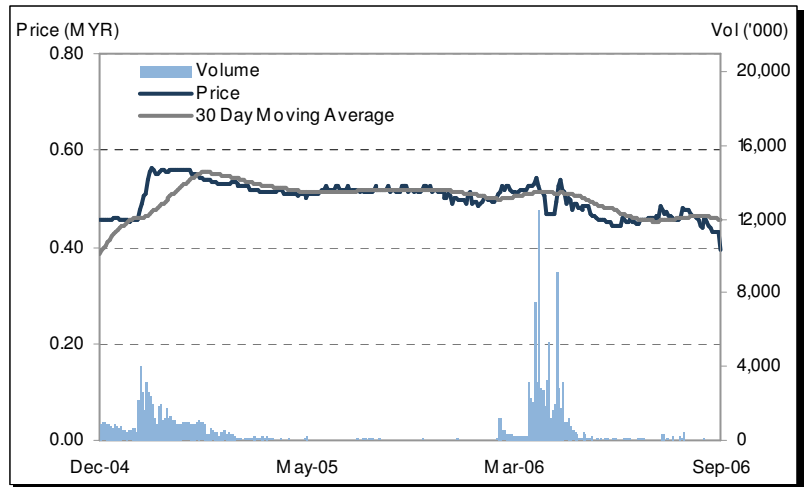


Recommendation: **STRONG BUY**Stock Code: **0056**Bloomberg: **GFLO MK**Price: **MYR0.415**12-Month Target Price: **MYR0.56**Date: **September 6, 2006****Board:** Mesdaq**Sector:** Technology**GICS:** Information Technology / Data Processing & Outsourced Services**Market Capitalization:** MYR41.7 mln**Summary:** 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's 1H06 results were largely in line with our expectations. Net profit of MYR1.6 mln (up 9.9% YoY) and revenue of MYR18.7 mln (up 34.6% YoY) accounted for 45% and 49% of our original 2006 full year forecasts, respectively.
- For 2Q06, net profit fell 9.4% YoY to MYR0.7 mln due to higher tax expense and minority interests. Nevertheless, operating profit recorded 5.5% growth to MYR1.6 mln thanks to stronger performance of the overseas markets (mainly contribution from Simat Technologies in Thailand), which generated pretax profit of MYR1.3 mln (up 29.7% YoY) on revenue of MYR5.4 mln (up 30.1% YoY) in 2Q06.
- Contribution from Malaysia was slightly disappointing. It recorded a 4.8% YoY decline in 2Q06 revenue to MYR4.1 mln and a 37% YoY fall in pretax profit to MYR0.3 mln on delays in projects roll-out, which management expects to happen in the second half.
- We expect a stronger 2H06 and 2007 due to consolidation of results from the newly acquired Spritvest and Data Centrix starting from 3Q06, which should more than offset higher operating costs and minority interests. Plus, Grand-Flo's Thai unit should benefit from tax breaks for its newly incorporated software company Simat Soft. Taking all factors into account, we revise up our 2006 and 2007 earnings forecasts by 20% and 41% to MYR4.1 mln and MYR5.6 mln, respectively.

Key Stock Statistics

FY Dec.	2005	2006F
EPS (sen)	2.5	4.1
PER (x)	16.5	10.2
Dividend/Share (sen)	0.0	2.0
NTA/Share (MYR)	0.10	0.14
Book Value/Share (MYR)	0.13	0.17
Issued Capital (mln shares)	100.4	
52-week Share Price Range (MYR)	0.395 – 0.58	
Major Shareholders:	%	
Grand-Flo Corporation	25.7	
Tan Bak Leng	12.3	

Recommendation & Investment Risks

- Given Grand-Flo's upbeat earnings growth prospect and recent share price decline, we upgrade the stock to Strong Buy from Buy with a revised 12-month target price of MYR0.56 (vs. ex-bonus original target price of MYR1.08).
- Our new target price is based on a blend of PER, P/B and DCF valuations. We have ascribed 12.0x PER, 2.5x P/B (vs. 16.0x and 3.5x previously after factoring in higher risk for rolling over forecast period to 2007 from 2006) on our estimated 2007 EPS and BVPS, respectively, plus an expected dividend of 2 sen. In our DCF valuation, we have assumed WACC of 9.6%, 2006-2010 EPS CAGR of 16% and terminal growth rate of 3%.
- We believe the long-term growth potential of Southeast Asian EDCCS markets remain promising given the low penetration rate. In addition, Grand-Flo's strong client base (mostly MNCs and large local corporations) should provide opportunities.
- Risks to our recommendation and target price include a slowdown in the EDCCS (enterprise data collection and collation system) market and higher cost of imported auto-ID equipment. A weakening THB against the MYR may also negatively affect Grand-Flo's earnings. Besides, the low liquidity of the stock implies higher volatility of share price, in our opinion.

Per Share Data

FY Dec.	2003	2004	2005	2006F
Book Value (MYR)	NA	0.11	0.13	0.17
Cash Flow (sen)	NA	3.4	3.6	5.4
Earnings (sen)	1.8	2.3	2.5	4.1
Dividend (sen)	NA	0.0	0.0	2.0
Payout Ratio (%)	NA	0.0	0.0	48.9
PER (x)	23.3	18.4	16.5	10.2
P/Cash Flow (x)	NA	12.3	11.6	7.7
P/Book Value (x)	NA	3.8	3.1	2.4
Dividend Yield (%)	NA	0.0	0.0	4.8
ROE (%)	NA	4.5	20.7	26.6
Net Gearing (%)	NA	0.0	0.0	0.0

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Page 1 of 3

Grand-Flo Solution

Recommendation: **STRONG BUY**

Stock Code: 0056

Bloomberg: GFLO MK

Price: MYR0.415

12-Month Target Price: MYR0.56

Date: September 6, 2006

Quarterly Performance

FY Dec. / MYR mln	2Q06	2Q05	% Change
Revenue	8.9	8.2	8.4
Operating Profit (EBIT)	1.6	1.5	5.5
Depreciation	NA	NA	NA
Net Interest Income / (Expense)	0.0	0.0	-8.0
Pre-tax Profit	1.6	1.5	5.8
Net Profit	0.7	0.8	-9.4
Operating Margin (%)	18.2	18.7	-
Pre-tax Margin (%)	17.8	18.3	-
Net Margin (%)	8.2	9.8	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2004	2005	2006F	2007F
Revenue	3.1	30.2	48.9	60.1
Operating Profit (EBIT)	0.5	5.7	8.5	10.4
Depreciation	-0.2	-1.1	-1.3	-1.6
Net Interest Income / (Expense)	0.0	-0.2	-0.2	-0.2
Pre-tax Profit	0.5	5.5	8.4	10.2
Effective Tax Rate (%)	6.4	29.2	24.4	16.3
Net Profit	0.5	2.5	4.1	5.6
Operating Margin (%)	17.6	18.7	17.4	17.3
Pre-tax Margin (%)	16.5	18.1	17.1	17.0
Net Margin (%)	15.9	8.3	8.4	9.2

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

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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.

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.

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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