

7 July 2006

Update

## SERIAL SYSTEM

Proposed Capital Reduction And Selling Its Stake In Wintech

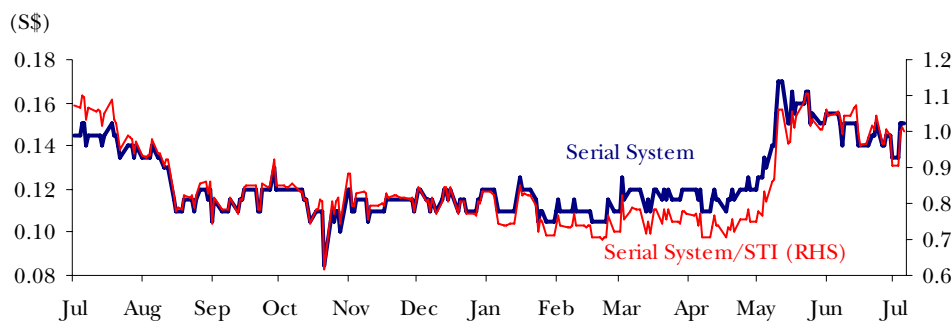
**HOLD** | **S\$0.15**

**Capital reduction to write off S\$21.8m of accumulated losses.** Serial System has proposed a capital reduction exercise to write off its accumulated losses of S\$21.8m. These were attributable to provisions for impairment of investment in certain subsidiaries and provisions for inter-company receivables from these subsidiaries. Provisions made were due to losses in the consumer digital appliances, information technology solutions and investment holding businesses.

**No impact on earnings.** The capital reduction exercise will not affect Serial's earnings, NTA and gearing. No capital will be returned to shareholders and the number of shares held by shareholders after the exercise will remain the same.

**Proposed disposal of Wintech to fund expansion plans and to pare down debt.** Serial also proposed to sell its 21% stake in Wintech Microelectronics. Proceeds are intended to: a) fund its expansion plans in China, Hong Kong, Taiwan and South Korea, b) repay bank borrowings and for working capital, and c) fund any potential acquisitions or new venture opportunities.

**No near-term catalyst but undemanding valuation of 0.7x P/B likely to limit downside.** While management is fairly confident that sales are likely to rebound in FY06, stemming largely from stronger demand in China, we believe the Group will at best breakeven in FY06. The share price is likely to stay depressed for a protracted period but its undemanding valuation of 0.7x P/B is likely to limit any downside. Maintain HOLD.



**Sector** Technology  
**Bloomberg** SERL SP  
**Website** www.serialsystem.com.sg

**Exchange Rate** S\$1.5824/US\$

**52-Wk Range (S\$)** 0.17/0.085  
**52-Wk Avg Daily Vol. ('000)** 117

**No. of Shares (m)** 364.7  
**Market Cap (S\$m)** 54.7  
**(US\$m)** 34.6

**Major Shareholders (%)**  
Derek Goh Bak Heng 18.8  
Goi Seng Hui 11.6

**Book NTA per Share (S\$)** 0.20  
**ROE (%)** (7.6)  
**Net Debt per Share (S\$)** 0.09

#### Alternate Instruments

Serial System 090206; Ex-Pr: \$0.12

#### Results Due

1Q: n.a 1H: Aug  
3Q: n.a Final: Feb

#### Market PE - STI (x)

2005 12.3  
2006F 14.6

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Year to 31 Dec	Turnover (S\$m)	EBITDA (S\$m)	Net Profit (S\$m)	EPS (¢)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (¢)
2004	313.6	(2.5)	(4.0)	(1.32)	n.a.	n.a.	n.a.	0.3
2005	303.7	(1.3)	(6.0)	(1.97)	n.a.	n.a.	n.a.	0.0
2006F	332.1	4.6	(0.0)	0.00	n.a.	n.a.	19.2	0.0
2007F	348.7	4.6	0.6	0.15	n.a.	96.9	19.3	0.0
2008F	366.1	5.7	1.7	0.46	196.1	32.7	15.5	0.0

Consensus net profit – n.a.

