Serial System Ltd

SGX Research Incentive Scheme
Company update

HOLD

Current Price **S$0.060**
23 Jun 2009
Fair Value S$0.080

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Historical Chart

Source: Bloomberg

Stock Statistics

Market Cap	S$43.3m
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

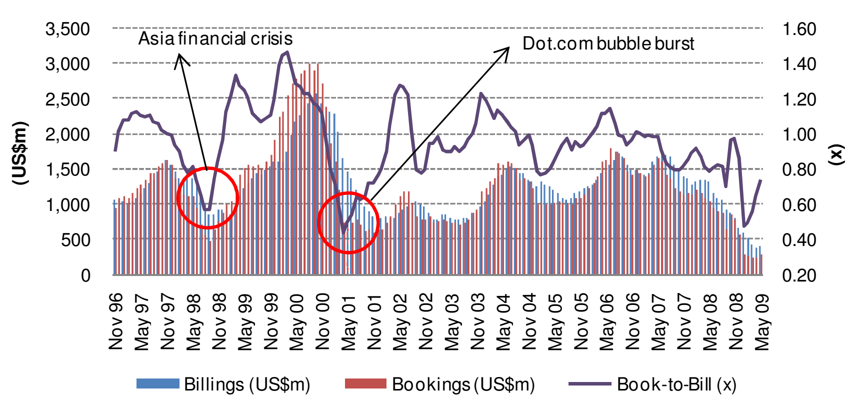
Derek Goh Bak Heng	35.7%
Goi Seng Hui	12.5%

Utilisation of proceeds from rights issue

- **Use of rights issue.** The group has announced to utilize an amount of S$2.22m from net proceeds raised of approximately S$6.29m from the right issue to reduce the group's bank borrowings. This is in-line with the group's original plan and we believe the group will use the remaining net proceeds to acquire assets from Holy Stone Enterprise. *Please refer to our 11/Jun report "Balance sheet strengthened after right issue".*

- **Signs of recovery.** North America-based manufacturers of semiconductor equipment posted US$288.5m in orders in May 2009 (three-month average basis) and a book-to-bill ratio of 0.74x. Despite the fact that bookings are still near historical low levels, the sharp decline appears to have subsided. The book-to-bill ratio has shown a third consecutive month improvement, we believe this is good sign for the semiconductor industry.

Semiconductor equipment industry Book-to-Bill (x)



- **Fair value and Hold recommendation unchanged**. We have kept our FY09-11 numbers unchanged. Our fair value remains unchanged at S$0.08, based on 0.8x CY09 P/BV, which is in line with the peer industry average. We maintain our **Hold** recommendation as we believe the share price will be capped in the near-term due to the overhang from the large amount of rights shares issued.

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)	5.2	6.2	11.8	9.3	7.8
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 (%)	32.1	9.3	5.8	5.8	6.9

Source: Company, 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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