

Serial System Ltd

Company update

Overweight

Current Price **S\$0.128**
24 October 2011

Fair Value **S\$0.16**

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Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$115.9m
52-HI	S\$0.175
52-LOW	S\$0.123
Avg Vol (1 yr)	1,087,041
Shares Outstanding	906.5m
Free Float	505.4m

Key Indicators

ROE 11F	10.5%
ROA 11F	4.4%
P/BK	0.96x
Net cash	0.83x

Major Shareholders

Derek Goh Bak Heng	33.7%
Goh Seng Hui	10.5%

Attractive dividend yield expectation

Demand sliding... Despite 2H being a traditionally stronger period for semiconductor component distributors, Serial System has reported unaudited 9M11 number of S\$9.6m net profit (57% of our FY11 S\$16.8m estimates), which came in lower than our expectation. We believe the slowdown in demand was due to the economic malaise and fear of a double dip recession in the western countries.

...but is doing better than its rivals. Serial's Sing dollar sales increased by 3.7% yoy in 9M11 but recorded a 16% yoy in USD term. In contrast, the Asia Pacific Semiconductor revenue was grew only 5% yoy YTD in Aug-11, according to Semiconductor Industry Association.

Unaudited management 9M11 number			yoy% chg	Our estimates	
	FYE Dec (S\$ m)			FY11F	%
Revenue	586.7	566.0	3.7	858.2	68.4
Gross profit	54.1	54.4	(0.6)	77.2	70.0
GPM (%)	9.2	9.6		9.0	
EBITDA	18.0	19.3	(6.7)	22.3	80.9
EBITDA margins (%)	3.1	3.4		2.6	
Net profit	9.6	10.5	(8.6)	16.8	57.3

Source: Company, NRA Capital Estimates

Balance sheet remains comfortable. Due to higher working capital and expansion requirement, Serial's net gearing increased from 74% as at 1H11 to 83% as at end-Sep11. However, we believe net gearing will fell to around 70% if we including the TDR fund raising done early this month. To reward its shareholders, Serial has surprised with its announcement of a one-off **special interim dividend** of 0.16 cts, ex-date will be on 9 November 2011.

Sales growth is set to continue by gaining market share and diversification. Through its acquisition of Intraco Technology Pte Ltd in Apr-11 and the business of RSL Microelectronics Co Ltd's National Semiconductor division in Aug-11, management believes it can leverage the additional new product line from these two companies to its extensive distribution network in the Asia Pacific. In addition, other businesses such as media/hospitality solution distribution and medical device are also expected to grow steady.

Cutting forecasts but maintain Overweight. Given the weaker industry outlook, we have cut our FY11 and FY12 earnings by 16% and 5%, respectively. We also lowered our fair value from S\$0.18 to S\$0.16 after adjusted share dilution from the TDR, still pegged on 8x PER FY12. Based on its 5 years track record, we believe the group will continue to pay good dividend to reward shareholders. On our 55% payout ratio projection, yield translates to attractive 6.6%, maintain **Overweight**.

Key Financial Data

(S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Sales	556.5	746.2	813.5	911.9	985.8
Gross Profit	48.6	69.4	71.6	82.1	85.8
Net Profit	7.5	16.2	14.0	17.6	17.3
EPS (cents)	1.0	2.0	1.5	1.9	1.9
EPS growth (%)	7.2	90.7	(21.4)	25.5	(1.8)
PER (x)	12.4	6.5	8.3	6.6	6.7
NTA/share (cents)	10.9	12.0	13.3	14.3	15.3
DPS (cents)	0.5	0.9	0.9	1.0	1.0
Div Yield (%)	4.0	7.2	6.6	7.6	7.4

