

1Q FYE DEC 2016 RESULTS REPORT

26 May 2016

Name of PLC: Grand-Flo Berhad (Grand-Flo)		Target Price:	RM 0.35
Business Summary : Provision of comprehensive enterprise data collection and collation system (EDCCS) solutions and property development			
Major Shareholders : (as at 6-Apr-2015)		Grand-Flo Corporation Sdn Bhd	17.25%
		Exempt an for Bank of Singapore Limited	7.78%
		Silver Oak Management Ltd	7.25%
PLC Website : www.grand-flo.com		Recommendation:	BUY
IR Contact: Yap Li Li, Executive Director liliyap@grand-flo.com		Market Capitalisation:	RM 117.3m
		Current Price:	RM 0.245
		Market / Sector:	Technology
		Stock Code:	0056
Analyst : Lim Boon Ngee Tel : +603 2163 3200; Email : bnlim@nra.com.my			

Key Stock Statistics	2014	2015	2016F	2017F
EPS (sen)	1.8	2.5	2.6	3.7
P/E (x)	13.4	9.8	9.3	6.7
Net Dividend/Share (sen)	1.0	0.5	0.5	0.7
NTA/Share (RM)	0.16	0.17	0.19	0.22
Book Value/Share (RM)	0.28	0.26	0.28	0.31
Issued Capital (m shares)	365.6	479.2	478.8	478.8
52-weeks Share Price Range (RM)			0.24 - 0.33	

Per Share Data	2014	2015	2016F	2017F
Year-end 31 Dec				
Book Value (RM)	0.28	0.26	0.28	0.31
Operating Cash Flow (sen)	(2.5)	(4.8)	4.1	5.4
EPS (sen)	1.8	2.5	2.6	3.7
Net Dividend/Share (sen)	1.0	0.5	0.5	0.7
Payout Ratio (%)	67.9	20.1	20.0	20.0
P/E (x)	13.4	9.8	9.3	6.7
P/Cash Flow (x)	(9.8)	(5.1)	6.0	4.5
P/Book Value (x)	0.9	1.0	0.9	0.8
Dividend Yield (%)	4.1	2.0	2.2	3.0
ROE (%)	7.1	10.6	9.9	12.5
Net Gearing (%)	15.7	9.9	9.7	8.4

P&L Analysis (RM mil)	2014	2015	2016F	2017F
Revenue	85.63	120.52	166.90	194.47
EBITDA	13.84	24.07	26.98	33.74
Depreciation & amort	(3.51)	(3.31)	(3.26)	(3.24)
Net interest income	(0.37)	(0.99)	(0.95)	(0.95)
Associate	(0.77)	(1.17)	(0.65)	0.55
Pre-tax Profit	9.19	18.60	22.13	30.10
Tax	(1.09)	(2.50)	(3.98)	(5.42)
Minority interest	(1.43)	(4.16)	(5.47)	(7.09)
Net Profit	6.67	11.93	12.68	17.59
EBITDA Margin (%)	16.2	20.0	16.2	17.4
Pre-tax Margin (%)	10.7	15.4	13.3	15.5
Net-Margin (%)	7.8	9.9	7.6	9.0

Share Price Chart



1. 1QFY16 Results Highlight

	1Q FY16	1Q FY15	Chg
	RMm	RMm	%
Revenue	31.60	27.22	16.1
Operating Profit	2.22	6.82	(67.4)
Finance	(0.18)	(0.15)	n.m.
Associate	(0.29)	(0.38)	(22.6)
Pre-tax Profit	1.75	6.29	(72.1)
Net Profit	0.10	5.03	(98.0)
Operating Margin (%)	7.0	25.1	
Pre-tax Margin (%)	5.5	23.1	
Net-Margin (%)	0.3	18.5	

- Grand-Flo announced a disappointing 1QFY16 results performance. Turnover grew by 16.1% while PBT dropped by 72.1% to RM1.75m in 1QFY16.

