

# Serial System

Reuters: SERL.SI  
Bloomberg: SERL SP

Sector: Technology

Rating:

Price S\$0.18

Maintain **Underperform**

Y/E 31-Dec	2002A	2003A	2004F	2005F
Net Profit (\$m)	-9.9	3.2	-0.4	1.1
EPS (S cent)	-3.3	1.1	-0.1	0.4
EPS Growth (%)	-	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>
Consensus EPS	-	-	0.5	1.0
PER (x) @ S\$0.18	-	17.1	-	51.4
NTA (S\$)	0.26	0.27	0.28	0.28

Performance (%)	1mth	3mth	12mth	Market Capitalisation :	S\$	47m
Absolute	-9	-33	-48	Issued Shares :		304m
Relative against STI	-13	-39	-65	30-day avg daily vol ('000) :		170

## Further details on 4Q losses

- Drop in contribution from Korean and HK
- Lower gross margins from core operation
- The situation was further aggravated by higher interest costs
- Retain UNDERPERFORM rating

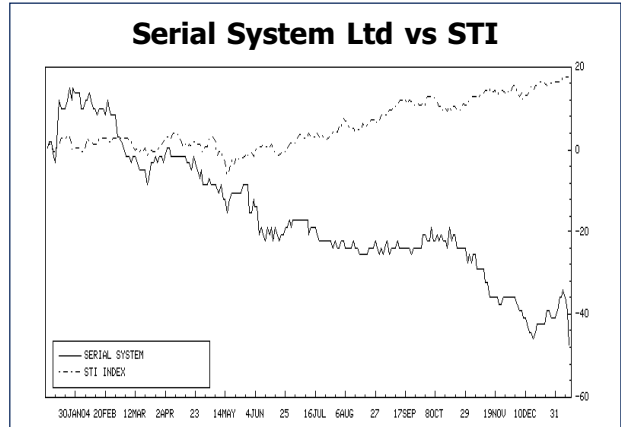
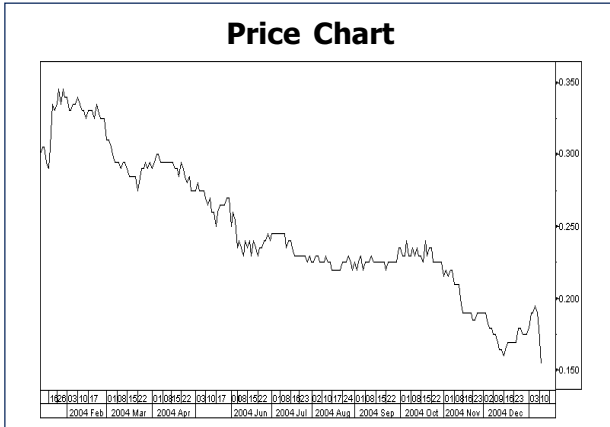
**Summary:** Further to the recent profit warning announcement of losses for 4Q04 and FY04, Serial has clarified that losses in 4Q04 were due to a reduction in profit contributions by a Korean and a Hong Kong subsidiary. In addition, it saw lower gross profit margins from its core semiconductors/components distribution business. On the financing side, higher interest costs from the financing of acquisitions of companies and working capital also drained the group. Following the earlier profit warning, we have cut FY04 estimate to a loss of S\$0.4m. The **UNDERPERFORM** rating for the stock stays.

**Some details on losses sustained in 4Q04.** Serial has provided some details on yesterday's profit

warning. It has clarified that losses in 4Q were due to a reduction in profit contributions by a Korean and a Hong Kong subsidiary. In addition, it saw lower gross profit margins from its semiconductors/components distribution business. On the financing side, higher interest costs from the financing of acquisitions of companies and working capital also drained the group.

While lower contribution from the semiconductor business is probable in view of lower semiconductor growth, especially in the later part of 2004 due to the accumulation of inventory in the semiconductor supply chain, it is still surprising to see the group plunging into two consecutive quarters of losses.

**Valuation.** As mentioned yesterday, we believe that with recent losses and profit warning, sentiment for the stock is likely stay weak for a protracted period of time. To bring FY04 into the red, losses in 4Q must have exceeded S\$1.23m. We are now projecting losses of S\$1.63m for 4Q04, giving FY04 loss of S\$0.4m. We retain the **UNDERPERFORM** rating on the stock.



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