Source: Company, NRA Capital estimates

Profit & Loss (S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Revenue	556.5	746.2	813.5	911.9	985.8
Operating expenses	(547.7)	(724.7)	(794.6)	(886.3)	(960.3)
EBITDA	8.8	21.6	18.9	25.6	25.5
Depreciation & amortisation	(1.6)	(2.4)	(2.4)	(2.4)	(2.4)
EBIT	7.2	19.2	16.5	23.2	23.1
Net interest & invt income	1.7	2.9	2.2	0.7	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	19.0	24.3	24.0
Tax	(1.3)	(4.9)	(3.8)	(5.3)	(5.3)
Minority interests	(0.4)	(1.3)	(1.2)	(1.4)	(1.5)
Net profit	7.5	16.2	14.0	17.6	17.3
Wt. shares (m)	724.1	821.1	905.3	905.3	905.3
Shares at year-end (m)	724.1	821.1	905.3	905.3	905.3

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	49.2	41.0	31.8
Stocks	70.1	91.7	96.5	116.2	126.0
Trade debtors	63.7	93.0	107.4	120.4	130.1
Other current assets	6.4	7.8	9.0	10.4	12.1
Total current assets	161.0	223.7	262.1	287.9	300.1
Trade creditors	49.0	72.5	75.7	86.6	93.6
Short-term borrowings	44.3	68.5	85.4	91.2	88.7
Other current liabilities	11.0	14.4	13.1	14.4	15.0
Total current liabilities	104.3	155.4	174.2	192.3	197.4
Long-term borrowings	2.1	11.2	12.2	13.7	14.8
Other long-term liabilities	0.6	0.8	0.8	0.8	0.8
Total long-term liabilities	2.7	12.0	13.0	14.5	15.6
Shareholders' funds	92.0	108.2	130.1	138.9	147.5
Minority interests	1.6	2.7	3.9	5.3	6.7
NTA/share (S\$)	0.11	0.12	0.13	0.14	0.15
Total Assets	200.5	278.3	321.2	350.9	367.2
Total Liabilities + S'holders' funds	200.5	278.3	321.2	350.9	367.2

Cash Flow (S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Pretax profit	9.1	22.4	19.0	24.3	24.0
Depreciation & non-cash adjustments	5.9	6.6	5.8	4.2	3.8
Working capital changes	(16.7)	(36.2)	(19.2)	(25.4)	(16.5)
Cash tax paid	(2.1)	(1.1)	(4.5)	(2.6)	(3.4)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	(3.7)	(8.3)	1.1	0.4	8.0
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	17.9	7.2	(1.4)
Equity raised/(repaid)	6.3	8.7	14.5	0.0	0.0
Dividends paid	(2.5)	(4.9)	(7.7)	(8.8)	(8.6)
Cash interest & others	(0.9)	(2.1)	(4.5)	(4.7)	(4.7)
Cash flow from financing	19.1	35.0	20.2	(6.3)	(14.7)
Change in cash	5.4	10.6	17.9	(8.3)	(9.1)
Change in net cash/(debt)	(10.7)	(22.7)	(0.0)	(15.5)	(7.8)
Ending net cash/(debt)	(25.6)	(48.3)	(48.4)	(63.9)	(71.7)

KEY RATIOS (FYE Dec)	2009	2010	2011F	2012F	2013F
Revenue growth (%)	9.0	34.1	9.0	12.1	8.1
EBITDA growth (%)	(11.4)	144.8	(12.3)	35.4	(0.3)
Pretax margins (%)	1.6	3.0	2.3	2.7	2.4
Net profit margins (%)	1.3	2.2	1.7	1.9	1.8
Interest cover (x)	5.2	18.6	9.6	9.3	8.6
Effective tax rates (%)	14.1	22.1	20.0	22.0	22.0
Net dividend payout (%)	49.5	47.0	55.0	50.0	50.0
Debtors turnover (days)	38.3	38.3	44.9	45.6	46.4
Stock turnover (days)	39.8	43.6	46.3	46.8	49.1
Creditors turnover (days)	24.7	29.7	33.2	32.5	33.4

Source: Company, NRA Capital Estimates

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