Inet research

1QFY08 Results Update

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Grand-Flo Solution Berhad

Stock Code:	*0056*
Price:	*RM0.385*
Market Capitalisation:	*RM47.9m*
Board:	*Mesdaq*
Sector:	*Technology*
Recommendation:	*BUY*

Key Stock Statistics	FY07	FY08F	FY09F
EPS (sen)	5.1	5.5	7.6
P/E on EPS	7.5	6.9	5.1
Dividend/Share (sen)	2.0	2.0	2.5
NTA/Share (sen)	18.4	20.6	25.7
Book Value/Share (sen)	18.4	20.6	25.7
Issued Capital (m shares)	124.2	124.5	124.5
52-weeks price range (sen)		33.0 – 53.0	

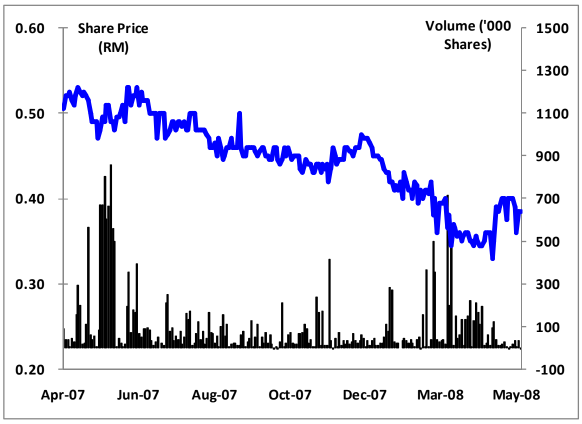
Major Shareholders:	%
Tan Bak Hong and Yap Li Li	22.3%
Tan Bak Leng	9.2%
Tan Chuan Hock	8.0%

Per Share Data	2006	2007	2008F	2009F
Book Value (RM)	0.22	0.18	0.20	0.25
Cash Flow (sen)	7.5	4.8	9.6	11.9
Earnings (sen)	3.0	5.1	5.5	7.6
Dividend (sen)	2.0	2.0	2.0	2.5
Payout Ratio (%)	67.4	38.9	36.1	33.0
PER (x)	13.0	7.5	6.9	5.1
P/Cash Flow (x)	5.1	7.9	4.0	3.2
P/Book Value (x)	1.7	2.1	1.9	1.5
Dividend Yield (%)	5.2	5.2	5.2	6.5
ROE (%)	17.8	17.4	19.1	23.2
Net Gearing (%)	n.c.	n.c	n.c	n.c

n.c. – net cash

P&L Analysis (RM mil) Year-end: 31 Dec	2006	2007	2008F	2009F
Revenue	46.7	64.9	49.3	66.7
Operating Profit	7.8	9.3	9.3	12.2
Depreciation	-1.3	-1.9	-2.9	-4.5
Interest Expenses	-0.4	-0.5	-0.5	-0.7
Pre-tax Profit	7.4	9.1	9.0	12.0
Effective Tax Rate	26.6%	12.7%	12.7%	12.7%
Net Profit	3.6	6.4	6.9	9.4
Operating Margin	16.6%	14.7%	18.9%	18.3%
Pre-tax Margin	15.8%	14.0%	18.3%	17.9%
Net-Margin	7.7%	9.8%	14.0%	14.1%

Share Price Chart



1. 1QFY08 results highlights and review:

(RM million)	1QFY08	1QFY07	% Change
Revenue	8.6	14.0	-38.9%
Operating Profit	1.2	2.4	-32.3%
Depreciation	-0.2	-0.5	-62.9%
Interest Expense	-0.1	-0.1	6.2%
Pre-tax Profit	1.4	1.9	-26.0%
Net Profit	1.2	1.2	-3.1%
Operating Margin	19.2%	17.3%	
Pre-tax Margin	16.4%	13.6%	
Net-Margin	13.6%	8.6%	

1QFY08 results below expectation

The 1QFY08 results of Grand-Flo Solution (GF) came in below our expectations. Revenue dropped 38.9% y-o-y to RM8.6m from RM14.0m in 1QFY07. The decrease in revenue was mainly due to the status conversion of Simat Technology (ST) from a subsidiary of the Group to an associate company pursuant to the dilution of GF's equity interest of 49% to 36.75% in ST as a result of the successful listing in the Market for Alternative Investment in Thailand (MAI) on 12 December 2007.

