

2Q FYE DEC 2016 RESULTS REPORT

29 August 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 Exempt an for Bank of Singapore Limited Silver Oak Management Ltd	17.25% 7.78% 7.25%
PLC Website : www.grand-flo.com	Recommendation:	BUY
	Market Capitalisation:	RM 100.5m
	Current Price:	RM 0.21
	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	2.1	3.1
P/E (x)	11.5	8.4	9.8	6.8
Net Dividend/Share (sen)	1.0	0.5	0.4	0.6
NTA/Share (RM)	0.16	0.17	0.19	0.21
Book Value/Share (RM)	0.28	0.26	0.28	0.30
Issued Capital (m shares)	365.6	479.2	478.6	478.6
52-weeks Share Price Range (RM)			0.20 - 0.30	

Per Share Data	2014	2015	2016F	2017F
Year-end 31 Dec				
Book Value (RM)	0.28	0.26	0.28	0.30
Operating Cash Flow (sen)	(2.5)	(4.8)	3.5	4.6
EPS (sen)	1.8	2.5	2.1	3.1
Net Dividend/Share (sen)	1.0	0.5	0.4	0.6
Payout Ratio (%)	67.9	20.1	20.0	20.0
P/E (x)	11.5	8.4	9.8	6.8
P/Cash Flow (x)	(8.4)	(4.4)	6.0	4.6
P/Book Value (x)	0.8	0.8	0.8	0.7
Dividend Yield (%)	4.8	2.4	2.0	2.9
ROE (%)	7.1	10.6	8.0	10.7
Net Gearing (%)	15.7	9.9	12.0	13.0

P&L Analysis (RM mil)	2014	2015	2016F	2017F
Revenue	85.63	120.52	164.36	191.41
EBITDA	13.84	24.07	22.73	28.76
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	17.88	25.12
Tax	(1.09)	(2.50)	(3.22)	(4.52)
Minority interest	(1.43)	(4.16)	(4.45)	(5.90)
Net Profit	6.67	11.93	10.21	14.70
EBITDA Margin (%)	16.2	20.0	13.8	15.0
Pre-tax Margin (%)	10.7	15.4	10.9	13.1
Net-Margin (%)	7.8	9.9	6.2	7.7

Share Price Chart



1. 2QFY16 Results Highlight

	2Q FY16	2Q FY15	Chg
	RMm	RMm	%
Revenue	41.38	20.25	104.3
Operating Profit	4.19	2.40	74.9
Finance	(0.19)	(0.15)	26.6
Associate	(0.26)	(0.28)	(9.3)
Pre-tax Profit	3.74	1.96	90.6
Net Profit	0.03	0.93	(96.6)
Operating Margin (%)	10.1	11.8	
Pre-tax Margin (%)	9.0	9.7	
Net-Margin (%)	0.1	4.6	

- Grand-Flo's core tracking solutions continued to disappoint as reflected in poor 2QFY16 results performance.

- Turnover doubled to RM41.38m in 2QFY16 and consequently, PBT also grew by 90.6% to RM3.74m. This was mainly driven by the on-going Vortex Business Park Project. However, Grand-Flo merely recorded a net profit of RM0.03m in 2QFY16 as compared with RM0.93m in 2QFY15 due to higher minority interest as it only owns 50% of Innoceria Sdn Bhd, which holds the rights and interest to Vortex Business Park Project.
- In terms of EDCCS business, order flow has remained slow to pick up as compared with 1HFY15 whereby it benefited strongly from the implementation of GST. EDCCS Malaysia grew slightly by 3.6% to RM8.84m in 2QFY16. 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.
- EDCCS business in Hong Kong also reported a strong 33.0% increase in turnover to RM2.62m while its overall labels business experienced a 5.6% decline in turnover to RM5.37m in 2QFY16.
- Due to the lower turnover generation, as a whole, the tracking solutions recorded a pretax loss of RM1.90m (2QFY16) from a PBT of RM0.29m (2QFY15). Property division expanded its PBT to RM5.90m in 2QFY16 from RM1.77m in 2QFY15. This was driven mainly by the ongoing Vortex project.
- 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 RM0.28m in 2QFY16 from RM.42m in 1QFY16.

