OCBC Investment Research

SINGAPORE **Company Update**

MITA No. 131/07/2004

2 March 2005

Serial System

Reuters: SERL.SI
Bloomberg: SERL SP

Sector: Technology

Price S$0.14

Rating:

Maintain **Underperform**

Y/E 31-Dec	**2003A**	**2004A**	**2005F**	**2006F**
Net Profit (S$m)	3.2	-4.0	-1.8	0.4
EPS (S cent)	1.1	-1.3	-0.6	0.1
EPS Growth (%)	-	*n.m.*	*n.m.*	*n.m.*
Consensus EPS	-	-	1.0	0.5
PER (x) @ S$0.14	13.3	-	-	107.7
NTA (S$)	0.28	0.26	0.25	0.25

Performance (%)	**1mth**	**3mth**	**12mth**
Absolute	-15	-26	-55
Relative against STI	-17	-30	-71

Market Capitalisation :	S$	43m
Issued Shares :		304m
30-day avg daily vol ('000) :		129

Huge losses in 4Q

- **FY04 loss of S$4.0m**
- **Two consecutive quarters of losses now**
- **Lack of earnings visibility**
- **Expecting further losses in FY05**

Summary: As expected and warned, Serial System plunged into the red with a net loss of S$4.0m in FY04 from a profit of S$3.2m in FY03. This is after having returned to the black in 2003. Based on FY04 figures, this implies losses of S$5.2m in 4Q FY03, substantially higher than 3Q FY04 losses of S$1.55m. While revenue fell 3.4% YoY to S$313.6m, gross profit grew a modest 1.3% to S$30.7m. However, operating expenses surged 32% YoY to S$41.5m, plunging the group into an operating loss of S$4.4m versus an operating profit of S$3.2m in FY03. Other operating expenses jumped 56% YoY due to provisions for obsolescence and doubtful trade debts and other items. In a generally disappointing set of results, a minor positive was that associates contribution managed a 13% increase to S$5.0m. There is limited visibility to its earnings as its operating environment in the semiconductor/components distribution business remains competitive. The **UNDERPERFORM** rating for Serial System stays.

Serial System Year Ended 31 Dec	**FY03 (S$m)**	**FY04 (S$m)**	**Chg (%)**
Turnover	**324.8**	**313.6**	-3.0
Cost of sales	-294.5	-282.9	-4.0
Gross profit/loss	**30.4**	**30.7**	1.0
Other operating income	4.3	6.4	46.0
Distribution & admin expenses	-19.4	-22.6	16.0
Other operating expenses	-12.1	-18.9	56.0
Profits from operation	**3.2**	**-4.3**	-234.0
Finance cost	-0.4	-1.6	365.0
Associates	4.4	5.0	13.0
Pre-tax profit	**7.3**	**-1.0**	-114.0
Net profit	**3.2**	**-4.0**	-226.0
EPS (cts)	1.1	-1.3	-226.0
NAV (cts)	27.8	26.1	-6.0
Gross margin (%)	9.3	9.8	
Operating margin (%)	1.0	-1.4	
Pretax margin (%)	2.2	-0.3	
Net profit margin (%)	1.0	-1.3	

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4Q FY04 losses swelled to S$5.2m. As expected and warned, Serial System plunged into the red with a net loss of S$4.0m in FY04 from a profit of S$3.2m in FY03. This is after having returned to the black in 2003. Based on FY04 figures, this implies losses of S$5.2m in 4Q FY03, substantially higher than 3Q FY04 losses of S$1.6m.

For the semiconductor/components distribution business, revenue fell due to a Hong Kong subsidiary, which saw a decline in turnover. Its consumer digital and other businesses saw a 71% YoY decline in turnover to S$4.3m. As a result of this, group revenue fell 3.4% YoY to S$313.6m. Gross profit grew a modest 1.3% to S$30.7m. However, operating expenses surged 32% YoY to S$41.5m, plunging the group into operating loss of S$4.4m versus an operating profit of S$3.2m in FY03.

Other operating income rose 46% to S$6.4m due to commission income from two subsidiaries, Sangsoo Co and Unitron Tech, which came into its fold in 1Q 2004. However, administrative expenses rose 78% to S$6.0m, also due to additional costs following the acquisitions of Sangsoo and Unitron. Other operating expenses jumped 56% YoY due to provisions for obsolescence and doubtful trade debts as well as other cost items. Financing expenses surged from less than S$0.5m to S$1.8m due to financing for the acquisitions of Sangsoo and Unitron as well as the acquisition of a leasehold property.

In a generally disappointing set of results, a minor positive was that associates contribution managed a 13% increase to S$5.0m.

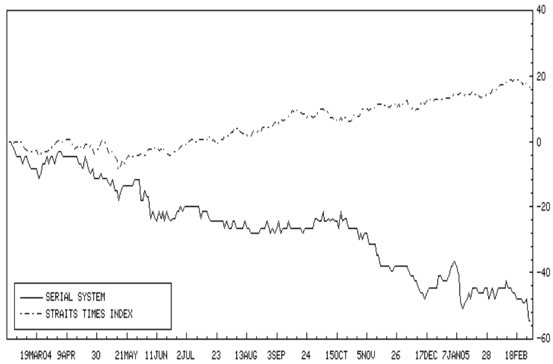
Management has declared a final dividend of 0.25 cent versus 0.4 cent in FY03. EPS fell from 1.05 cents in FY03 to a loss of 1.32 cents in FY04. Net asset backing stood at 26.13 cents as at end 2004.

Valuation and outlook. There is limited visibility to its earnings, as its operating environment in the semiconductor/components distribution business remains competitive. In addition, with the recent spate of negative developments from the company (including the recent profit warnings and the sharper-than-expected 4Q losses), sentiment towards the stock is likely to stay weak. We believe the depressed share price is likely to stay for a protracted period of time unless there is a convincing pick-up or turnaround in its operations.

With the disappointing FY04 performance and the limited earnings visibility, we have cut our FY05 estimate from a profit of S$1m to a loss of S$1.8m. The **UNDERPERFORM** rating for Serial System stays.

Price Chart

Serial System Ltd vs STI



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