- 1QFY08 pre-tax profit declined 26% y-o-y to RM1.4m from RM1.9m in 1QFY07. The decrease in pre-tax profit was mainly due to the dilution of equity interest in ST. However, the pre-tax margin has improved from 13.6% in 1QFY07 to 16.4% in 1QFY08 contributed from the recently acquired subsidiary, Label Network Sdn Bhd (LNSB). The impact from the dilution of equity interest in ST was mitigated by the 2 months contribution from LNSB, which acquisition was completed on 31 January 2008. LNSB have been involved in manufacturing a wide range of self-adhesive label sticker in Malaysia for more than 10 years, including barcode labels, thermal transfer label and security labels. To recap, the acquisition of LNSB comes together with the profit guarantee of at least RM2.25m for the period of 2 years.

- FY08 will see significant contribution from LNSB to the group and the extensive marketing network leverage on its label business will make an impact on the domestic market. Further to that, the establishment of Simat Labels Company Limited (SL) as a joint venture company between ST and LNSB will penetrate a new exciting labels business division in Thailand and its neighbour countries. With the steps taken, the Group would tap another significant market share in those countries which will further contribute to the Group's top and bottom line.

- Another step taken by GF to expand its overseas market is the recent acquisitions of Sino Company Limited (Sino) and High Rich Trading & Service Company Limited (High Rich) in Vietnam via ST. Simat Label will presents the whole new business opportunities to the Group to tap into the infancy stage of tracking solution and untapped labels production businesses in Vietnam's vibrant economy.

Review of segmental results

Segmental breakdown (RM million)	**1Q08**	**1Q07**	**Change y-o-y %**	**4Q07**	***Change q-o-q %**
Turnover					
- Malaysia	8.6	6.6	29.9%	11.2	-23.3%
- Other countries	0.0	7.4	-100.0%	7.5	-100.0%
Total	8.6	14.0	-38.9%	18.6	-54.1%
Pre-tax profit					
- Malaysia	1.2	0.8	42.6%	1.0	21.3%
- Other countries	0.3	1.1	-76.8%	1.8	-85.8%
Total	1.4	1.9	-26.1%	2.7	-48.7%
Net profit					
- Malaysia	0.9	0.8	18.5%	0.8	10.7%
- Other countries	0.3	0.4	-41.5%	1.4	-81.5%
Total	1.2	1.2	-3.1%	2.2	-46.8%
Pre-tax margin	*16.4%*	*13.6%*		*14.7%*	

** Refers to 1Q08/4Q07*

- The dropped in contribution from overseas operations was resulted from the status conversion of ST from a subsidiary company to an associate company pursuant to the dilution of GF's equity interest from 49% to 36.75%, from the successful listing of ST in the Market for Alternative Investment in Thailand (MAI) on 12 December 2007. During the quarter under review, the company recorded a share of profit from associate company of RM0.3m.

- The Malaysian contribution shows improvement in revenue, increased 29.9% y-o-y to RM8.6 from RM6.6m in 1QFY07, which was mainly contributed by LNSB. During the quarter under review, the label business of LNSB contributed 24% of the Malaysian revenue also bring in higher margin which led to increase in pre-tax margin from 13.6% in 1QFY07 to 16.4% in 1QFY08. Besides that, the improvement in the Malaysian revenue was also contributed by strengthening of its customer base for domestic market.

2. Recommendation

- FY08 will see contribution from its newly acquired subsidiary, LNSB from the downstream label business activities. Going forward, the Group is focussing on leveraging its regional presence to enhance its support and services in the region, more efficient purchasing machinery and manpower development and enhancement.

- GF's growth prospects will be underpinned by its dominant position in a growing bar code industry and barcode label which will boost its recurring income base for domestic and regional market. We believe the stock deserved to trade at a PE multiple of at least 10x – 15x (at a PE to growth ratio of 1.0x), which is very likely to be its sustainable growth rate over the longer term. At the current price level, the stock is trading at an attractive PER of 6.9x based on our FY08 forecast EPS of 5.5sen. Hence, we maintain our **BUY** 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)