

Serial System Ltd

HOLD

Current Price **S\$0.065**
10 Jun 2009
Fair Value **S\$0.080**

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Historical Chart

Source: Bloomberg

Stock Statistics

Market Cap	S\$47.1m
52-HI	S\$0.082
52-LOW	S\$0.034
Avg Vol (1 yr)	258,817
Shares Outstanding	724.11m
Free Float	314.9m

Key Indicators

ROE 09F	4.2%
ROA 09F	2.2%
P/BK	0.58x
Net gearing	0.18x

Major Shareholders

Derek Goh Bak Heng	35.7%
Goi Seng Hui	12.5%

Balance sheet strengthened after rights issue

- **Results of rights issue.** The group announced that the Rights Issue received valid acceptance and excess applications for a total of 195.9m Right Shares. These represent approximately 162.3% of the total number of Rights Shares offered under the Rights Issue. The group has raised net proceeds of approximately S\$6.3m, and the group intends to use this to reduce the level of bank borrowing and strengthen its cash flows and working capital.
- **Texas Instruments raises quarterly targets.** One of its major suppliers, Texas Instruments (TI) announced during a conference call on Monday, to raise its targets for 2Q earnings and revenue. TI's analog chips, used in everything from phones and consumer electronics to cars and industrial equipment were the biggest driver of growth in the quarter. We believe this is good news for the group, as TI contributes 50% of its total sales, the sign of the recovery in electronics demand would also be the important key.
- **Acquiring assets from Holy Stone Enterprise.** Last month, Serial System executed a sale and purchase agreement with Holy Stone Enterprise. The group will pay a total of S\$5m to purchase a business from the vendor comprising;- 1) the business of distributing products manufactured by TI Incorporated, ii) customer assignments and business backlogs relating to the products of TI and iii) product solutions and customers' design registrations for products of TI. The acquisition will enhance the group's product range and customer base and will further strengthen the group's position as a distributor of TI in Asia.
- **Raised fair value from S\$0.06 to \$0.08.** We have reduced our FY09-11 EPS by 16% to factor in the dilution of the right issue. However, our fair value has been increased to S\$0.08 as we increased our base from 0.5x CY09 P/BV to 0.8x CY09 P/BV, which is in line with the peer industry average. Although we think the worst is now over, we also believe the share price will be capped in the near-term due to the overhang from the large amount of rights shares issued. Maintain our **Hold** recommendation.

Key Financial Data

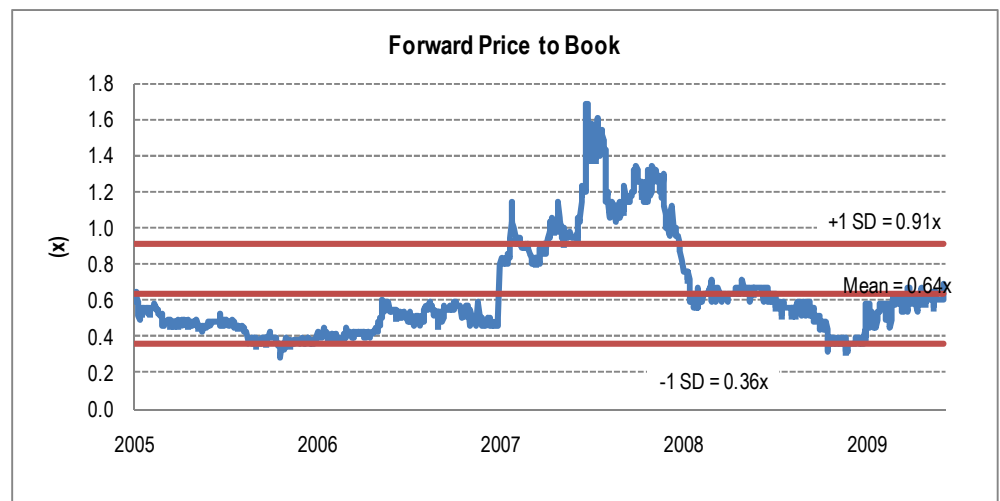
(S\$ m, FYE Dec)	2007	2008	2009F	2010F	2011F
Sales	476.2	510.6	485.0	509.3	560.2
Gross Profit	41.5	46.7	43.7	47.9	53.2
Net Profit	7.3	6.0	3.7	4.7	5.6
EPS (cents)	1.2	1.0	0.5	0.6	0.8
EPS growth (%)	188.5	(17.3)	(47.1)	26.3	19.4
PER (x)	5.6	6.7	12.8	10.1	8.5
NTA/share (cents)	10.9	11.2	10.5	10.8	11.2
DPS (cents)	1.9	0.6	0.3	0.3	0.4
Div Yield (%)	29.7	8.6	5.3	5.3	6.4

Source: Company, NRA Capital estimates

Industry comparison

Name	Code	Price (Local)	MktCap (\$m)	Actual PER (x)	EV/ EBITDA (x)	PBR (x)	ROE (%)	Yield (%)
Average			216.3	11.4	7.9	0.83	5.6	3.1
SERIAL SYSTEM	SERL SP	0.065	47.1	6.7	7.1	0.42	7.6	8.6
ASTI HOLDINGS	ASTI SP	0.10	57.3	nm	18.2	0.52	-15.1	0.0
UNIDUX ELECTRONI	UNDX SP	0.08	8.9	20.8	nm	0.62	3.0	0.0
ADV POWER COMPON	APC LN	15.00	7.9	4.4	3.9	1.17	31.2	0.0
ELECTROCOMPONENT	ECM LN	150.25	1541.8	9.9	5.7	2.16	22.7	8.1
RENESAS EASTON C	9995 JP	215.00	76.6	nm	4.9	0.26	-0.2	2.3
SILTRONTECH ELEC	6135 TT	4.30	14.6	nm	nm	0.51	-12.1	0.0
HOWTEH TECHNOLOG	3114 TT	12.25	25.2	14.6	3.9	0.78	5.1	4.3
TOPCO SCIENTIFIC	5434 TT	26.90	167.7	12.2	11.9	1.07	8.6	4.8

