

**4Q FYE DEC 2016 RESULTS REPORT**
**1 March 2017**

<b>Name of PLC:</b> Grand-Flo Berhad (Grand-Flo)	<b>Target Price:</b>	RM 0.25
<b>Business Summary :</b> Provision of comprehensive enterprise data collection and collation system (EDCCS) solutions and property development		
<b>Major Shareholders :</b> (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%
<b>PLC Website :</b> <a href="http://www.grand-flo.com">www.grand-flo.com</a>	<b>Recommendation:</b>	BUY
	<b>Market Capitalisation:</b>	RM 95.5m
	<b>Current Price:</b>	RM 0.20
	<b>Market / Sector:</b>	Technology
	<b>Stock Code:</b>	0056
<b>Analyst :</b> Lim Boon Ngee <b>Tel :</b> +603 2163 3200; <b>Email :</b> <a href="mailto:bnlim@bcta.com.my">bnlim@bcta.com.my</a>		

Key Stock Statistics	2014	2015	2016	2017F
EPS (sen)	1.8	2.5	(1.9)	2.0
P/E (x)	11.0	8.0	(10.5)	10.1
Net Dividend/Share (sen)	1.0	0.5	-	-
NTA/Share (RM)	0.16	0.17	0.16	0.17
Book Value/Share (RM)	0.28	0.26	0.23	0.25
Issued Capital (m shares)	365.6	479.2	477.3	477.3
52-weeks Share Price Range (RM)		0.175 - 0.275		

Per Share Data	2014	2015	2016	2017F
Year-end 31 Dec				
Book Value (RM)	0.28	0.26	0.23	0.25
Operating Cash Flow (sen)	(2.5)	(4.8)	(3.6)	6.7
EPS (sen)	1.8	2.5	(1.9)	2.0
Net Dividend/Share (sen)	1.0	0.5	-	-
Payout Ratio (%)	67.9	20.1	20.0	20.0
P/E (x)	11.0	8.0	(10.5)	10.1
P/Cash Flow (x)	(8.0)	(4.2)	(5.5)	3.0
P/Book Value (x)	0.7	0.8	0.9	0.8
Dividend Yield (%)	5.0	2.5	-	-
ROE (%)	7.1	10.6	(7.7)	8.2
Net Gearing (%)	15.7	9.9	5.7	(3.4)

P&L Analysis (RM mil)	2014	2015	2016	2017F
Revenue	85.63	120.52	120.28	130.50
EBITDA	9.25	21.75	11.01	19.20
Depreciation & amort	(3.51)	(3.31)	(3.26)	(2.50)
Net interest income	(0.37)	(0.99)	(1.98)	(1.17)
Associate	(0.77)	(1.17)	0.69	1.50
EI	4.59	2.32	(8.41)	-
Pre-tax Profit	9.19	18.60	(1.95)	17.03
Tax	(1.09)	(2.50)	(2.85)	(3.06)
Minority interest	(1.43)	(4.16)	(4.25)	(4.55)
Net Profit	6.67	11.93	(9.05)	9.41
EBITDA Margin (%)	10.8	18.0	9.2	14.7
Pre-tax Margin (%)	10.7	15.4	(1.6)	13.0
Net-Margin (%)	7.8	9.9	(7.5)	7.2

**1. 4QFY16 Results Highlight**

	4Q FY16	4Q FY15	Chg
	RMm	RMm	%
Revenue	21.74	40.51	(46.3)
Operating Profit	1.86	6.62	(72.0)
Finance	(1.68)	(0.78)	116.1
Associate	0.54	(0.31)	n.m.
EI	-	-	n.m.
Pre-tax Profit	0.71	5.53	(87.1)
Net Profit	0.11	3.16	(96.5)
Operating Margin (%)	8.5	16.3	
Pre-tax Margin (%)	3.3	13.6	
Net-Margin (%)	0.5	7.8	

- Grand Flo's financial results for 4QFY16 and FY16 were disappointing.
- In 4QFY16, turnover declined by 46.3% to RM21.74m due to weaker performance from all segments namely EDCCS, labels and property divisions.
- Consequently, both PBT and net profit also dropped significantly to RM0.71m and RM0.11m in 4QFY16.