**Figure 1: Impact On NTA For FY05 (assuming disposal effected on 1 Jan 05)**

	Before the Disposal	After the Disposal
NTA excluding investment in Wintech	S\$41.4m	S\$76.3m
Investment in Wintech	S\$34.9m	-
NTA	S\$76.3m	S\$76.3m
No. of Shares as at 31 Dec 05	364.7m	364.7m
NTA per Share (cents)	20.9	20.9

Source: Serial System

**Figure 2: Impact On EPS For FY05 (assuming disposal effected on 1 Jan 05)**

	Before the Disposal	After the Disposal
Consolidated loss after taxation and minority interests but before share of profit after tax of Wintech and loss on dilution of interest in Wintech	(S\$6.7m)	(S\$6.7m)
Share of profit after tax of Wintech	S\$1.1m	-
Loss on dilution of interest in Wintech	(S\$0.4m)	-
Consolidated loss after taxation and minority interests	(S\$6.0m)	(S\$6.7m)
EPS (cents)	(1.97)	(2.19)

Source: Serial System

**Figure 3: Impact On Gearing For FY05 (assuming disposal effected on 1 Jan 05)**

	Before the Disposal	After the Disposal
Total borrowings	S\$54.6m	S\$54.6m
Shareholders' funds excluding investment in Wintech	S\$50.9m	S\$85.8m
Investment in Wintech	S\$34.9m	-
Shareholders' funds	S\$85.8m	S\$85.8m
Gearing ratio (times)	0.64	0.64

Source: Serial System

**Figure 4: Profit & Loss**

Year to 31 Dec (\$m)	2004	2005	2006F	2007F	2008F
<b>Sales</b>	<b>313.6</b>	<b>303.7</b>	<b>332.1</b>	<b>348.7</b>	<b>366.1</b>
Cost of Sales	(282.9)	(270.2)	(295.6)	(310.3)	(325.9)
Gross Profit	30.7	33.5	36.5	38.4	40.3
Other Operating Income	6.9	4.1	4.1	4.0	4.0
Distribution Costs	(16.5)	(20.8)	(19.9)	(20.9)	(22.0)
Administrative Expenses	(6.0)	(5.4)	(6.0)	(6.3)	(6.6)
Other Operating Expenses	(19.6)	(15.4)	(14.9)	(15.0)	(14.6)
Net Finance Costs	(1.6)	(2.4)	(2.3)	(2.1)	(1.9)
<b>Pre-tax Profit</b>	<b>(1.9)</b>	<b>(5.1)</b>	<b>(0.0)</b>	<b>0.6</b>	<b>1.7</b>
Taxation	(2.0)	(0.9)	0.0	0.0	0.0
Profit After Tax	(3.9)	(6.0)	(0.0)	0.6	1.7
Minority Interests	(0.1)	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>(3.9)</b>	<b>(6.0)</b>	<b>0.0</b>	<b>0.6</b>	<b>1.7</b>

Source: Serial System, UOB Kay Hian

**Figure 5: Balance Sheet**

Year to 31 Dec (\$m)	2004	2005	2006F	2007F	2008F
<b>Non-Current Assets</b>	<b>69.5</b>	<b>67.9</b>	<b>66.4</b>	<b>65.3</b>	<b>64.2</b>
Property, Plant & Equipment	19.6	17.1	16.3	16.2	16.5
Intangible Assets	12.8	9.5	11.5	12.1	12.7
Investment In Associate Company	34.4	38.1	35.5	34.0	32.0
Others	2.8	3.1	3.0	3.0	3.0
<b>Current Assets</b>	<b>83.2</b>	<b>127.9</b>	<b>128.3</b>	<b>138.4</b>	<b>147.3</b>
Stocks	36.2	49.8	44.4	46.6	48.9
Trade and Other Receivables	37.4	62.2	59.8	62.8	65.9
Cash & Equivalents	9.2	14.5	20.0	25.0	30.5
Others	0.4	1.4	4.1	4.1	2.0
<b>Current Liabilities</b>	<b>70.7</b>	<b>88.5</b>	<b>78.9</b>	<b>81.3</b>	<b>86.6</b>
Borrowings	39.7	34.0	34.7	35.0	38.0
Trade and Other Payables	29.7	53.7	43.0	45.1	47.4
Current Tax Liabilities	1.3	0.7	1.2	1.2	1.2
<b>Non-Current Liabilities</b>	<b>2.6</b>	<b>21.6</b>	<b>21.3</b>	<b>21.3</b>	<b>21.3</b>
Borrowings	0.9	19.9	19.9	19.9	19.9
Deferred Tax Liabilities	1.0	1.0	1.0	1.0	1.0
Others	0.7	0.6	0.4	0.4	0.4
<b>Shareholders' Funds</b>	<b>75.4</b>	<b>81.5</b>	<b>90.5</b>	<b>95.1</b>	<b>99.6</b>
Share Capital	30.4	36.5	38.0	40.0	42.0
Share Premium	49.1	50.0	50.0	50.0	50.0
Others	(4.1)	(5.0)	2.5	5.1	7.6
Minority Interests	3.9	4.3	3.9	6.0	4.0
<b>Total Equity</b>	<b>79.4</b>	<b>85.8</b>	<b>94.4</b>	<b>101.1</b>	<b>103.6</b>

