

## Serial System Ltd

7 November 2008

Snapshot		P&L				Key Ratios (FY08F)	
Recommendation	Hold	(Y/E Dec)	FY2006	FY2007	FY2008F	PER	4.4x
Current Price	S\$0.045	Revenue (S\$m)	364.4	476.2	547.6	P/BV	0.3x
Target Price	S\$0.045	Pretax	-4.1	8.8	7.7	ROE	7.5%
No of Shares	603.4m	Earnings	-5.0	7.3	6.2	Net Gearing	25.2%
Market Cap	S\$27.15m	EPS (Scts)	-1.4	1.9	1.0	Current	
Year Hi/Lo	S\$0.17/0.035	EPS growth (%)	n.m.	n.m.	-53	Ratio	1.6x

Source: SIAS Research, Bloomberg

### Company Update

- Serial System executed a sale and purchase agreement with Ultron Technologies to purchase its distribution business. Ultron Technologies principal business activities are the design, manufacture and distribution of electronic components.
- The distribution business being purchased is involved in selling products manufactured by Freescale Semiconductor and by Littelfuse. As part of the agreement, Serial System is also buying certain products, customer assignments and business backlogs.
- Serial System will fork out \$1.8m for the acquisition which is conditional on a series of criteria to be fulfilled before completion.
- 1H08 NTA was 11.27 cents per share. The proforma effect of the acquisition on NTA would have resulted in a drop in NTA to 11.17 cents per share given price paid is above book value of assets acquired.
- Contribution to future earnings will depend on actual operational execution. Through this purchase, Serial System is in fact buying the business contacts of Ultron Technologies and the goodwill relationship they have with customers of Freescale and Littelfuse products. Success will depend on these customers continuing business with Serial System.

### Review

- 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, net profit was \$4m and 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.
- Therefore, 1H08 actually did better than 1H07 if this one time gain was removed. On the other hand, 2H07 revenue was \$258.2m and net profit was \$3.3m.
- 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.

### Business Outlook

- The current state of the world economy is likely to affect the semiconductors and components distribution industry. Competition is very intense and proper management of operating costs will continue to remain the key to success.
- Serial System strategy is to focus on growing the top-line in order to achieve greater economies of scale in the razor-thin margin distribution business.

### Valuation & Recommendation

- Only time will tell how much would the proposed acquisition benefit Serial System. If current difficult market environment persists next year, Serial System may find it difficult especially given their tight net margin.
- Its peers are trading at a PE08 of 4.2 times and PB of 0.4 times. From this perspective, at a similar valuation, Serial System would be rated a **Hold** with target price of 4.5 cents. **(SIAS Research)**

### Peer comparison

Company	Price S\$	PE07	PE08	ROE	PB
EXCELPOINT TECHNOLOGY LTD	0.035	N.A	N.A	3.3	0.3
ACHIEVA LTD	0.095	9.6	N.A	7.6	0.71
WILLAS-ARRAY ELECTRONICS	0.10	3.5	6.6	12.5	0.43
WESTECH ELECTRONICS LTD	0.045	0.5	1.9	18.1	0.09
UNIDUX ELECTRONICS LTD	0.035	8.1	N.A	3.7	0.3
<b>Average</b>		<b>5.4</b>	<b>4.2</b>	<b>9.0</b>	<b>0.4</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	7.7
Earnings	-6.0	-5.0	7.3	6.2
EPS (weighted average – S cts)	-1.97	-1.36	1.94	1.03
EPS (fully diluted – S cts)	-1.92	-1.33	1.79	0.84
<b>Balance Sheet (\$m)</b>				
Long Term Assets	67.9	50.4	32.9	34.1
Current Assets	128.6	134.5	148.5	175.3
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	84.4
<b>Cash Flow (\$m)</b>				
Operating Cash Flow	-10.0	-11.9	3.5	3.0
Investing Cash Flow	-4.9	20.7	18.5	-2.0
Financing Cash Flow	21.4	-10.3	-14.1	4.6
Net Cash Increase/(Decrease)	6.4	-1.6	2.5	5.6
<b>Financial Ratios</b>				
Revenue Growth (%)	-3.2	20.0	30.7	15.0
Earnings Growth (%)	N.M	N.M	N.M.	-14.9
Gross Margin (%)	11.0	9.8	8.7	8.9
Net Margin (%)	-2.0	-1.4	1.5	1.1
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	25.2
Return on Equity (%)	-7.3	-5.9	8.9	7.5
Return on Asset (%)	-3.4	-2.6	4.0	3.2
<b>Valuations</b>				
Price to sales (x)	0.05	0.05	0.04	0.05
PER (x)	N.A	N.A	2.3	4.4
Price to book (x)	0.2	0.2	0.3	0.3

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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