

Serial System Ltd

HOLD**Current Price** S\$0.075
14 August 2009**Fair Value** S\$0.080**Jacky Lee**
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Source: Bloomberg

Stock Statistics

Market Cap	S\$43.45m
52-HI	S\$0.075
52-LOW	S\$0.034
Avg Vol (1 yr)	274,764
Shares Outstanding	724.11m
Free Float	314.9m

Key Indicators

ROE 09F	4.2%
ROA 09F	2.2%
P/BK	0.54x
Net gearing	0.16x

Major Shareholders

Derek Goh Bak Heng	35.7%
Goi Seng Hui	12.5%

A better outlook in 2H

- **Below expectations.** 1H09 net profit of S\$1.2m came in 24% below our profit expectation of S\$1.6m. The key variances were better-than-expected gross profit margins but this was more than offset by higher-than-expected other operating expenses (higher allowance for trade receivables and inventories) and higher-than-expected effective tax rate. 1H09 net profit represents 32% of our full-year loss forecast.
- **Sales dropped 11% yoy in 1H09** due to weaker demand for electronics products in the USA and Europe. Sales in South East Asia, including Singapore, Thailand and Malaysia declined 37% yoy, while North Asia, China, South Korea and Taiwan) only fell 6% yoy. As a result, North Asia has widened its contribution from 83% in 1H08 to 88% in 1H09. On a quarter to quarter basis, 2Q09 was an improvement of 27% qoq.
- **Gross margins inched up by 0.1% pts to 9% in 1H09** on the back of better products mix. However, EBITDA margins slipped 0.4% pts to 1.1% affected by higher allowance for trade receivables and inventories. Including the one million forex loss and higher effective tax rate, pretax and net profits plunged 53% and 62% yoy respectively.
- **Net gearing improved marginally.** Serial System generated S\$2.9m of negative free cash flow in 1H due to S\$5.0m spent on new business acquisitions. Its net gearing improved marginally from 18% as at end-Dec08 to 16% after raising S\$6.3m from a rights issue. The board declared a reduced 0.13 cts interim dividend as compared to 0.33 cts in previous years.
- **2H will be driven by North Asian market.** With the massive stimulus package from the Chinese government, we believe China will continue to see expansion in its domestic demand. The USA and Europe are showing signs of recovery but management remained cautious as consumer confidence and demand remain fragile. However, the good news is that the semiconductor equipment side could be picking up soon as most of the foundries, including TSMC, Chartered and UMC have increased its capex spending plans during their recent results announcements.
- **Keeping forecast for now and maintain Hold.** Despite the lower-than-expected 1H09 profit, we have kept our FY09-11 numbers unchanged for now. Our fair value remains unchanged at S\$0.08, still pegged on 0.8x FY09 PBR, however we believe a potential re-rating for the sector is possible after the recent market rally. We maintain our **Hold** recommendation as the stock still offers a decent 3.7% yield.

Key Financial Data

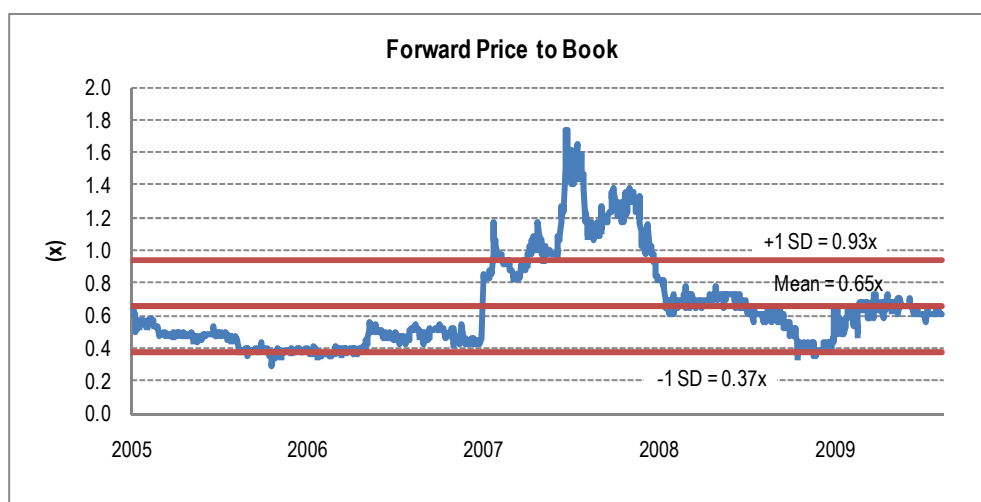
(S\$ m, FYE Dec)	2007	2008	2009F	2010F	2011F
Sales	476.2	510.6	485.0	509.3	560.2
Gross Profit	41.5	46.7	43.7	45.8	50.4
Net Profit	7.3	6.0	3.7	4.7	5.6
EPS (cents)	1.2	1.0	0.5	0.6	0.8
EPS growth (%)	188.5	(17.3)	(47.2)	26.3	19.3
PER (x)	6.4	7.8	14.7	11.7	9.8
NTA/share (cents)	10.9	11.2	10.0	10.4	10.8
DPS (cents)	1.9	0.6	0.3	0.3	0.4
Div Yield (%)	25.7	7.5	3.7	3.7	5.5