- The main reason for its poorer performance was the decline in turnover of tracking solutions, which combine its EDCCS and labels operations, as well as the absence of exceptional gain.
- In terms of EDCCS business, EDCCS Malaysia posted a sharp 40.9% drop in turnover to RM9.23m in 1QFY16. In comparison, EDCCS Malaysia recorded a spike in turnover to RM15.60m in the previous 1QFY15 due to strong sales demand and software implementation in view of the implementation of GST.
- In addition, 1Q is also seasonally the slowest quarter. The decline in 1QFY16 would not have been so drastic if it were to be compared to average quarterly turnover of around RM10-11m in FY15.
- The slower turnover performance was also attributed to soft market condition as its customers are adopting a cautious approach towards new capex spending. Existing customers with secured orders are also deferring its project implementation.
- Although EDCCS business in Hong Kong and its labels business were reporting growth in turnover, it was insufficient to offset the decline in EDCCS business in Malaysia.
- As a whole, the tracking solutions experienced a 25.3% decline in turnover to RM16.42m in 1QFY16. Consequently, it filtered down to bottomline profit as tracking solutions recorded a pretax loss of RM0.59m in 1QFY16 as compared with a PBT of RM3.58m in 1QFY15.
- Property division nearly tripled its turnover in 1QFY16 to RM15.18m from RM5.26m in 1QFY15. Consequently, it reported an improved PBT of RM2.64m as compared with RM1.60m. This was driven mainly by the ongoing Vortex project. As Grand-Flo is currently undertaking a “build-then-sell” approach for its The Glades residential project, there was minimal contribution from this project in 1QFY16.
- Its associate, Simat Technologies Public Company Limited (Simat) is still going through the gestation period of increasing its subscribers base for high speed broadband service. Simat still recorded net loss since its broadband internet business has yet to reach the break-even point. However, the loss reduced to a marginal RM0.42m in 1QFY16.
- In 1QFY15, the group PBT benefited from the gain on disposal of Simat shares amounting to RM1.48m which was not repeated in 1QFY16.
- Overall, the PBT and net profit declined to RM1.75m and RM0.10m respectively in 1QFY16.

2. Earnings Outlook

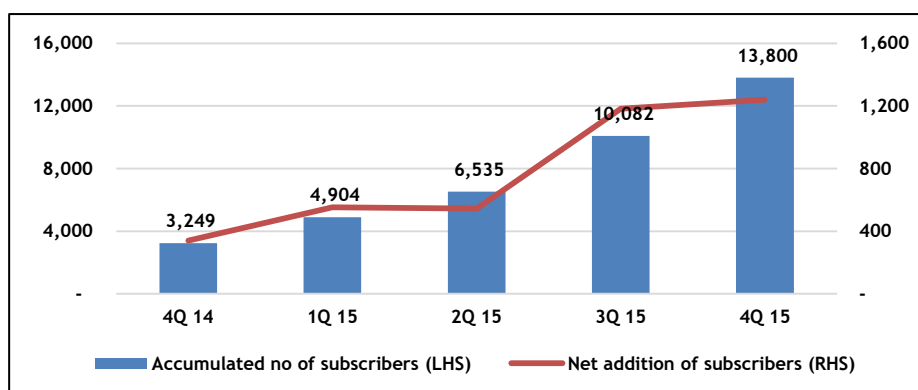
- Grand-Flo Berhad (Grand-Flo) is a leading fully integrated provider of enterprise data collection and collation system (EDCCS) solutions (or tracking solutions) using mainly bar-coding and radio frequency (RF) technology.
- Grand-Flo is also the major shareholder of Simat Technologies Public Company Limited (Simat) with a stake of 18.24%. Simat, which is listed in Stock Exchange of Thailand, provides IT solution services, sales of label products and broadband internet in Thailand.
- Grand-Flo ventured into property development in mid-2013 through partnership with notable property players. Its on-going projects include Vortex Business Park and The Glades residential project.
- The 1QFY16 is somewhat under-stated due to comparison to the unusually strong 1QFY15 (GST implementation). After a dismal operating performance in Jan and Feb months, sales have started to pick-up from Mar-16 onwards.

Going forward into FY16, Grand-Flo continues to target SMEs and SMIs sectors, which require sales invoice generation capability and more IT upgrades and readiness to facilitate GST claims. Longer-term, its tracking solutions is well positioned to benefit from the increasing share of e-commerce shopping by partnering with logistics companies and courier service providers.

- The Vortex Business Park enjoyed a take-up rate of 71% for 1st phase, comprising 72 units of semi-D shop offices and light industrial factories. Second phase will consist of 22 units of semi-D shop offices and 18 units of light industrial factories. This project currently has an unbilled sale of RM49.4m as at end-FY15 to be recognised until 2017. The entire project is expected to be completed in 2017.

The residential property development is currently adversely impacted by the slowdown and stringent bank financing. Grand-Flo's residential project, The Glades, is not spared from the slowdown, averaging a take-up rate of around 21% since its launch in Feb-15. It is currently undertaking a "build-then-sell" approach to boost the confidence of buyers. This project with a GDV of RM63m, is targeted for completion in 2017.