- With respect to the EDCCS business, its Malaysia operation saw an 15.5% in increase in turnover to RM13.67m in 4QFY16. However, turnover of EDCCS Hong Kong declined by 39.4% to RM3.45m, albeit with a much smaller base. The slower turnover performance was also attributed to soft market conditions as its customers are adopting a cautious approach towards new capex spending. Existing customers with secured orders are also deferring their projects implementation.
- Due to the disposal of Kopacklabels Press Sdn. Bhd (KPSB), turnover of its label business declined by 70.8% to RM1.41m. The disposal of KPSB to QLM Label Makers Sdn Bhd was completed on 13-Sep-16.
- Consequently, the tracking solutions business, which combines EDCCS and labels business, reported a 17.1% decline in turnover to RM18.53m in 4QFY16. It also reported an operating loss of RM0.86m (4QFY16) as compared with a EBIT of RM1.21m (4QFY15).
- Against the backdrop of subdued property market conditions and slower billings, its property division only recorded a turnover of RM3.21m in 4QFY16 as compared with RM18.15m in 4QFY15. The property division is only contributed by the sole ongoing Vortex project while its other residential project, The Glades, is on a “build-then-sell” scheme.

### **FY16 Results Highlight**

	<b>FY16</b>	<b>FY15</b>	<b>Chg</b>
	<b>RMm</b>	<b>RMm</b>	<b>%</b>
Revenue	120.28	120.52	(0.2)
Operating Profit	8.03	18.70	(57.1)
Finance	(2.25)	(1.25)	80.5
Associate	0.69	(1.17)	n.m.
EI	(8.41)	2.32	n.m.
Pre-tax Profit	(1.95)	18.60	n.m.
Net Profit	(9.05)	11.93	n.m.
Operating Margin (%)	36.9	46.1	
Pre-tax Margin (%)	(9.0)	45.9	
Net-Margin (%)	(41.6)	29.4	

- For the full year FY16, although turnover was flat at RM120.28m, it reported a pretax and net loss of RM1.95m and RM9.05m. In addition to a slowdown in the core tracking solutions business and property development, its profit performance was also hit by exceptional loss pertaining to the disposal of KPSB.
- The bulk of the pretax loss was attributed to the disposal of KPSB, which resulted in a loss on disposal of and goodwill written-off of RM3.77m and RM4.64m respectively. Operationally, operating profit declined by 57.1% to RM8.03m in FY16, reflecting the slowdown in EDCCS business and losses at its label operation.

## **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.
- Its core tracking solutions business (EDCCS and labels) continues to be adversely affected by market uncertainty and cautious customers’ spending on software implementation. Due to the nature of software

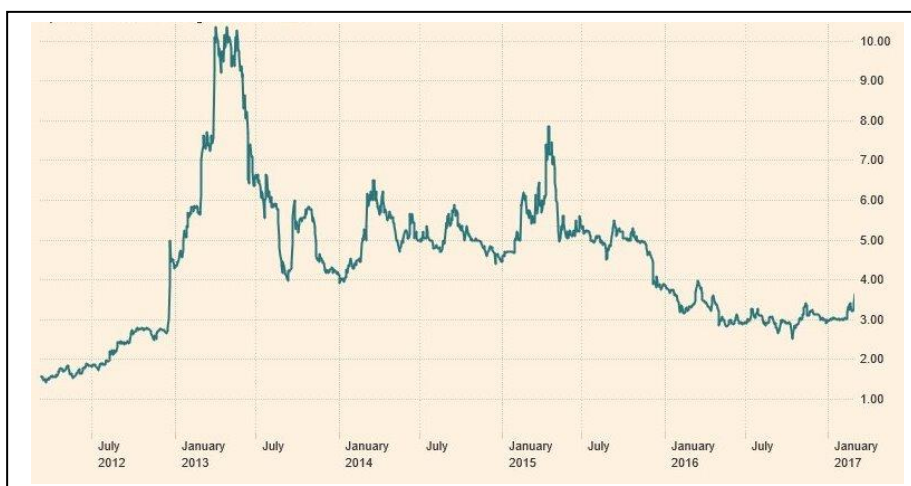
solution business, a substantial portion of its cost structure is mostly fixed/semi-fixed. As such, its profitability is especially susceptible to the fluctuation of topline turnover. Longer-term, its tracking solutions is well positioned to benefit from the increasing share of e-commerce shopping by partnering with logistics companies and courier service providers.

