

1Q FYE DEC 2015 RESULTS REPORT

27 May 2015

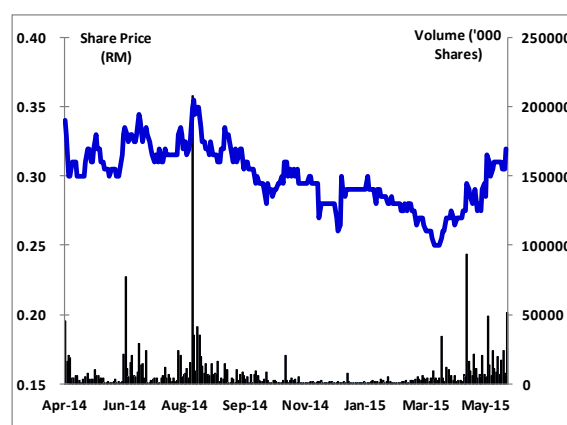
Name of PLC: Grand-Flo Berhad	Target Price:	RM 0.35
Business Summary : Specialise in the provision of comprehensive Enterprise Data Collection and Collation System (EDCCS) Solutions and Property Development.		
Major Shareholders : Grand-Flo Corporation Sdn Bhd, (16.5%) Bank of Singapore Limited, (7.8%) BNP Paribas Wealth Management Singapore, (7.3%) (as at 6 April 2015)		
PLC Website : http://www.grand-flo.com	Recommendation:	Hold
IR Contact : Yap Li Li, Executive Director Email : liliyap@grand-flo.com	Market Capitalisation:	RM126.3m
	Current Price :	RM 0.32
	Market / Sector:	Main Market / Technology
	Stock Code:	0056
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Key Stock Statistics	FY13	FY14	FY15F	FY16F
EPS (sen)	4.0	2.0	3.0	3.9
P/E (x)	7.9	16.0	10.4	8.0
Dividend/Share (sen)	1.0	1.0	1.0	1.0
NTA/Share (sen)	18.3	17.6	17.6	20.4
Book Value/Share (sen)	18.3	17.6	17.6	20.4
Issued Capital (m shares)	324.8	367.1	401.1	401.1
52-weeks Share Price Range (RM)		0.25 - 0.36		

Per Share Data	FY13	FY14	FY15F	FY16F
Year-end 31 Dec				
Book Value (sen)	18.3	17.6	17.6	20.4
Opt Cash Flow (sen)	1.8	(0.4)	2.1	4.2
Earnings (sen)	4.0	2.0	3.0	3.9
Dividend (sen)	1.0	1.0	1.0	1.0
Payout Ratio (%)	25.0	55.0	33.1	25.5
P/E (x)	7.9	16.0	10.4	8.0
P/Cash Flow (x)	17.3	(77.1)	15.3	7.4
P/Book Value (x)	1.7	1.8	1.8	1.5
Dividend Yield (%)	3.2	3.2	3.2	3.2
ROE (%)	16.1	7.1	24.0	27.9
Net Gearing (%)	3.2	14.5	12.0	10.8

P&L Analysis (RMm)	FY13	FY14	FY15F	FY16F
Year-end 31 Dec				
Revenue	89.6	85.6	128.0	166.1
Operating Profit	13.6	10.6	15.0	21.0
Net Interest Expense	(0.3)	(0.4)	(0.4)	(0.4)
Associate	1.2	(0.8)	1.0	1.0
Pre-tax profit	14.1	9.2	15.4	21.4
Effective Tax Rate (%)	(8.0)	(11.8)	(12.0)	(12.0)
Net Profit	13.0	6.7	12.1	15.7
Operating Margin (%)	15.1	12.3	11.7	12.6
Pre-tax margin	15.7	10.7	12.0	12.9
Net margin	14.5	7.8	9.5	9.5