1HFY16 Results Highlight

	1H FY16	1H FY15	Chg
	RMm	RMm	%
Revenue	72.98	47.47	53.7
Operating Profit	6.43	(0.31)	n.m.
Finance	(0.39)	(0.66)	(41.0)
Associate	(0.55)	8.25	(106.6)
Pre-tax Profit	5.50	8.25	(33.4)
Net Profit	0.13	5.96	(97.8)
Operating Margin (%)	15.5	(1.5)	
Pre-tax Margin (%)	13.3	40.7	
Net-Margin (%)	0.3	29.4	

- Due to its Vortex project, turnover grew by 53.7% to RM72.98m in 1HFY16. Turnover for its tracking solutions declined by 11.9% to RM33.24m due to robust 1QFY15's sales arising from implementation of GST and the current slower orders from customers.
- PBT declined by 33.4% to RM5.50m in 1HFY16 due to pretax loss of tracking solutions. It only recorded a net profit of RM0.13m in 1HFY16, as 50%-owned Innoceria contributed the bulk of its profits.

2. Earnings Outlook

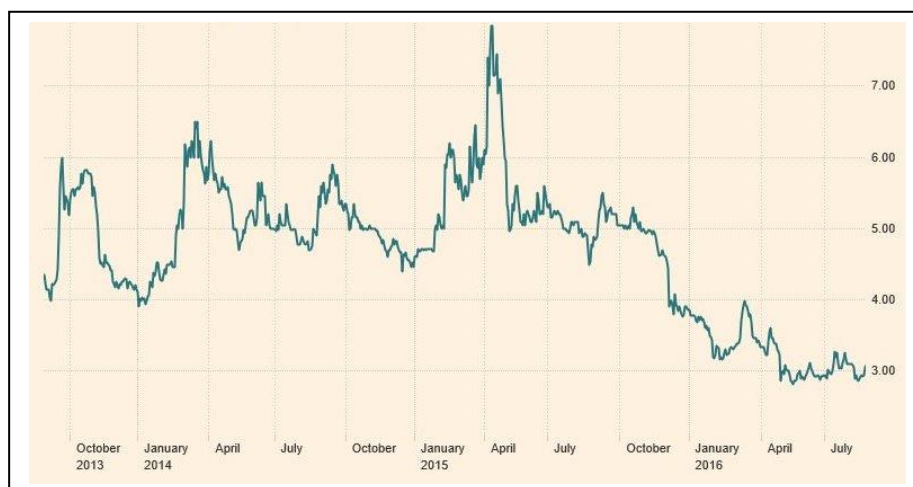
- Grand-Flo Berhad (Grand-Flo) is a leading fully integrated provider of enterprise data collection and collation system (EDCCS) solutions (or tracking solutions) using mainly bar-coding and radio frequency (RF) technology.
- Grand-Flo is also the major shareholder of Simat Technologies Public Company 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.

- 1HFY16’s earnings performance was poor as a results of the unusually strong 1QFY15 (GST implementation) and cautious customers’ spending on software implementation. Seasonally, 2H is usually better and hence, we expect orders for 2HFY16 to pick up. Due to the nature of software solution business, a substantial portion of its cost structure is mostly fixed/semi-fixed. As such, its profitability is especially susceptible to the fluctuation of topline turnover. The anticipated higher turnover in 2HFY16 will result in better absorption of costs. 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 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 losses at Simat is reducing as it has grown its take-up rate of high speed broadband service and accumulated subscriber base. 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 is on track to be profitable upon achieving 20,000 subscribers.

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.
- On an annualised basis, 1HFY16’s reported net profit is below our earnings forecast. Although we expect 2HFY16 to perform better, we have reduced our net profit projection by 15-20% for FY16 and FY17. We are maintaining our Buy recommendation on the stock.
- 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.

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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