Inet research

2Q FYE DEC 2013 RESULTS REPORT ***23 August 2013***

Name of PLC: *Grand-Flo Berhad*		***Target Price:***	*RM 0.30*
Business Summary : *Specialise in the provision of comprehensive Enterprise Data Collection and Collation System (EDCCS) Solutions*			
Major Shareholders : *Grand-Flo Corporation Sdn Bhd, (19.6%)* *BNP Paribas Wealth Management Singapore, (9.4%)* *(as at 30 April 2013)*			
PLC Website : *http://www.grand-flo.com*		***Recommendation:***	*Hold*
IR Contact : *Yap Li Li, Executive Director* *Email : liliyap@grand-flo.com*		***Market Capitalisation:***	*RM90.9m*
		Current Price :	*RM 0.28*
		Market / Sector:	*Main Market / Technology*
		Stock Code:	*0056*
Analyst : Lim Boon Ngee *Tel : +603 2163 3200; Email : bnlim@nra.com.my*			

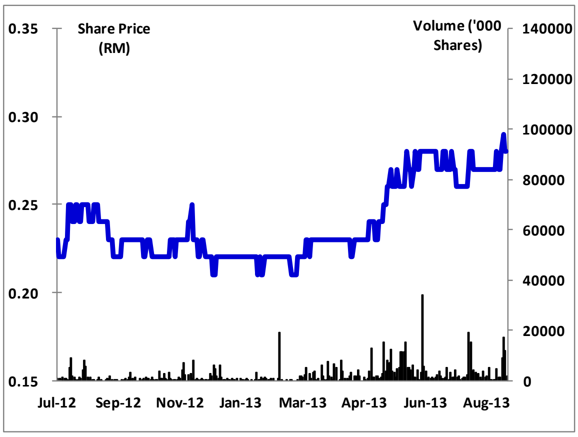
Key Stock Statistics	FY11	FY12	FY13F	FY14F
EPS (sen)	2.9	2.5	5.7	2.5
P/E (x)	9.5	11.4	4.9	11.0
Dividend/Share (sen)	0.6	1.0	1.0	1.0
NTA/Share (sen)	12.4	15.3	18.2	19.5
Book Value/Share (sen)	12.4	15.3	18.2	19.5
Issued Capital (m shares)	159.5	319.6	324.8	324.8
52-weeks Share Price Range (RM)		0.20 - 0.29		

Per Share Data	FY11	FY12	FY13F	FY14F
Year-end 31 Dec				
Book Value (sen)	12.4	15.3	18.2	19.5
Opt Cash Flow (sen)	1.8	1.8	7.0	2.2
Earnings (sen)	2.9	2.5	5.7	2.5
Dividend (sen)	1.2	1.0	1.0	1.0
Payout Ratio (%)	20.2	40.8	17.5	39.3
P/E (x)	9.5	11.4	4.9	11.0
P/Cash Flow (x)	15.9	15.8	4.0	12.6
P/Book Value (x)	2.3	1.8	1.5	1.4
Dividend Yield (%)	4.3	3.6	3.6	3.6
ROE (%)	16.6	11.4	23.3	9.4
Net Gearing (%)	8.5	8.4	*n.c.*	*n.c.*

n.c. - net cash

P&L Analysis (RMm)	FY11	FY12	FY13F	FY14F
Year-end 31 Dec				
Revenue	74.7	87.7	83.3	91.6
Operating Profit	9.1	6.9	20.0	9.4
Net Interest Expense	(0.6)	(0.7)	(0.7)	(0.8)
Associate	1.5	2.6	1.2	0.5
Pre-tax profit	10.1	8.8	20.4	9.1
Effective Tax Rate (%)	(6.6)	(10.4)	(9.0)	(9.0)
Net Profit	9.4	7.8	18.6	8.3
Operating Margin (%)	12.2	7.9	24.0	10.3
Pre-tax margin	13.5	10.0	24.5	9.9
Net margin	12.6	8.9	22.3	9.0

Share Price Chart



1. 2QFY13 Results Highlight / Review

Year-ended 31 Dec	2QFY13 RMm	2QFY12 RMm	Chg %
Revenue	21.2	22.6	(6.1)
Operating Profit	10.6	2.2	381.5
Interest Expense	(0.2)	(0.2)	(22.1)
Pre-tax Profit	10.5	2.4	340.2
Net Profit	8.0	2.2	255.4
Operating Margin (%)	50.0	9.7	
Pre-tax Margin (%)	49.8	10.6	
Net-Margin (%)	37.7	10.0	

- Grand-Flo's (GF)'s 2QFY13 results reported a decrease in revenue by 6.1% y-o-y to RM21.2m compared to RM22.6m in 2QFY12. This was mainly due to slow demand for its Enterprise Data Collection and Collation System (EDCCS) and its label business, impacted by slower economic activities.

- Nonetheless, the group pre-tax profit recorded an increase of >100.0% y-o-y to RM10.5m from RM2.4m in 2QFY12, mainly due to gain on disposal of Simat's shares of RM9.3m during the quarter under review. Excluding the items, the group would have recorded a pre-tax profit of RM1.3m, a decline of 45.8% y-o-y compared to the previous quarter. Lower sales and higher operating expenses during the quarter under review have resulted to lower pre-tax margin.