Share Price Chart



1. 1QFY15 Results Highlight / Review

Year-ended 31 Dec	1QFY15 RMm	1QFY14 RMm	Chg %
Revenue	27.2	14.2	91.7
Operating Profit	6.8	3.8	80.0
Interest Expense	(0.2)	(0.2)	(1.7)
Pre-tax Profit	6.3	3.4	83.5
Net Profit	5.0	3.3	50.5
Operating Margin (%)	25.1	26.7	
Pre-tax Margin (%)	23.1	24.1	
Net-Margin (%)	18.5	23.5	

- Grand-Flo (GF) recorded 1QFY15 revenue growth of 91.7% to RM27.2m compared to RM14.2m in 1QFY14, mainly due to higher sales contribution from its EDCCS Solutions division, driven by impact on businesses from the implementation of the Goods and Services Tax (GST) effective on the 1 April 2015.

- The Label division recorded a marginal increase of 3.9% y-o-y to RM5.3m compared to RM5.1m previously in tandem with the GST implementation.
- The property division contributed RM5.3m in revenue, underpinned by sales from its Vortex Business Park (Vortex). The project, located in Batu Kawan Penang, comprises 112 units of commercial properties with GDV of RM220m. A total of 50 units were sold to date.
- Pre-tax profit increased 83.5% y-o-y to RM6.3m in 1QFY15, compared to RM3.4m in 1QFY14. During the quarter under review, there was an exceptional gain of RM1.0m resulted from the disposal of 2.0m shares in listed Thai associate company, Simat Technologies Public Company Limited. (compared to gains on disposal of RM2.5m from Simat shares in 1QFY14). In the quarter, GF also enjoyed RM0.5m gain on conversion of its warrant holdings in Simat (compared to similar gains of RM0.5m in 1QFY14). Stripping out the respective exceptional gains, GF recorded an adjusted pre-tax profit of RM4.8m in 1QFY15, an increase of >100% y-o-y compared to RM0.4m in 1QFY14.

Review of segmental results

<u>Segmental breakdown</u> (RM million)	<u>1Q15</u>	<u>1Q14</u>	<u>Change</u> <u>y-o-y %</u>	<u>4Q14</u>	<u>*Change</u> <u>q-o-q %</u>
<u>Turnover</u>					
- EDCCS	16.7	9.1	83.2	14.7	13.0
- Labels	5.3	5.1	3.8	5.2	1.6
- Property	5.3	0.0	100.0	15.6	(66.3)
Total	27.2	14.2		35.6	
<u>Pre-tax profit</u>					
- EDCCS	2.8	0.1	>100.0	(0.1)	>100.0
- Labels	0.4	0.3	54.1	0.2	>100.0
- Property	1.6	0.0	100.0	3.0	(47.1)
Total	4.8	0.4		3.1	
<u>Net profit</u>					
- EDCCS	2.6	0.1	>100.0	(0.2)	>100.0
- Labels	0.3	0.3	21.6	(0.1)	>100.0
- Property	1.2	0.0	100.0	2.3	(46.9)
Total	4.2	0.4		1.9	
<u>Pre-tax margin (%)</u>	17.7	2.6		8.8	

* Refers to 1Q15/4Q14

- EDCCS accounted for 61.2% of group revenue, whilst the remaining 19.5% was from the labels division and 19.3% from property division respectively.
- Revenue from its EDCCS business increased 83.2% y-o-y to RM16.7m in 1QFY15 from RM9.1m in 1QFY14. Stronger revenue growth was due to higher sales of EDCCS products as customers prepare ahead of the implementations of GST effective 1 April 2015. Consequently, demand for label products also picked up.
- Main contribution to the property division was from its 50%-owned Vortex commercial project, which was launched in August 2014. Vortex is a mix development project of shop offices and light industrial factories, with an approximate GDV of RM220m. The project comprises of 112 units of commercial properties (60 units - 4-storey semi-D shop office and 52 unit - 4-storey light industrial factories). As of to date, 23 units of 4-storey semi-D shop office and 28 units of 4-storey light industrial factories has been sold. Total unbilled sales currently stands at RM100m, with the project expected for completion in 2017.
- GF launched another property project in February 2015. The Glades, located in Alma Bukit Mertajam, is developed by its 52%-owned subsidiary, Jalur Bina Sdn Bhd (JBSB). The Glades comprises 76 units of semi-D and zero-lot bungalows on 3.3 hectares land with estimated GDV of RM63m. To-date, 12 units have been sold, comprising 5 units of the 3-storey zero lot bungalows, 6 units of the 2-storey zero lot bungalows and 1 unit of semi-D.

