nra capital

Serial System Ltd

Company update

Overweight

Current Price **S$0.15**
27 April 2011

Fair Value S$0.20

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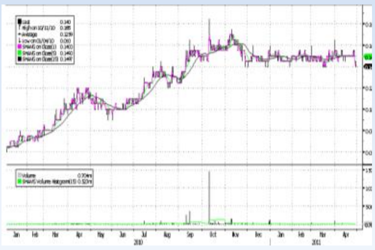
Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S$123.2m
52-HI	S$0.185
52-LOW	S$0.075
Avg Vol (1 yr)	3,903,874
Shares Outstanding	821.1m
Free Float	428.3m

Key Indicators

ROE 11F	13.9%
ROA 11F	5.0%
P/BK	1.25x
Net cash	0.44x

Major Shareholders

Derek Goh Bak Heng	26.3%
Goh Seng Hui	11.6%

Still aims for a billion revenue

On track to meet our 1H11 forecast. Management has reported unaudited 1Q11 number of S$3.2m net profit, which came in 45% of our 1H11 S$7.1m estimates. Traditionally, 1Q is the weaker quarter for Serial System due to the CNY festive season. Despite 1Q sales coming in only 19% of our full year estimates, we understand that management is still targeting to cross the one billion mark in sales for this year. Management believes it could achieve better economics of scale if the group can break through the one billion mark.

Unaudited management 1Q11 number

FYE Dec (S$ m)	1Q11	1Q10	yoy% chg	NRA estimates 1H11F	1H11F	% to our 1H11F	% to our FY11F
Revenue	189.8	182.3	*4.1*	465.5	542.0	41	19
Gross profit	17.1	16.6	*3.0*	41.9	48.8	41	19
GPM (%)	*9.0*	*9.1*		*9.0*	*9.0*		
EBITDA	5.5	5.7	*(3.5)*	14.0	13.1	39	20
EBITDA margins (%)	*2.9*	*3.1*		*3.0*	*2.4*		
Net profit	3.2	2.9	10.3	7.1	9.5	45	19

Source: Company, NRA Capital Estimates

Texas Instruments (TI) to buy Nat Semi. The group largest supplier, TI announced recently to buy National Semiconductor Corp for US$6.5bn, paying a hefty near 80% premium to merge two of the industry's oldest firms into a dominant force in analog microchips. Given that Serial System is a key distributor for TI in Asia, we believe Serial System would benefit by gaining more market share.

JEL Corporation potential acquisition. The group recently proposed S$8.5m for a 57.6% investment in JEL @ S$0.012 per share, satisfied by cash of S$3m and S$5.5m equivalent Serial's shares at an issue price not less than S$0.15 per share. We believe this is a positive move as Serial will be able to enhance its distribution channel as well as its product lines. JEL is a SGX mainboard listed established of IT, photographic and timepiece products with distribution networks spanning emerging market in Asia, which including the markets that Serial System is not there yet, such like Vietnam, Cambodia, Bangladesh and Middle East.

Maintain forecasts and Overweight call. We are projecting the sales will grow 35% yoy in FY11, which is higher than the estimate of 5% growth for Asia Pacific semiconductor revenue. Serial is confident to continue to outperform the industry given it has already secured more product line cards and increased its customer base from 4,030 in FY09 to 5,800 in FY10. Our fair value remains at S$0.20, still pegged on 10x PER FY11. Based on track record, we believe the group will continue to payout more than 40% of its net profit for dividend, which translates to 6% yield. Maintain **Overweight**.

Key Financial Data

(S$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Sales	556.5	746.2	1,007.5	1,108.3	1,219.2
Gross Profit	48.6	69.4	90.7	94.2	97.5
Net Profit	7.5	16.2	16.6	17.7	16.4
EPS (cents)	1.0	2.0	2.0	2.2	2.0
EPS growth (%)	7.2	90.7	2.6	6.7	(7.3)
PER (x)	14.5	7.6	7.4	7.0	7.5
NTA/share (cents)	10.9	12.0	12.8	14.1	15.2
DPS (cents)	0.5	1.0	0.9	1.0	0.9
Div Yield (%)	3.4	6.3	6.1	6.5	6.0

Source: Company, NRA Capital estimates

Profit & Loss (S$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Revenue	556.5	746.2	1,007.5	1,108.3	1,219.2
Operating expenses	(547.7)	(724.7)	(980.4)	(1,080.4)	(1,193.2)
EBITDA	8.8	21.6	27.1	27.9	26.0
Depreciation & amortisation	(1.6)	(2.4)	(2.4)	(2.4)	(2.4)
EBIT	7.2	19.2	24.7	25.5	23.6
Net interest & invt income	1.7	2.9	(0.9)	0.0	0.5
Associates' contribution	0.2	0.4	0.4	0.4	0.4
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	**9.1**	**22.4**	**24.2**	**25.9**	**24.4**
Tax	(1.3)	(4.9)	(5.8)	(6.2)	(5.9)
Minority interests	(0.4)	(1.3)	(1.8)	(2.0)	(2.2)
Net profit	**7.5**	**16.2**	**16.6**	**17.7**	**16.4**
Wt. shares (m)	724.1	821.1	821.1	821.1	821.1
Shares at year-end (m)	724.1	821.1	821.1	821.1	821.1

