

Serial System Ltd

14 August 2008

Profitable results maintained

Snapshot		P&L				Key Ratios (FY08F)	
Recommendation	Hold	(Y/E Dec)	FY2006	FY2007	FY2008F	PER	6.5x
Current Price	S\$0.07	Revenue (\$m)	364.4	476.2	547.6	P/BV	0.5x
Target Price	S\$0.08	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\$39.2m	EPS (Scts)	-1.4	1.9	1.1	Current	
Year Hi/Lo	S\$0.17/0.06	EPS growth (%)	n.m.	n.m.	-45	Ratio	1.6x

Source: SIAS Research, Bloomberg

1H08 Results Update

S\$m	1H08	1H07	% Chg	2H07
Revenue	258.5	217.9	18.6	258.2
Gross Profit	22.9	18.6	23.3	22.9
Net Profit	3.1	4.0	-21.9	3.3
Gross Margin	8.9	8.5	0.4*	8.9
Net Margin	1.2	1.8	-0.6*	1.3

*percentage points

Source: Company, SIAS Research

- 1H08 net profit decreased by 21.9% to \$3.1m on the back of an 18.6% rise in revenue to \$258.5m. In 1H07, the group had a \$7.1m one time gain on its sale of its interests in Wintech Microelectronics while there was no such gain in 1H08.
- The acquisition of Bull Will and increased stakes in several subsidiaries last year contributed to the expansion of product lines and range, new markets and customer base.
- The semiconductors/components distribution business had a net profit of \$3.1m as opposed to a net loss of \$3.3m in 1H07. This was due to the 0.4 percentage point increase in gross margin and higher sales. There was also lower provision for receivables and inventories write-down.
- Serial System declared an interim cash dividend of S\$ 0.33 cent per share.

Business Outlook

- The current state of the world economy is likely to affect the semiconductors and components distribution industry.
- Management expects competition to remain intense, if not growing, and maintenance of operating costs to be a challenge.
- Serial System will keep its focus on growing the top-line in order to achieve greater economies of scale in the razor-thin margin distribution business.

Valuation & Recommendation

- Serial System has been a regular participant in the capital market. We therefore expect the group to carry out more acquisitions and divestments.
- We maintain our previous forecast of a 15% growth in revenue. However, such expectation may be revised should there be any corporate action.
- Receivables write-downs, gain from divestments, other non-recurring items and irregular performances over the previous five years make it challenging to forecast earnings for Serial System.
- The lower provision for receivables and inventories in 1H08 does not imply 2H08 will also see low provisions. In fact, if there was an under-provision in 1H08, 2H08 bottom-line may then be negatively

impacted. Based on 1H08 results, Serial System FY08 net profit is on track to meet our forecast of \$6.5m.

- Willas Array and Westech are trading at 7.4 times and 2.0 times forward PE respectively. Serial System is trading at a

forward PE of 6.5 times. Its peers are trading at a PB of 0.6 times.

- Given earnings uncertainties, we would still use PB to value the counter. At 0.6 times PB, Serial System would be valued at 8 cents. **Hold. (SIAS Research)**

Peer comparison

Company	Price S\$	PE07	PE08	ROE	PB
EXCELPOINT TECHNOLOGY LTD	0.065	N.A	N.A	3.3	0.5
ACHIEVA LTD	0.125	12.6	N.A	7.6	0.9
WILLAS-ARRAY ELECTRONICS	0.16	6.0	7.4	12.5	0.7
WESTECH ELECTRONICS LTD	0.145	2.4	2.0	18.1	0.4
UNIDUX ELECTRONICS LTD	0.07	16.3	N.A	3.7	0.6
Average		9.3	4.7	9.0	0.6

Source: Bloomberg

Financial Table and Ratios

Year End December	FY05	FY06	FY07	FY08F
Profit & Loss (\$m)				
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
Balance Sheet (\$m)				
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
Cash Flow (\$m)				
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
Financial Ratios				
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
Valuations				
Price to sales (x)	0.1	0.1	0.1	0.1
PER (x)	N.A	N.A	3.6	6.5
Price to book (x)	0.3	0.3	0.5	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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