- The take-up rate of Simat's high speed broadband service is increasing at a much faster scale. Currently, it has accumulated subscribers base of 15,500 subscribers, as compared with only 3,200 back in end-2014. The take-up rate is also showing encouraging sign as Simat is adding 1,000 net new subscribers per month.



Simat Annual Report 2015

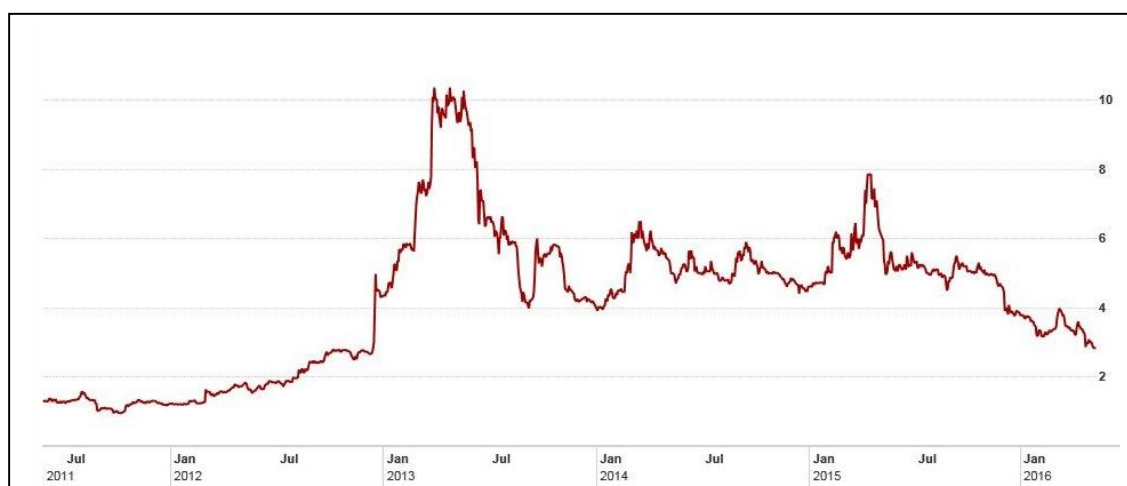
- In FY15, Simat recorded a pretax loss of THB65m. However, on a cash flow basis, its broadband internet division was EBITDA positive in 4QFY15 and is on track to be profitable by 2QFY16 upon achieving 20,000 subscribers.

Selected financials of Simat

THB m	FY13	FY14	FY15
Turnover	1,296	1,304	1,391
PBT	43	(49)	(65)
Net profit	33	(55)	(80)
Shareholders' funds	589	634	654

Simat Annual Report 2015

Share price of Simat (THB)



3. Valuation and Recommendation

- We like Grand-Flo for its fully integrated services of tracking solutions, established track record and regional exposure.
- 1QFY16 is below our earnings forecast. It's worth highlighting that its historical quarterly turnover performance is somewhat volatile due to the timing of project implementation. Given the order pipeline and the expected pick-up in EDCCS business, EDCCS business is expected to perform better in the subsequent quarters, while the label business will remain steady. Longer-term, its tracking solutions is well positioned to benefit from the increasing share of e-commerce shopping by partnering with logistics companies and courier service providers.
- Earnings contribution from property development is expected to be higher due to higher progress billings, with both projects targeting for completion in 2017.
- With its subscribers base approaching break-even milestone, Simat is on track to be profitable by 2QFY16. Based on the current share price of Simat of THB2.86/share, Grand-Flo's 18.24% stake in Simat (71.90m shares) is worth RM23.63m, which accounts for 20% of Grand-Flo's current market capitalisation.
- Stripping out the loss from Simat, the stock is currently trading at a P/E of 8.5x for FY16 based on an adjusted EPS (ex-Simat) of 2.9 sen.
- We have arrived at a target price of RM0.35, after ascribing a P/E of 10x for its core profit and Grand-Flo's interest in Simat. We have maintained Buy rating on the stock.

Sum-of-parts valuation	FY16	P/E	Value (RMm)
Net Profit excl-EI & Simat (RMm)	13.88	10.0	138.76
Valuations of Simat			
- No of shares (m shares) owned by Grand-Flo	71.90		
- Current share price (THB)	2.86		
- THB conversion	0.1149		23.63
Total valuations (RMm)			162.39
Enlarged shares of Grand-Flo (m shares)			478.83
Fair value of Grand-Flo (sen)			33.9

Disclosures/Disclaimer

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)

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