First half results comparison

Year-ended 31 Dec	**1HFY13 RMm**	**1HFY12 RMm**	**Chg %**
Revenue	40.1	41.9	(4.2)
Operating Profit	14.3	4.3	232.7
Net Interest Income	(0.3)	(0.3)	(5.8)
Pre-tax Profit	15.0	4.8	210.9
Net Profit	12.4	4.5	177.6
Operating Margin (%)	35.7	10.3	
Pre-tax Margin (%)	37.5	11.5	
Net-Margin (%)	30.9	10.7	

- 1HFY13, the group revenue decreased 4.2% y-o-y to RM40.1m from RM41.9m recorded in 1HFY12, mainly due to slower lower sales volume for its EDCCS and labels products. However, pre-tax profit jumped >100.0% y-o-y to RM15.0m as compared to RM4.8m recorded in the 1HFY12, mainly due to gain on disposal of Simat's shares of RM12.1m. Stripping out the gains on disposal of Simat's shares, the pre-tax profit was RM3.0m, which is 37.5% y-o-y lower compared to the same period last year. Profit margins eroded by low margin sales and higher raw material costs in both the EDCCS and label business.

Review of segmental results

Segmental breakdown (RM million)	**2Q13**	**2Q12**	**Change y-o-y %**	**1Q13**	***Change q-o-q %**	**1HFY13**	**1HFY12**	**Change y-o-y %**
Turnover								
- EDCCS	15.2	16.6	-7.9%	13.6	12.2%	29.0	29.7	-2.2%
- Labels	5.8	6.0	-4.2%	5.3	8.3%	11.1	12.2	-9.1%
Total	21.0	22.6	-6.9%	18.9	11.1%	40.1	41.9	-4.2%
Pre-tax profit								
- EDCCS	10.1	1.7	>100.0%	4.4	>100.0%	14.1	3.4	>100.0%
- Labels	0.4	0.7	-39.7%	0.5	-21.9%	1.0	1.4	-31.0%
Total	10.5	2.4	>100.0%	5.0	>100.0%	15.0	4.8	>100.0%
Net profit								
- EDCCS	7.7	1.7	>100.0%	4.0	93.5%	11.6	3.3	>100.0%
- Labels	0.3	0.6	-42.6%	0.4	-25.9%	0.8	1.1	-32.0%
Total	8.0	2.3	>100.0%	4.4	81.6%	12.4	4.5	>100.0%
Pre-tax margin	*50.2%*	*10.6%*		*26.3%*		*37.5%*	*11.5%*	

** Refers to 2Q13/1Q13*

- EDCCS in Malaysia continues to be the main contributor, accounting for 73.9% of group's revenue, whilst the remaining 26.1% was from the labels business.

- Revenue contribution from its EDCCS business decreased -7.9% y-o-y to RM15.2m in 2QFY13 from RM16.6m in 2QFY12, affected by slower demand impacted by global economic slowdown.

- Its labels business also experienced lower demand which resulted in -4.2% declines in revenue to RM5.8m from RM6.0m in 2QFY12.

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 have offices in Malaysia, Singapore, Thailand, Vietnam and China and a presence in Indonesia and the Philipines via value-added resellers. Group revenue comprises of sale of EDCCS products and software, sale of barcode labels, as well as system maintenance.

3. Recent Developments

- On 9 and 10 April 2013, GF have reduced its stake in Simat Technologies Public Company Limited (Simat) from 30.5% to 20.9% through off-market transactions for a total consideration of RM12.8m.

- On 4 June 2013, GF declared a final tax exempt dividend of 1.0 sen per share for FY13, which translates into a dividend payout ratio and yield of 16.4% and 3.5% respectively.

- On 7 June 2013, GF declared a final tax exempt dividend of 1.0 sen per share for FY12. This translates into a dividend payout ratio and yield of 40.8% and 3.5% respectively.

- On 2 July 2013, the group change its company name from Grand-Flo Solutions Berhad to Grand-Flo Berhad effective immediately.

- On 1 August 2013, Grand-Flo Capital Sdn Bhd, a wholly owned subsidiary of Grand-Flo Berhad had entered into a conditional share acquisition with Loyang Ekuiti Sdn Bhd to acquire 520,000 shares (or 52%) in Jalur Bina Sdn Bhd (JBSB) for a total cash consideration of RM2.4m. The proposed acquisition is expected to be completed by end of August 2013.

    - ➢ JBSB is principally involved in the business of housing development and currently owned a piece of freehold residential development land measuring 3.3 hectares (8.1 acres) at Seberang Perai, Pulau Pinang. The market value for the Land as appraised by the Valuer is RM15.6m. Going forward, due to the strategic location of the land, GF expect that the land will be developed into a preferred neighbourhood and the group can benefit from the favourable market demand and selling prices.

4. Earnings Outlook

- Near term, we expect profit margin could still be affected by higher operating costs. Demand for EDCCS products and label business in Malaysia also affected by the global economic uncertainties. We are forecasting profit before tax from its core operations of RM8.4m in FY13 and RM9.1m in FY14.

- The key to potential upgrade in forecast earnings would depend on performance of its core EDCCS products and label business in Malaysia. Economic outlook remains cautious, with Bank Negara recently having revised overall GDP growth target for Malaysia in 2013 to 4.5%-5.0% from 5%-6%. Nonetheless, Grand Flo is well positioned to recapture sales and higher margin projects in its integrated EDCCS should economic activities pick up.

- According to the company, the recent proposed acquisition is part of the group effort in continuously seeking investment opportunities to generate positive returns. Albeit we do not expect any contributions from this property development venture in the next two years.

- The company remains in a net cash position, and it will continue to seek out other investment opportunities to add another revenue stream to drive future growth.

5. Valuation and Recommendation

- Demand for GF's services and solutions should remain steady. Although demand for EDCCS products and labels business has been slightly affected by the global economic uncertainty, the group is confident to record positive financial performance based on the project secured and in the pipelines.

- At the current price level, the stock trades on a forward FY14 P/E of 11.0x based on normalised EPS forecast of 2.5sen. We recommend a HOLD on the stock pending further improvements in its core operations.

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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