Source: Company, NRA Capital estimates

Results comparison

FYE Dec (S\$ m)	1H09	1H08	yoy % chg	2H08	hoh % chg	Prev. 1H09F	Comments
Revenue	229.1	258.5	(11)	252.1	(9)	228.0	In line
Operating costs	(226.4)	(254.6)	(11)	(246.0)	(8)	(224.5)	Above
EBITDA	2.6	3.9	(33)	6.1	(57)	3.4	Below, higher-than-expected opex
EBITDA margin (%)	1.1	1.5		2.4		1.5	Below, 0.4% point below our expectation
Depn & amort.	(0.6)	(0.5)	17	(0.4)	33	(0.5)	Above
EBIT	2.1	3.4	(40)	5.6	(63)	3.0	Below, higher-than-expected opex
Interest expense	(0.6)	(1.1)	(49)	(1.1)	(48)	(1.1)	Below, lower cost of borrowings
Interest & invt inc	0.6	1.7	(65)	(0.1)	863	0.5	In line
Associates' contrib	(0.2)	0.1	(415)	(0.5)	(68)	(0.1)	Below
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	1.9	4.1	(53)	3.9	(51)	2.3	Below, higher-than-expected opex
Tax	(0.7)	(0.6)	16	(0.8)	(10)	(0.5)	Above, higher-than-expected effective tax rate
Tax rate (%)	36.3	14.8		19.8		20.0	
Minority interests	(0.0)	(0.3)	(87)	(0.3)	(83)	(0.3)	
Net profit	1.2	3.1	(62)	2.9	(59)	1.6	Below
EPS (cts)	0.2	0.5	(67)	0.5	(64)	0.2	Below

Source: 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)	(480.8)	(505.4)	(555.5)
EBITDA	0.7	9.9	4.2	3.8	4.7
Depreciation & amortisation	(1.3)	(0.9)	(0.9)	(0.9)	(0.9)
EBIT	(0.7)	9.0	3.3	2.9	3.8
Net interest & invt income	3.0	(0.5)	2.2	3.6	4.0
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	5.2	6.6	7.8
Tax	(1.3)	(1.4)	(1.4)	(1.7)	(2.0)
Minority interests	(0.2)	(0.6)	(0.2)	(0.2)	(0.2)
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	14.0	14.0	14.0
Other long-term assets	15.0	17.1	17.1	17.1	17.1
Total non-current assets	32.9	33.0	37.0	36.8	36.6
Cash and equivalents	15.4	15.4	21.8	16.8	16.8
Stocks	65.8	40.7	49.0	53.3	58.1
Trade debtors	61.6	52.7	57.0	61.3	66.6
Other current assets	5.8	5.3	6.9	8.3	9.7
Total current assets	148.5	114.2	134.7	139.7	151.2
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	5.9	6.3	6.7
Total current liabilities	90.7	63.7	78.6	82.7	90.8
Long-term borrowings	10.2	2.0	4.9	2.5	2.8
Other long-term liabilities	0.5	0.5	0.1	0.1	0.1
Total long-term liabilities	10.7	2.5	4.9	2.6	2.9
Shareholders' funds	79.0	79.6	86.6	89.4	92.1
Minority interests	1.1	1.4	1.6	1.8	2.0
NTA/share (S\$)	0.11	0.11	0.10	0.10	0.11
Total Assets	181.4	147.2	171.7	176.5	187.7
Total Liabilities + S'holders' funds	181.4	147.2	171.7	176.5	187.7
Cash Flow (S\$ m, FYE Dec)	2007	2008	2009F	2010F	2011F
Pretax profit	8.8	8.0	5.2	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	5.5	(7.9)	(7.0)
Cash tax paid	(1.5)	(0.5)	(1.8)	(0.8)	(0.9)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	3.5	17.7	10.7	(0.3)	1.6
Capex	(0.8)	(0.3)	(5.6)	(0.4)	(0.4)
Net investments & sale of FA	19.1	(3.2)	(0.5)	0.0	0.0
Others	0.3	0.2	(0.4)	(0.6)	(0.3)
Cash flow from investing	18.5	(3.4)	(6.5)	(1.1)	(0.8)
Debt raised/(repaid)	(9.9)	(7.1)	(1.3)	(1.1)	2.8
Equity raised/(repaid)	7.3	0.0	6.3	0.0	0.0
Dividends paid	(7.1)	(3.2)	(2.0)	(2.0)	(3.0)
Cash interest & others	(9.8)	(4.0)	(0.8)	(0.5)	(0.7)
Cash flow from financing	(19.5)	(14.4)	2.3	(3.6)	(0.9)
Change in cash	2.5	(0.0)	6.4	(5.0)	(0.0)
Change in net cash/(debt)	12.4	7.1	7.7	(3.9)	(2.8)
Ending net cash/(debt)	(22.0)	(14.9)	(7.3)	(11.2)	(14.0)
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	(57.8)	(8.3)	23.2
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	5.5	6.9	7.3
Effective tax rates (%)	14.4	17.3	26.0	26.0	26.0
Net dividend payout (%)	165.6	58.1	54.3	43.0	54.0
Debtors turnover (days)	46.1	40.8	41.3	42.4	41.7
Stock turnover (days)	52.6	41.9	37.1	40.3	39.9
Creditors turnover (days)	38.7	30.0	29.1	35.6	34.8

Source: Company, NRA Capital Estimates

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