2. Company Background

- GF is a fully integrated provider of comprehensive Enterprise Data Collection and Collation System (EDCCS) Solutions using mainly bar coding (current), and radio frequency (RF) (future) technologies. It services a wide range of sectors, including healthcare, warehousing, retail chains, manufacturing, but the key industries underpinning growth are logistics and the fast moving consumer goods (FMCG) sectors. GF has offices in Malaysia, Singapore, Thailand, Vietnam and China and a presence in Indonesia and the Philippines via value-added resellers. Group revenue comprises of sale of EDCCS products and software, sale of barcode labels, as well as system maintenance.
- In FY13, the group acquired 52% of Jalur Bina Sdn Bhd (JBSB) for RM2.4m. JBSB is principally involved in property development, and currently has 3.3 hectares in Penang (mainland) with proximity to the Second Bridge to Penang Island, which the company is developing into a mixed residential project with a Gross Development Value (GDV) of RM63m. The development project, called The Glades, was launched in February 2015.
- In August 2014, the group acquired 50% of Innoceria Sdn Bhd (ISB) for RM15m. ISB is principally involved in property management. The company currently holds the rights and interest to Vortex Business Park Project (Vortex), a mixed development project comprising shop offices and light industrial factories located at Batu Kawan, Penang, with an approximate GDV of RM220m. Phase one was launched in August 2014 while phase two was launched in January 2015, and the project is expected to be completed in 2017.

3. Recent Developments

- On 20 April 2015, GF proposed a final single tier dividend of 1 sen per share for FY14, which was consequently approved by its shareholders on 25 May 2015. This translates to a dividend payout ratio of 55% and dividend yield of 3.1%.

4. Earnings Outlook

- GF's core EDCCS products and label business is benefiting from the implementation of GST in Malaysia, as businesses seek out solutions to auto-calculate GST contributions. Work for GF includes upgrading of existing software, as well as replacement of software with newer versions and GST built-in. GF has enjoyed a good breakthrough into the FMCG (fast moving consumer goods) and food industries. This need to upgrade software is expected to sustain in the near term as small to medium size businesses upgrade their softwares to be GST compliant by September 2015.
- Going forward, property development should grow in significance, driven by progress billings and improving sales from its two development projects. Near term, GF will enjoy its first full year contribution from property development division. Management's current focus is to develop these two projects as GF's property showcase. In view of current weaker market conditions, new phases of existing developments are only expected when sentiment improves.
- The two ongoing property development projects are as follows:-
 - The Vortex Business Park (Vortex) comprising 112 units of corporate offices (60 units 4-storey semi-D shop offices and 52 units 4-storey light industrial factories). Phase one was launched in August 2014 and phase two was launched in January 2015, with total estimated GDV of RM220m.
 - The Glades is a mixed development of 76 units of semi-D and zero-lot bungalows in Alma, Bukit Mertajam, Penang. The project was launched in Feb 2015 with estimated GDV of RM63m
- GF will continue to seek out new landbank opportunities to expand its development portfolio, supported by a healthy balance sheet.

5. Valuation and Recommendation

- Near term, demand for EDCCS and label business is expected to pick-up as businesses work to comply with GST implementation. Contribution from its property division is growing as sales continue to improve. Going forward, management expects property development to contribute half of the group's revenue and profits.
- At the current price level, GF trades at P/E of 10.4x and 8.0x in FY15 and FY16 respectively, which we deem as fair. Further upward revision in earnings or re-rating in the stock would depend on growth momentum in the EDCCS / label business, and how successful GF can be in building and sustaining property development as another of its core business. We maintain our HOLD recommendation.

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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