

# Serial System Ltd

Reuters: SERL.SI  
Bloomberg: SERL.SP

Sector: Technology

Rating:

Price S\$0.22

Maintain **Market Perform**

Y/E 31-Dec	2002A	2003A	2004F	2005F
Net Profit (S\$m)	-9.9	3.2	4.6	6.5
EPS (S cent)	-3.3	1.1	1.5	2.2
EPS Growth (%)	-	<i>n.m.</i>	+45	+41
Consensus EPS	-	-	1.5	2.2
PER (x) @ S\$0.22	-	21.0	14.5	10.2
NTA (S\$)	0.26	0.27	0.30	0.31

Performance (%)	1mth	3mth	12mth	Market Capitalisation :	S\$	62m
Absolute	-4	-2	-24	Issued Shares :		304m
Relative against STI	-5	-8	-41	30-day avg daily vol ('000) :		149

## Secured in-principle approval for issuance of warrants

- Secured in-principle approval for issue of warrants
- Maximum issue of 78.99m shares
- If fully converted, will result in 26% increase in share cap
- No near term price drivers
- Maintain MARKET PERFORM rating

**Summary:** The Singapore Exchange has given its in-principle approval for Serial's application for the listing and quotation of a maximum of 78.99m warrants at an issue price of S\$0.045 for each warrant. Each warrant will carry the right to one share at an exercise price of S\$0.14. One warrant will be given for every four existing ordinary shares held at a date to be determined later. Meanwhile, the in-principle approval is subject to shareholders' approval at an extraordinary general meeting. At the current price of 22 cents, the stock is trading at 14.5x FY04 earnings and 10.2x FY05 earnings. We are retaining our **MARKET PERFORM** rating on the stock.

**Secured in-principle approval.** The Singapore Exchange has given its in-principle approval for Serial's application for the listing and quotation of a minimum of 75.91m and a maximum of 78.99m warrants at an

issue price of S\$0.045 for each warrant. Each warrant will carry the right to one share at an exercise price of S\$0.14. One warrant will be given for every four existing ordinary shares held at a date to be determined later. Meanwhile, the in-principle approval is subject to shareholders' approval at an extraordinary general meeting and "submission of a confirmation from a financial institution that Dr Derek Goh Bak Heng has sufficient financial resources to fulfil his obligations under his irrevocable undertaking" among other requirements.

In September 2004, Serial System proposed a renounceable rights issue of warrants together with a S\$25m transferable loan facility. The warrants segment will involve the issue of up to 78.99m warrants. If fully exercised, this will result in 78.99m new shares or about 26% of its existing issued and paid-up share capital.

**Theoretical ex-price.** The sum total of the issue price (4.5 cents) and the exercise price (14 cents) gives a total of 18.5 cents or a discount of approximately 15.9% to the last traded price of 22 cents. However, based on the current price of 22 cents, the calculated theoretical ex-price is around 18.5 cents.

**Use of the TLF.** Together with the warrant issue is a S\$25m transferable loan facility (TLF) agreement. The amount drawn down under the TLF is to be repaid in instalments over a period of four years from the drawdown date. The company is using about S\$11.0m for repayment of existing bank borrowings and S\$14.0m to finance overseas expansion and investment in its operations. Gearing as of its half-year results was 0.6x with short-term and long-term borrowings totalling about S\$52m.

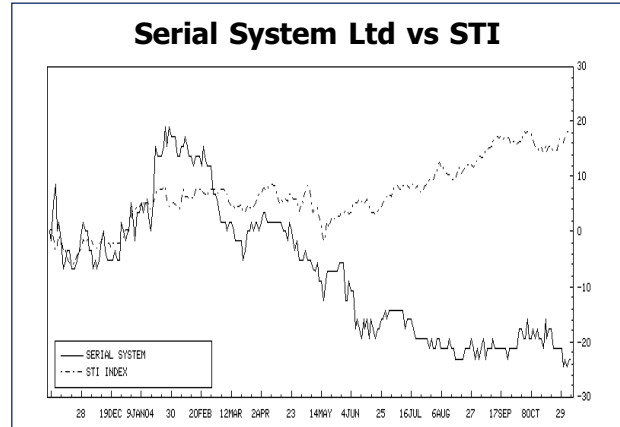
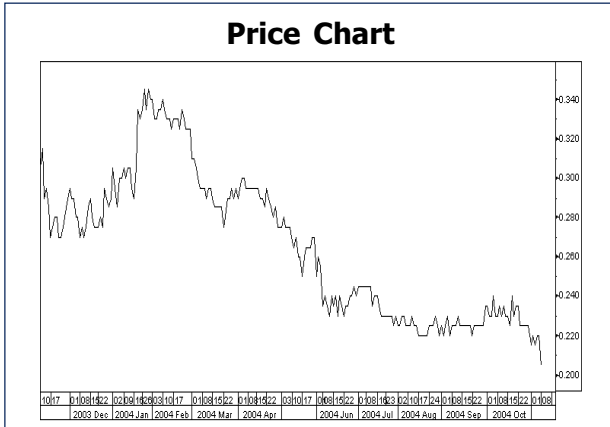
**Comment.** Since our result note dated 12 Aug 2004, the stock has hardly moved and is down 0.5 cents from then to 22 cents currently. We do not see any near term price drivers for the stock. At the current price of 22 cents, the stock is trading at 14.5x FY04 earnings and 10.2x FY05 earnings. Valuations are fair and we are retaining our **MARKET PERFORM** rating on the stock

**SUMMARY BALANCE SHEET**

As at 31 Dec (S\$m)	FY02A	FY03A	FY04F	FY05F
Share capital	30.2	30.3	30.3	30.3
Reserves	51.7	53.8	59.0	64.3
Shareholders' Funds	81.8	84.1	89.3	94.6
Fixed assets	54.3	58.1	74.1	83.5
Current assets	78.2	87.5	124.6	117.5
Current liabilities	49.6	58.9	102.5	103.4
Long-term liabilities	1.0	2.7	6.9	3.0
Assets less Liabilities	81.8	84.0	89.3	94.6

**SUMMARY CASH FLOW**

Year Ended 31 Dec (S\$m)	FY02A	FY03A	FY04F	FY05F
Pretax profits	-12.3	2.9	3.9	6.6
Depreciation	1.4	1.0	1.2	1.2
Others	2.5	1.7	3.2	3.5
Changes in working capital	-0.8	-7.5	-30.7	0.8
Operating cash flow	-9.2	-2.0	-22.5	12.2
Net cash from operating activities	-10.1	-3.8	-25.5	7.9
Net cash used in investing activities	-5.1	-8.7	-9.0	-6.3
Cash flow from financing activities	6.6	13.7	26.4	6.2
Change in cash/(debt)	-8.7	1.2	-8.2	7.8
End cash/(debt)	11.0	12.2	4.0	11.8



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