3Q FYE DEC 2016 RESULTS REPORT ***28 November 2016***

Name of PLC: *Grand-Flo Berhad (Grand-Flo)*		***Target Price:***	*RM 0.25*
Business Summary : *Provision of comprehensive enterprise data collection and collation system (EDCCS) solutions and property development*			
Major Shareholders :	*Grand-Flo Corporation Sdn Bhd*	*17.25%*	
(as at 6-Apr-2015)	*Exempt an for Bank of Singapore Limited*	*7.78%*	
	Silver Oak Management Ltd	*7.25%*	
PLC Website : *www.grand-flo.com*		***Recommendation:***	*BUY*
		Market Capitalisation:	*RM 98.1m*
		Current Price:	*RM 0.205*
		Market / Sector:	*Technology*
		Stock Code:	*0056*

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Key Stock Statistics	**2014**	**2015**	**2016F**	**2017F**
EPS (sen)	1.8	2.5	(0.5)	2.5
P/E (x)	11.2	8.2	(44.8)	8.4
Net Dividend/Share (sen)	1.0	0.5	(0.1)	0.5
NTA/Share (RM)	0.16	0.17	0.17	0.19
Book Value/Share (RM)	0.28	0.26	0.25	0.27
Issued Capital (m shares)	365.6	479.2	478.4	478.4
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	0.25	0.27
Operating Cash Flow (sen)	(2.5)	(4.8)	1.8	3.7
EPS (sen)	1.8	2.5	(0.5)	2.5
Net Dividend/Share (sen)	1.0	0.5	(0.1)	0.5
Payout Ratio (%)	67.9	20.1	20.0	20.0
P/E (x)	11.2	8.2	(44.8)	8.4
P/Cash Flow (x)	(8.2)	(4.3)	11.5	5.5
P/Book Value (x)	0.7	0.8	0.8	0.7
Dividend Yield (%)	4.9	2.4	(0.4)	2.4
ROE (%)	7.1	10.6	(1.8)	9.3
Net Gearing (%)	15.7	9.9	19.8	21.9

P&L Analysis (RM mil)	**2014**	**2015**	**2016F**	**2017F**
Revenue	85.63	120.52	135.03	162.66
EBITDA	9.25	21.75	15.10	24.32
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)	0.80	1.50
EI	4.59	2.32	(8.41)	-
Pre-tax Profit	9.19	18.60	3.29	21.63
Tax	(1.09)	(2.50)	(0.59)	(3.89)
Minority interest	(1.43)	(4.16)	(4.89)	(6.01)
Net Profit	6.67	11.93	(2.19)	11.73
EBITDA Margin (%)	10.8	18.0	11.2	15.0
Pre-tax Margin (%)	10.7	15.4	2.4	13.3
Net-Margin (%)	7.8	9.9	(1.6)	7.2

1. 3QFY16 Results Highlight

	3Q FY16 RMm	**3Q FY15 RMm**	**Chg %**
Revenue	25.56	32.91	(22.3)
Operating Profit	(0.26)	4.56	n.m.
Finance	(0.18)	(0.17)	6.6
Associate	0.70	(0.20)	n.m.
EI	(8.41)	0.69	n.m.
Pre-tax Profit	(8.15)	4.88	n.m.
Net Profit	(9.29)	2.86	n.m.
Operating Margin (%)	(1.0)	13.9	
Pre-tax Margin (%)	(31.9)	14.8	
Net-Margin (%)	(36.4)	8.7	

- Grand-Flo reported a disappointing result. Turnover for 3QFY16 declined by 22.3% to RM25.56m due to slowdown in both tracking solutions business and property division.
- It reported pretax and net loss of RM8.15m and RM9.29m in 3QFY16 due to exceptional loss pertaining to the disposal of wholly-owned Kopacklabels Press Sdn Bhd (KPSB).

- After a turn-around in 2QFY16, turnover of EDCCS business dropped by 12.0% to RM12.88m in 3QFY16. EDCCS Malaysia, which is the larger operation, experienced an 11.4% decline in turnover to RM10.69m. 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 decrease in turnover to RM2.19m. The labels business saw a much larger decline in turnover of 42.0% to RM3.24m due to disposal of KPSB.

- Consequently, the tracking solutions business, which combines EDCCS and labels business, reported a 20.3% decline in turnover to RM16.11m in 3QFY16. However, the tracking solutions business reported a pretax loss of RM10.50m in 3QFY16 as compared with PBT of RM2.01m in 3QFY15. The bulk of the pretax loss was attributed to the disposal of KPSB, which resulted in a loss on disposal of RM3.77m and goodwill written-off of RM4.64m. Stripping out the total exceptional loss of RM8.41m (3QFY16) and investment gain of RM0.69m (3QFY15), the core tracking solutions business remained in a pretax loss of RM2.09m (3QFY16) as compared with PBT of RM1.31m (3QFY15).

- On 29-Aug-16, Grand-Flo announced that its wholly-owned Labels Network Sdn Bhd (LNSB) disposed of 100% stake in KPSB to QLM Label Makers Sdn Bhd for RM2.10m cash. The disposal price was subsequently reduced to RM1.40m, taking into account the significant reduction in sales and higher net loss. KPSB is involved in the business of adhesive labels and stickers printing. Although KPSB recorded a small net profit of RM0.95m in FY15, it was due to deferred tax. Since the beginning of FY16, KPSB had been loss-making due to stiff competition, high capital commitment and lack of prospect in the labels printing business. The disposal of KPSB led to Grand-Flo booking a total exceptional loss of RM8.41m in 3QFY16.

