net Margin (%)	8.3	8.5	9.2	9.7

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

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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
New	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
7-Dec-05	Hold	0.51