Source: Bloomberg, NRA Capital Estimates



Source: Bloomberg, NRA Capital Estimates

Profit & Loss (S\$ m, FYE Dec)	2007	2008	2009F	2010F	2011F
Revenue	476.2	510.6	485.0	509.3	560.2
Operating expenses	(475.5)	(500.6)	(480.5)	(505.0)	(555.1)
EBITDA	0.7	9.9	4.6	4.2	5.1
Depreciation & amortisation	(1.3)	(0.9)	(0.9)	(0.9)	(0.9)
EBIT	(0.7)	9.0	3.7	3.3	4.2
Net interest & invt income	3.0	(0.5)	1.9	3.2	3.5
Associates' contribution	(0.7)	(0.5)	(0.2)	0.0	0.0
Exceptional items	7.1	0.0	0.0	0.0	0.0
Pretax profit	8.8	8.0	5.3	6.6	7.8
Tax	(1.3)	(1.4)	(1.1)	(1.3)	(1.6)
Minority interests	(0.2)	(0.6)	(0.6)	(0.6)	(0.7)
Net profit	7.3	6.0	3.7	4.7	5.6
Wt. shares (m)	625.8	625.8	724.1	724.1	724.1
Shares at year-end (m)	625.8	625.8	724.1	724.1	724.1
Balance Sheet (S\$ m, as at Dec)	2007	2008	2009F	2010F	2011F
Fixed assets	6.9	6.2	6.0	5.7	5.5
Intangible assets	11.0	9.8	9.8	9.8	9.8
Other long-term assets	15.0	17.1	17.1	17.1	17.1
Total non-current assets	32.9	33.0	32.8	32.6	32.4
Cash and equivalents	15.4	15.4	22.3	20.1	20.4
Stocks	65.8	40.7	49.0	53.1	57.8
Trade debtors	61.6	52.7	57.0	61.3	66.6
Other current assets	5.8	5.3	5.4	6.4	7.8
Total current assets	148.5	114.2	133.8	140.9	152.5
Trade creditors	55.2	28.8	48.5	50.9	56.0
Short-term borrowings	27.2	28.4	24.3	25.5	28.0
Other current liabilities	8.2	6.6	5.7	6.1	6.5
Total current liabilities	90.7	63.7	78.5	82.5	90.5
Long-term borrowings	10.2	2.0	0.0	0.0	0.0
Other long-term liabilities	0.5	0.5	0.1	0.1	0.1
Total long-term liabilities	10.7	2.5	0.1	0.1	0.1
Shareholders' funds	79.0	79.6	86.1	88.4	91.1
Minority interests	1.1	1.4	2.0	2.6	3.3
NTA/share (S\$)	0.11	0.11	0.11	0.11	0.11
Total Assets	181.4	147.2	166.6	173.5	184.9
Total Liabilities + S'holders' funds	181.4	147.2	166.6	173.5	184.9
Cash Flow (S\$ m, FYE Dec)	2007	2008	2009F	2010F	2011F
Pretax profit	8.8	8.0	5.3	6.6	7.8
Depreciation & non-cash adjustments	(0.7)	7.9	1.7	1.8	1.8
Working capital changes	(3.0)	2.3	5.2	(8.1)	(7.4)
Cash tax paid	(1.5)	(0.5)	(1.8)	(0.6)	(0.8)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	3.5	17.7	10.4	(0.3)	1.4
Capex	(0.8)	(0.3)	(0.4)	(0.4)	(0.4)
Net investments & sale of FA	19.1	(3.2)	0.0	0.0	0.0
Others	0.3	0.2	1.2	1.8	1.7
Cash flow from investing	18.5	(3.4)	0.7	1.3	1.2
Debt raised/(repaid)	(9.9)	(7.1)	(6.1)	1.2	2.5
Equity raised/(repaid)	7.3	0.0	6.3	0.0	0.0
Dividends paid	(7.1)	(3.2)	(2.5)	(2.5)	(3.0)
Cash interest & others	(9.8)	(4.0)	(1.9)	(1.9)	(1.9)
Cash flow from financing	(19.5)	(14.4)	(4.2)	(3.2)	(2.4)
Change in cash	2.5	(0.0)	6.9	(2.2)	0.3
Change in net cash/(debt)	12.4	7.1	13.0	(3.4)	(2.3)
Ending net cash/(debt)	(22.0)	(14.9)	(1.9)	(5.3)	(7.6)
KEY RATIOS (FYE Dec)	2007	2008	2009F	2010F	2011F
Revenue growth (%)	30.7	7.2	(5.0)	5.0	10.0
EBITDA growth (%)	107.6	1,397.5	(54.0)	(7.2)	21.0
Pretax margins (%)	1.8	1.6	1.1	1.3	1.4
Net profit margins (%)	1.5	1.2	0.8	0.9	1.0
Interest cover (x)	4.4	4.7	4.7	5.3	5.6
Effective tax rates (%)	14.4	17.3	20.0	20.0	20.0
Net dividend payout (%)	165.6	58.1	67.8	53.7	54.0
Debtors turnover (days)	46.1	40.8	41.3	42.4	41.7
Stock turnover (days)	52.6	41.9	37.1	40.4	39.9
Creditors turnover (days)	38.7	30.0	29.1	35.6	34.8

Source: Company, NRA Capital Estimates

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