

Analyse this...

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Serial System Ltd

Boosted by fair value gains on investment properties

 SERL SP
BUY; TP: S\$0.24

 Price @25/2/11: S\$0.145
52-week range (SGD): 0.08 – 0.17
Market cap – S\$119.1m

Cautiously optimistic on FY11

- Upgrade to BUY, target price S\$0.24 (8.3x CY12 P/E) based on 10% discount to WPG's 5 year historical forward P/E of 9.24x. We believe this is generous given that US peers are trading at an average 7.6x CY12 earnings while WPG itself is trading at 8.6x CY12 P/E.
- Assuming the rejected 90m TDRs are approve in FY11, target price falls to S\$.225.
- FY10 sales grew 34% yoy and net profit grew 116% yoy.
- At S\$0.145, historical P/E is 6.7x, historical P/BV is 1.1x. Full year dividend yield is 6.6%. Proposed final DPS is 0.67cts. Net gearing stands at 0.45x.

Strong FY10 as expected

	FY10	FY09	% chg yoy
Sales (\$ mil)	746.2	556.5	34.1
Gross profit (\$ mil)	69.4	48.6	42.8
Operating profit (\$ mil)	22.1	9.0	146.4
Net profit (\$ mil)	16.2	7.5	116.2
			yoy chg (ppts)
Gross profit margin (%)	9.3	8.7	0.6
Operating profit margin (%)	3.0	1.6	1.3
Net profit margin (%)	2.2	1.3	0.8
EPS (\$ cts)	2.2	1.1	96.4
Net asset value per share (\$ cts)	13.5	12.9	4.7
Current ratio (x)	1.4	1.5	
Quick ratio (x)	0.9	0.9	
ROE (%)	8.7	16.2	
Average receivables days	41	42	
Average inventory days	44	40	
Average payables days	36	31	
Cash cycle (days)	49	50	

Source: Company, CIMB Research

About Serial System

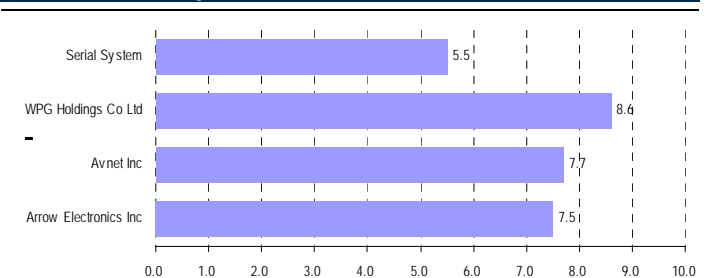
- Serial System was established in Singapore in 1988 as a distributor of semiconductors and electronic components in the Asia Pacific region, offering design support, materials planning, inventory management, programming and assembly services.
- The Group also provides technology solutions and aims to add value to its customers with turnkey design, warehousing and logistics services. Products distributed by Serial System are used in the semiconductor, medical, automotive, office automation, telecommunications and consumer electronics industries.
- Serial System has an established presence in key Asian markets such as China, Hong Kong, Malaysia, Korea, Taiwan, Thailand, Philippines, India and Vietnam.

Financial analysis

FYE Dec	2009	2010	2011F	2012F	2013F
Revenue (\$ m)	556.5	746.2	905.2	1,041.0	1,197.1
yoy growth (%)	9.0	34.1	21.3	15.0	15.0
EBITDA (\$ m)	10.2	24.2	32.2	39.1	45.6
EBITDA margins (%)	1.8	3.2	3.6	3.8	3.8
Pretax profit (\$ m)	9.1	22.4	29.3	35.3	41.4
Net profit (\$ m)	7.5	16.2	20.4	24.1	28.7
yoy growth (%)	24.1	116.4	26.3	18.0	18.8
EPS (\$ cts)	1.1	2.2	2.5	2.9	3.5
EPS growth (%)	11.3	96.0	14.3	18.0	18.8
P/E (x)	13.0	6.7	5.8	4.9	4.2
Gross DPS (\$ cts)	0.51	0.95	1.24	1.47	1.75
Dividend yield (%)	3.5	6.6	8.6	10.1	12.0
P/NTA (x)	1.3	1.2	1.1	1.0	0.9
NTA/sh (\$ cts)	10.9	12.0	12.8	14.3	16.0
BVPS (\$ cts)	12.7	13.2	13.8	15.3	17.0
ROE (%)	8.7	16.2	18.4	20.2	21.6
Net gearing (%)	27.8	44.7	67.6	67.5	66.3
Net cash per share (\$ cts)	net gearing	net gearing	net gearing	net gearing	net gearing
P/CF (x)	11.4	6.3	5.1	4.6	3.9
EV/EBITDA (x)	16.1	6.8	5.1	4.2	3.6

Source: Company, CIMB Research

CY12 P/E comparison



Source: Company, CIMB Research

Peer valuation

	Mkt cap (US\$ m)	Core P/E (x)	PIBV (x)	ROE (%)	Div yield (%)
		CY11	CY12	CY11	CY11
Arrow Electronics Inc	4,525	8.2	7.5	1.2	15.7
Avnet Inc	5,265.9	8.3	7.7	1.3	17.8
US peer average		8.2	7.6	1.3	16.7
WPG Holdings Co Ltd	1,810	10.7	8.6	1.9	20.3
Taiwanese peer average		10.7	8.6	1.9	20.3
Sector average		9.0	7.9	1.5	17.9

Source: Company, CIMB Research

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SELL: The stock's total return is expected to be -15% or worse over the next three months.

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