- Since the beginning of FY16, its label business had been loss-making due to stiff competition and low profitability. It was further compounded by rising cost of imported materials due to lower ringgit. Although the disposal of KPSB led to Grand-Flo booking a total exceptional loss of RM8.41m in FY16, it would reduce the operational loss at its label business.
- The Vortex Business Park enjoyed a take-up rate of 71% for 1<sup>st</sup> 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. The billings have been slow reflecting the weak property market and stringent lending guidelines. The entire project is expected to be completed in 2017.

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.

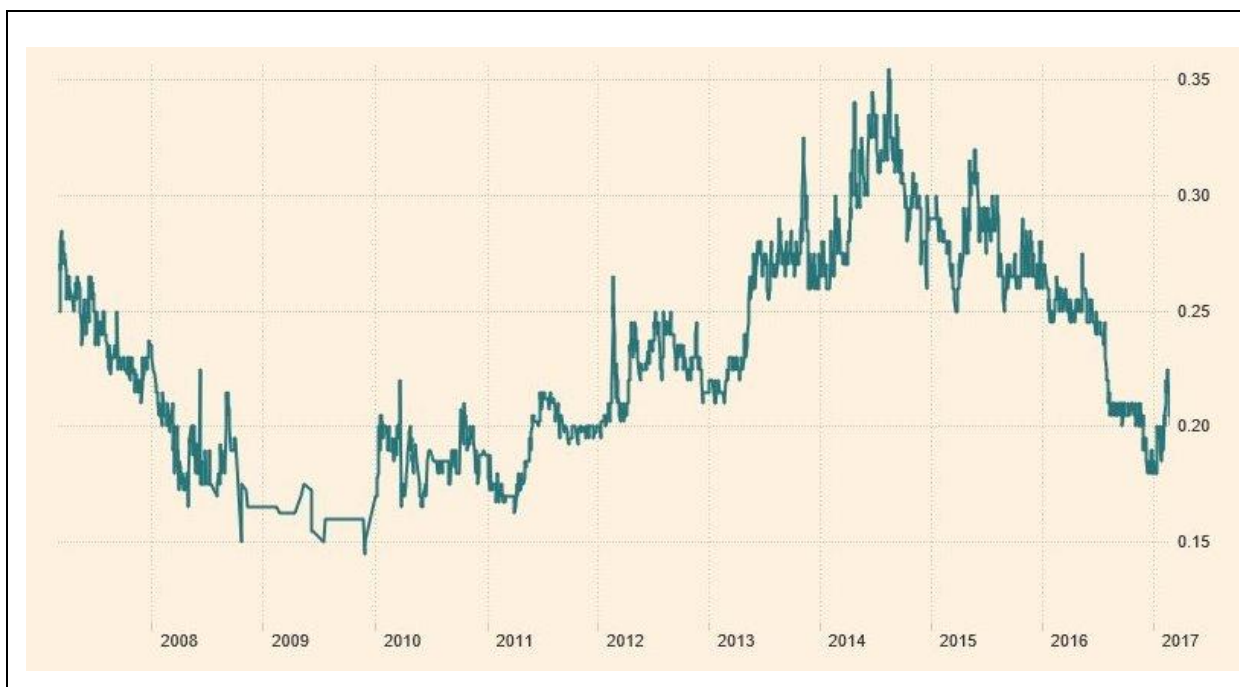
- The broadband internet business of Simat will continue to improve from a cost reduction plan and increasing accumulated subscribers base. As at end-Sep-16, it has accumulated subscribers’ base of 23,000 subscribers, as compared with 10,000 a year ago. The take-up rate is also showing encouraging sign as Simat is adding 1,000 net new subscribers per month.

**Share price of Simat (THB)**



**3. Valuation and Recommendation**

- We are downgrading our earnings forecast for FY17 to reflect the slowdown in EDCCS business and property development.
- Currently, Grand-Flo’s shareholders’ fund stood at RM110.7m (RM0.23/share), which values its stake in Simat at around RM11.6m. Based on the current share price of Simat of THB3.66, its stake is worth RM33m. This works out to a revised book value of RM0.28, which is still much higher compared to its share price of RM0.20 currently. Hence, we are still maintaining our Buy rating on the stock.
- Although near-term earnings prospects are facing some headwinds due to market uncertainties, cautious capex spending and property slowdown, we still like Grand-Flo for its fully integrated services of tracking solutions, established track record and regional exposure.

**Share Price Chart****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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