- Turnover of property division declined by 25.5% to RM9.45m in 3QFY16. Consequently, its PBT also dropped to RM1.65m in 3QFY16 from RM3.08m in 3QFY15. The property division is only contributed by the sole ongoing Vortex project.

- Associate turned around with a net profit of RM0.70m in 3QFY16 as compared with net loss of RM0.20m in 3QFY16. Its 18%-owned Simat Technologies Public Company Limited (Simat) reported a net profit of THB11m in 3QFY16 due to increasing production and sales of labels while its broadband internet service is still going through the gestation period of increasing its subscribers' base for high speed broadband service.

9MFY16 Results Highlight

	9M FY16 RMm	9M FY15 RMm	Chg %
Revenue	98.54	80.38	22.6
Operating Profit	6.17	12.11	n.m.
Finance	(0.57)	(0.48)	20.2
Associate	0.15	(0.86)	n.m.
EI	(8.41)	2.36	n.m.
Pre-tax Profit	(2.66)	13.13	n.m.
Net Profit	(9.16)	8.82	n.m.
Operating Margin (%)	24.1	36.8	
Pre-tax Margin (%)	(10.4)	39.9	
Net-Margin (%)	(35.8)	26.8	

- For 9MFY16, turnover grew by 22.6% to RM98.54m due mainly to its property division. Turnover of its tracking solutions business decreased by 14.8% to RM49.36m in 9MFY16 due to the current slower orders from customers. Due to higher progress billings of its Vortex project in 1HFY16, turnover of property division more than doubled to RM49.18m in 9MFY16.

- Grand-Flo reported a pretax loss of RM2.66m in 9MFY16 from a PBT of RM13.13m in 9MFY15 due mainly to exceptional loss pertaining to the disposal of KPSB.

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.

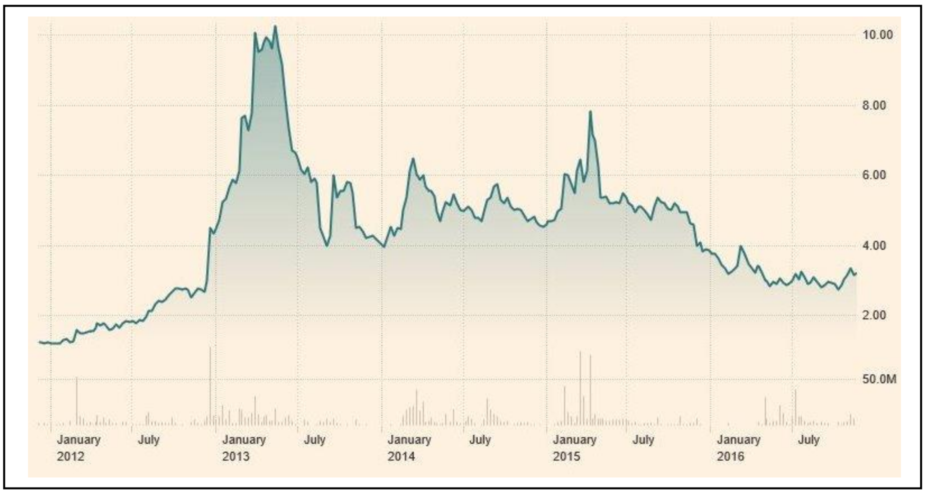
- The Vortex Business Park enjoyed a take-up rate of 71% for 1st phase, comprising 72 units of semi-D shop offices and light industrial factories. Second phase will consist of 22 units of semi-D shop offices and 18 units of light industrial factories. This project currently has an unbilled sale of RM49.4m 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 profit contribution of Simat will be boosted by the award of an ERP and HR system for Government Housing Bank, Thailand (GHB) on 28-Oct-16 to I Am Simat Consortium (formed between Simat and I Am Consulting Company Limited). The project, which is worth a total THB530m (RM43m), entails the development and implementation and maintenance of enterprise resource planning (ERP) and human resource (HR) system. Contribution is expected to come in from 4QFY16 onwards. However, earnings impact to Grand-Flo will not be significant as Simat's portion of the contract value is approximately 15% of the total contract value (THB 80m or RM7m). Moreover, earnings contribution will only be reflected at associate level.

- 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

- On an annualised basis, 9MFY16's reported net profit is sharply below our earnings forecast due to exceptional loss and continued slowdown in its core tracking solutions business. As such, we now expect Grand-Flo to report a net loss for FY16 due mainly to exceptional loss pertaining to disposal of KPSB.

- Given the near-term uncertainty of earnings contribution, we have switched to asset-based valuation to arrive at the fair value of the stock. Currently, Grand-Flo's shareholders' fund stood at RM110m (RM0.23/share), which values its stake in Simat at around RM11m. Based on the current share price of Simat of THB3.22, its stake is worth RM26m. This works out to a revised book value of RM0.26, which is still much higher compared to its share price of RM0.205 currently. Hence, we are still maintaining our Buy rating on the stock.

- Although near-term earnings prospects are facing some headwinds due to market uncertainty, 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.

- Longer-term, given the order pipeline and the expected pick-up in EDCCS business, EDCCS business is expected to perform better in the subsequent quarters. With the disposal of KPSB, the loss at the label business will be reduced. Its tracking solutions business is well positioned to benefit from the increasing share of e-commerce shopping by partnering with logistics companies and courier service providers. Earnings contribution is expected to be higher from property development, with both projects targeting for completion in FY17-18.

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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