Source: Serial System, UOB Kay Hian

Figure 6: Cash Flow

Year to 31 Dec (S\$m)	2004	2005	2006F	2007F	2008F
<b>Operating</b>	<b>(6.9)</b>	<b>(9.6)</b>	<b>5.8</b>	<b>6.0</b>	<b>7.4</b>
Pretax Profit	(6.1)	(6.4)	(0.0)	0.6	1.7
Depreciation & Amortisation	1.5	1.8	1.8	1.6	1.7
Working Capital Changes	(8.4)	(12.5)	(2.9)	(3.1)	(3.2)
Income Tax Paid	(2.6)	(1.6)	0.0	0.0	0.0
<b>Investing</b>	<b>(9.4)</b>	<b>(4.8)</b>	<b>(3.0)</b>	<b>(3.5)</b>	<b>(4.1)</b>
Capex	(7.8)	(0.5)	(1.0)	(1.5)	(2.0)
Proceeds from Sale of Plant And Equipment	0.5	0.1	0.2	0.4	0.6
Others	(2.1)	(4.3)	(2.2)	(2.4)	(2.7)
<b>Financing</b>	<b>12.2</b>	<b>20.7</b>	<b>2.8</b>	<b>2.5</b>	<b>2.3</b>
Net Borrowings	14.9	(6.5)	5.0	5.0	5.0
Dividends Paid	(1.0)	(0.6)	(1.0)	(1.3)	(1.5)
Others	(1.6)	27.9	(1.2)	(1.2)	(1.2)
<b>Net Cash Inflow/(Outflow)</b>	<b>(4.1)</b>	<b>6.3</b>	<b>5.5</b>	<b>5.0</b>	<b>5.5</b>
<b>Cash &amp; Cash Equivalent at Start of Year</b>	<b>12.2</b>	<b>8.2</b>	<b>14.5</b>	<b>20.0</b>	<b>25.0</b>
<b>Cash &amp; Cash Equivalent at End of Year</b>	<b>8.2</b>	<b>14.5</b>	<b>20.0</b>	<b>25.0</b>	<b>30.5</b>

Source: Serial System, UOB Kay Hian

Figure 7: Ratios

Year to 31 Dec (%)	2004	2005	2006F	2007F	2008F
<b>Growth</b>					
Sales	(3.4)	(3.2)	9.3	5.0	5.0
EBITDA	n.m	(47.6)	n.m	(0.4)	24.2
Pre-tax Profit	n.m	(163.2)	99.7	n.m	196.1
Net Profit	n.m	(52.9)	99.7	n.m	196.1
EPS	41.1	(40.9)	99.7	n.m	196.1
<b>Profitability (%)</b>					
EBITDA Margin	(0.8)	(0.4)	1.4	1.3	1.5
Pretax Margin	(0.6)	(1.7)	(0.0)	0.2	0.5
Net Margin	(1.2)	(2.0)	(0.0)	0.2	0.5
ROA	(2.6)	(3.1)	(0.0)	0.3	0.8
ROE	(4.9)	(7.0)	(0.0)	0.6	1.6
<b>Leverage (%)</b>					
Long-Term Debt/Equity	1.2	24.5	22.0	21.0	20.0
Total Debt/Total Assets	26.6	27.6	28.1	27.0	27.4
Total Debt/Equity	53.8	66.2	60.4	57.8	58.2
Net Debt (Cash)/Equity	41.7	48.4	38.2	31.5	27.5
Interest Cover (x)	(2.5)	(1.5)	(0.1)	0.1	0.5
<b>Working Capital Management (Days)</b>					
Debtors' Turnover	44	75	66	66	66
Creditors' Turnover	35	65	47	47	47
Inventory Turnover	47	67	55	55	55

Source: Serial System, UOB Kay Hian

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