Balance Sheet (S$ m, as at Dec)	2009	2010	2011F	2012F	2013F
Fixed assets	6.0	15.0	17.2	18.3	19.5
Intangible assets	12.8	10.0	9.5	9.1	8.6
Other long-term assets	20.7	29.5	32.4	35.6	39.1
Total non-current assets	**39.5**	**54.6**	**59.1**	**63.0**	**67.2**
Cash and equivalents	20.7	31.3	40.9	40.5	42.3
Stocks	70.1	91.7	107.3	116.6	129.0
Trade debtors	63.7	93.0	117.5	126.8	139.5
Other current assets	6.4	7.8	9.0	10.4	12.1
Total current assets	**161.0**	**223.7**	**274.6**	**294.4**	**322.9**
Trade creditors	49.0	72.5	93.7	105.3	115.8
Short-term borrowings	44.3	68.5	90.7	88.7	97.5
Other current liabilities	11.0	14.4	14.1	14.9	15.3
Total current liabilities	**104.3**	**155.4**	**198.5**	**208.8**	**228.6**
Long-term borrowings	2.1	11.2	15.1	16.6	18.3
Other long-term liabilities	0.6	0.8	0.8	0.8	0.8
Total long-term liabilities	**2.7**	**12.0**	**15.9**	**17.5**	**19.1**
Shareholders' funds	**92.0**	**108.2**	**114.9**	**124.7**	**133.7**
Minority interests	1.6	2.7	4.4	6.4	8.6
NTA/share (S$)	0.11	0.12	0.13	0.14	0.15
Total Assets	**200.5**	**278.3**	**333.7**	**357.3**	**390.0**
Total Liabilities + S'holders' funds	**200.5**	**278.3**	**333.7**	**357.3**	**390.0**

Cash Flow (S$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Pretax profit	9.1	22.4	24.2	25.9	24.4
Depreciation & non-cash adjustments	5.9	6.6	1.8	3.8	4.2
Working capital changes	(16.7)	(36.2)	(22.4)	(10.8)	(18.8)
Cash tax paid	(2.1)	(1.1)	(4.5)	(3.6)	(3.8)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	**(3.7)**	**(8.3)**	**(0.8)**	**15.3**	**6.1**
Capex	(5.8)	(9.8)	(3.1)	(2.1)	(2.1)
Net investments & sale of FA	(4.0)	(5.2)	0.0	0.0	0.0
Others	(0.2)	(1.1)	(0.3)	(0.3)	(0.3)
Cash flow from investing	**(10.0)**	**(16.1)**	**(3.5)**	**(2.5)**	**(2.5)**
Debt raised/(repaid)	16.1	33.3	26.1	(0.5)	10.5
Equity raised/(repaid)	6.3	8.7	0.0	0.0	0.0
Dividends paid	(2.5)	(4.9)	(7.5)	(8.0)	(7.4)
Cash interest & others	(0.9)	(2.1)	(4.7)	(4.7)	(5.0)
Cash flow from financing	**19.1**	**35.0**	**13.9**	**(13.2)**	**(1.9)**
Change in cash	**5.4**	**10.6**	**9.6**	**(0.4)**	**1.7**
Change in net cash/(debt)	**(10.7)**	**(22.7)**	**(16.5)**	**0.1**	**(8.8)**
Ending net cash/(debt)	**(25.6)**	**(48.3)**	**(64.8)**	**(64.7)**	**(73.6)**

KEY RATIOS (FYE Dec)	2009	2010	2011F	2012F	2013F
Revenue growth (%)	9.0	34.1	35.0	10.0	10.0
EBITDA growth (%)	(11.4)	144.8	25.5	3.0	(6.7)
Pretax margins (%)	1.6	3.0	2.4	2.3	2.0
Net profit margins (%)	1.3	2.2	1.6	1.6	1.3
Interest cover (x)	5.2	18.6	12.0	9.2	8.7
Effective tax rates (%)	14.1	22.1	24.0	24.0	24.0
Net dividend payout (%)	49.5	48.2	45.0	45.0	45.0
Debtors turnover (days)	38.3	38.3	38.1	40.2	39.9
Stock turnover (days)	39.8	43.6	39.6	40.3	40.0
Creditors turnover (days)	24.7	29.7	30.1	32.8	33.1

Source: Company, NRA Capital Estimates

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