

## Serial System Ltd

**12 March 2008**
*Investment gain*

Snapshot		P&L				Key ratios (FY08F)	
Recommendation	Speculative Buy	(Y/E Dec)	FY2006	FY2007	FY2008F	PER	7.0x
Current Price	S\$0.075	Revenue (S\$m)	364.4	476.2	547.6	P/BV	0.5x
Target Price	S\$0.105	Pretax	-4.1	8.8	8.0	ROE	7.9%
No of Shares	603.4m	Earnings	-5.0	7.3	6.5	Net gearing	22.6%
Market Cap	S\$45.3m	EPS (Scts)	-1.4	1.9	1.1	Current ratio	1.6x
Year Hi/Lo	S\$0.23/0.065	EPS growth (%)	n.m.	n.m.	-45		

*Source: SIAS Research, Bloomberg*

### FQ07 Results Update

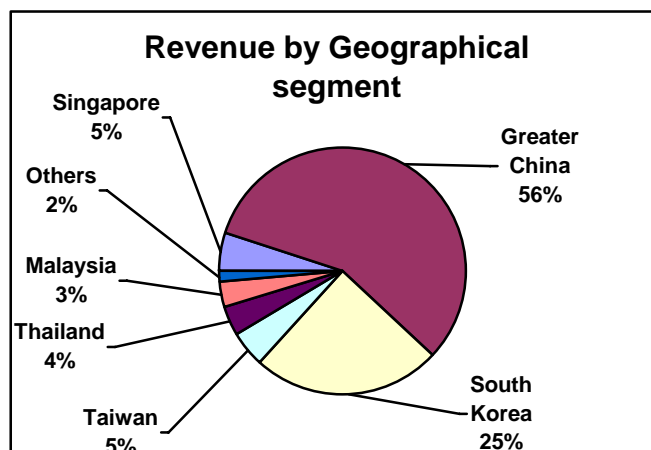
S\$m	FY07	FY06	% Chg
Revenue	476.2	364.4	31
Gross Profit	41.5	35.8	16
Net Profit	7.3	-5.0	n.m.
Gross Margin	8.7	9.8	-11.2
Net Margin	1.5	n.m.	n.m.

*n.m. = not meaningful*
*Source: Company, SIAS Research*

- FY07 net profit was \$7.3m compared with a loss of S\$5.0m the previous year. Other operating income was \$13.4m which includes \$7.1m gain from the sale of the 10.7% interest in Wintech Microelectronics and \$0.9m revaluation gain on investment properties. FY07 revenue rose 31% to \$476.2m mainly due to strong sales contribution from a new customer.
- The semiconductor / components distribution business generated \$476.1m in revenue. \$0.04m was from other businesses. Net profit from semiconductor / components distribution was \$0.2m.
- Serial System declared two interim dividend of 2.1 cts and 1.0 cts followed by a final dividend of 0.2 cent during the financial year.

### Business Outlook

- According to Fitch, the global semiconductor industry will grow in the low single-digit range in 2008.



- Serial System strategy is to focus on turnover growth, either organically or through acquisitions, to achieve higher economies of scale. Competition is expected to remain intense while rising costs will continue to affect margins and profitability.
- Serial System has been finding it tough to generate consistent profit from its core operating activities. Going forward, the business environment will remain tough.

### Valuation & Recommendation

- Forecast:** Given past trends, we expect further acquisitions and divestments this year. And we are forecasting a 15% growth in revenue. Inconsistent performances over past five years, receivables write-downs, gain from divestments and other non-recurring

items make it challenging to forecast earnings for Serial System.

- Nonetheless, if we assume other operating income to be half that in FY07, our net profit forecast would be S\$1.1m. Pegging other operating income to that of FY07, would result in FY08 net profit of S\$6.5m. Following expected revenue growth and FY07 acquisitions made below market value, therefore potential gains from divestments, we presume the second scenario to be more appropriate.
- **Recommendation:** We would value Serial System on a Price-to-Book (PB) basis due to inconsistency in and low quality of earnings. Its peers trade at a PB of 0.8x. Given potential shares dilution and/or decrease in equity, using 0.8x PB07, a discount to book value, is reasonable. This would value Serial System at 10.5 cts. Given this target price, we would rate Serial System a **Speculative Buy. (Johnny Kwon)**

### Peer comparison

Company	Price S\$	PE07	PE08	ROE	PB
NUCLEUS ELECTRONICS LTD	0.135	6.6	N.A	13.2	0.8
EXCELPOINT TECHNOLOGY LTD	0.09	25.9	N.A	2.7	0.7
ACHIEVA LTD	0.13	13.1	N.A	7.6	1.0
WILLAS-ARRAY ELECTRONICS	0.185	7.7	7.2	12.0	0.9
WESTECH ELECTRONICS LTD	0.23	3.7	3.5	18.5	0.7
UNIDUX ELECTRONICS LTD	0.07	15.9	N.A	3.8	0.6
<b>Average</b>		<b>12.2</b>	<b>5.4</b>	<b>9.6</b>	<b>0.8</b>

Source: Bloomberg

### Financial Table and Ratios

Year End December	FY05	FY06	FY07	FY08F
<b>Profit &amp; Loss (\$m)</b>				
Total income	303.7	364.4	476.2	547.6
Pretax	-5.1	-4.1	8.8	8.0
Earnings	-6.0	-5.0	7.3	6.5
EPS (weighted average – S cts)	-1.97	-1.36	1.94	1.07
EPS (fully diluted – S cts)	-1.92	-1.33	1.79	0.87
<b>Balance Sheet (\$m)</b>				
Long Term Assets	67.9	50.4	32.9	32.3
Current Assets	128.6	134.5	148.5	177.4
Current Liabilities	89.1	86.1	90.7	111.5
Long Term Liabilities	21.6	15.7	10.7	13.5
Total Equity	85.8	83.2	80.0	84.6
<b>Cash Flow (\$m)</b>				
Operating Cash Flow	-10.0	-11.9	3.5	3.2
Investing Cash Flow	-4.9	20.7	18.5	-0.2
Financing Cash Flow	21.4	-10.3	-14.1	4.6
Net Cash Increase/(Decrease)	6.4	-1.6	2.5	7.7
<b>Financial Ratios</b>				
Revenue Growth (%)	-3.2	20.0	30.7	15.0
Earnings Growth (%)	N.M	N.M	N.M.	-11.2
Gross Margin (%)	11.0	9.8	8.7	8.7
Net Margin (%)	-2.0	-1.4	1.5	1.2
Current Ratio (x)	1.4	1.6	1.6	1.6
Book value per share (S cts)	23.5	22.8	13.3	14.0
Net Debt / Equity (%)	46.7	41.3	27.5	22.6
Return on Equity (%)	-7.3	-5.9	8.9	7.9
Return on Asset (%)	-3.4	-2.6	4.0	3.3
<b>Valuations</b>				
Price to sales (x)	0.1	0.1	0.1	0.1
PER (x)	N.A	N.A	3.9	7.0
Price to book (x)	0.3	0.3	0.6	0.5

Source: Company, SIAS Research

### About the Company

Serial System started business as a distributor of electrical and electronics components in July 1988. It was incorporated on 22 April 1992 as a private limited company. In 1994, Serial System embarked aggressively beyond Singapore's shores to establish Serial System (Thailand), with Taiwan being included within the same year. By 1995, the Company was the appointed distributor for Texas Instruments in Taiwan and its locales. In recent years, it set up operations in Hong Kong and China. Its main business is the semiconductors/components distribution.

### Price–Volume Chart



Source: Bloomberg

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