

# Grand-Flo Solution

Recommendation: **BUY**

Stock Code: **0056**

Bloomberg: **GFLO MK**

Price: **MYR0.36**

12-Month Target Price: **MYR0.70**

Date: **May 26, 2008**

**Board:** Mesdaq

**Sector:** Technology

**GICS:** Information Technology/Data Processing & Outsourced Services

**Market Value - Total:** MYR44.7 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:** Chok Wai Lee, CFA



## Results Review & Earnings Outlook

- Grand-Flo's 1Q08 net profit of MYR1.2 mln, down 3.3% YoY was within our expectations and accounted for 18.6% of our 2008 forecast. We expect Grand-Flo to achieve stronger results in 2H08.
- 1Q08 revenue of MYR8.6 mln was down 38.9% YoY, as Simat Technologies (Simat) had ceased to become a Grand-Flo subsidiary. Due to dilution from the listing in Thailand in December 2007, Simat is currently an associate company of Grand-Flo (36.8% owned vs. 49% previously). 1Q08 operating margin improved to 14.3% from 9.1% in 4Q07 (Simat secured some lower margins projects in 4Q07).
- Furthermore, the impact of dilution was mitigated by the two months contribution from newly acquired Labels Network Sdn Bhd (LNSB). LNSB (55% owned) is primarily engaged in the business of marketing, promoting and selling self-adhesive label stickers and barcode ribbons in Malaysia. It reported a net profit of MYR202,000 in 1Q08 and we believe it is on track to achieve its profit guarantee of MYR1.0 mln in 2008. Labels currently contributes 24% to Grand-Flo's revenue.
- We are maintaining our 2008 and 2009 earnings forecasts at MYR6.3 mln and MYR7.0 mln, respectively. Longer term, we expect both organic growth at its existing businesses in Malaysia, Thailand and Singapore, as well as its plan for expansion into other Asian markets (e.g. Vietnam and Indonesia) to continue to underpin Grand-Flo's earnings growth momentum.

## Recommendation & Investment Risks

- We maintain our Buy recommendation with an unchanged 12-month target price of MYR0.70. We expect a dividend yield of 5.1% and 3-year earnings CAGR of 24% 2006-2009 to provide support to the share price.
- Our target price is based on a blend of PER and P/B valuations, plus a projected net DPS of 2.0 sen. We have ascribed multiples of 12.0x PER (unchanged) and 2.5x P/B (unchanged) applied on our estimated 2008 EPS and BVPS, respectively (that are within the stock's historical trading ranges).
- Simat has entered into a share sale and purchase agreement to acquire 40% of Sino Company Ltd. (Sino) and High Rich Trading & Service Company Ltd. (High Rich) for MYR 2.4 mln cash in April 2008. Sino is in the business of providing tracking solutions and High Rich specializes in the manufacturing of labels. Both are market leaders in their respective industries in Vietnam. We are positive on this move as it will enable Grand-Flo to expand into Vietnam. We have not factored in any earnings contribution from the deal pending its completion (expected to be completed by 4Q08.)
- 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 into overseas markets may involve higher execution risks, in our view.

### Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	5.1	5.1
PER (x)	7.0	7.1
Dividend/Share (sen)	2.0	2.0
NTA/Share (MYR)	0.18	0.20
Book Value/Share (MYR)	0.27	0.30
No. of Outstanding Shares (mln)	124.2	
52-week Share Price Range (MYR)	0.33 - 0.53	
Major Shareholders:	%	
Grand-Flo Corporation Sdn Bhd	16.8	
Tan Bak Leng	9.2	
Cheng Ping Liong	5.4	

### Per Share Data

FY Dec.	2005	2006	2007	2008E
Book Value (MYR)	0.13	0.23	0.27	0.30
Cash Flow (sen)	3.6	5.0	6.3	7.4
Reported Earnings (sen)	2.5	3.4	5.1	5.1
Dividend (sen)	0.0	2.0	2.0	2.0
Payout Ratio (%)	0.0	48.5	33.2	28.6
PER (x)	14.3	10.5	7.0	7.1
P/Cash Flow (x)	10.0	7.2	5.7	4.9
P/Book Value (x)	2.7	1.6	1.3	1.2
Dividend Yield (%)	0.0	5.6	5.6	5.6
ROE (%)	20.7	17.6	17.6	17.8
Net Gearing (%)	0.0	0.0	0.0	0.0

\*Stock deemed Shariah compliant by the Securities Commission.

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## Quarterly Performance

FY Dec. / MYR mln	1Q08	1Q07	% Change
Reported Revenue	8.6	14.0	-38.9
Reported Operating Profit	1.2	2.0	-38.1
Depreciation & Amortization	-0.3	-0.6	-45.1
Net Interest Income / (Expense)	-0.1	-0.1	-6.5
Reported Pre-tax Profit	1.4	1.9	-26.0
Reported Net Profit	1.2	1.2	-3.1
Reported Operating Margin (%)	14.3	14.1	-
Reported Pre-tax Margin (%)	16.4	13.6	-
Reported Net Margin (%)	13.6	8.6	-

Source: Company data

## Profit &amp; Loss

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	46.7	64.9	48.6	59.5
Reported Operating Profit	7.5	8.2	8.3	9.4
Depreciation & Amortization	-1.7	-2.4	-2.9	-2.8
Net Interest Income / (Expense)	-0.1	-0.1	-0.2	-0.2
Reported Pre-tax Profit	7.4	9.1	8.1	9.2
Effective Tax Rate (%)	26.6	12.7	16.5	16.5
Reported Net Profit	3.6	6.4	6.3	7.0
Reported Operating Margin (%)	16.1	12.7	17.1	15.8
Reported Pre-tax Margin (%)	15.8	14.0	16.7	15.4
Reported Net Margin (%)	7.7	9.8	12.9	11.7

Source: Company data, S&amp;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.

**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
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
7-Dec-05	Hold	0.51

