

29 November 2006

Update

SERIAL SYSTEM

Potential Losses From Provision For Bad Debts

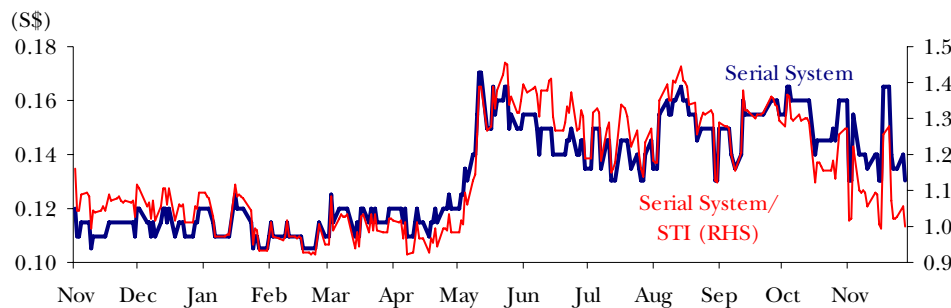
HOLD | S\$0.13

**Profit warning.** Customer Vitelcom System has informed Serial System that it is experiencing financial difficulties and may not be able to fully repay receivables of S\$11m owed. This will affect Serial System's financial results and the company may report losses for FY06. Serial System is seeking legal advice from lawyers in Spain for the recovery of payment of the trade receivables.

**Divesting associate Wintech.** Serial System has a 20.2% stake in Taiwan-based Wintech. The company obtained a mandate from shareholders on 18 Aug 06 for the disposal of its entire interest in Wintech over a 12-month period. Serial System disposed of 13m Wintech shares over the past two months, raising proceeds of S\$16.7m. Its stake in Wintech has been reduced to 12.2%.

**Facing more competition.** Serial System's current NTA/share is S\$0.21. This will be reduced to S\$0.18 if full provision is made for the outstanding trade receivables from Vitelcom System. Serial System will face more intense competition and cost pressures, especially in North Asia. Gearing is also high with total debt/equity ratio of 0.57x as at Jun 06.

Maintain HOLD. Entry price is S\$0.12 on FY06 PE of 10x.



<b>Sector</b>	Technology
<b>Bloomberg</b>	SERL SP
<b>Website</b>	www.serialsystem.com.sg
<b>Exchange Rate</b>	S\$1.5495/US\$
<b>52-Wk Range (S\$)</b>	0.17/0.105
<b>52-Wk Avg Daily Vol. ('000)</b>	127
<b>No. of Shares (m)</b>	364.7
<b>Market Cap (S\$m)</b>	47.4
	(US\$m)
	30.6
<b>Major Shareholders (%)</b>	
Derek Goh Bak Heng	18.8
Goi Seng Hui	11.6
<b>Book NTA per Share (Rmb)</b>	0.21
<b>ROE (%)</b>	(7.6)
<b>Net Debt per Share (Rmb)</b>	0.11
<b>Alternate Instruments</b>	
	Nil
<b>Results Due</b>	
1Q: n.a.	1H: Aug
3Q: n.a.	Final: Feb
<b>Market PE - STI (x)</b>	
2005	13.9
2006F	15.4
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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	407.6	8.8	4.2	1.14	n.a.	11.4	10.4	0.0
2007F	427.9	6.3	2.3	0.62	(45.7)	21.0	14.6	0.0
2008F	449.3	6.4	2.4	0.65	4.1	20.1	14.3	0.0

Consensus net profit – n.a.

**Figure 1: Revenue and Net Profit by Segment**

<b>Year to 31 Dec (\$m)</b>	<b>2004</b>	<b>2005</b>	<b>2006F</b>	<b>2007F</b>	<b>2008F</b>
<b>Revenue</b>					
Semiconductors/components distribution	309.3	301.9	407.6	427.9	449.3
Consumer digital appliances	4.3	1.8	0.0	0.0	0.0
<b>Net Profit</b>					
Semiconductors / components distribution	8.7	(3.4)	4.2	2.3	2.4
Consumer digital appliances	(7.1)	(5.4)	0.0	0.0	0.0
<b>Net Margin (%)</b>					
Semiconductors/components distribution	2.8	(1.1)	1.0	0.5	0.5
Consumer digital appliances	(165.1)	(300.0)	0.0	0.0	0.0

Source: Serial System, UOB Kay Hian

**Figure 2: Profit & Loss**

Year to 31 Dec (S\$m)	2004	2005	2006F	2007F	2008F
Sales	313.6	303.7	407.6	427.9	449.3
Cost of sales	(282.9)	(270.2)	(366.0)	(384.3)	(403.5)
<b>Gross Profit</b>	<b>30.7</b>	<b>33.5</b>	<b>41.6</b>	<b>43.7</b>	<b>45.8</b>
Other operating income	6.9	4.1	6.0	4.0	4.0
Distribution costs	(16.5)	(20.8)	(22.4)	(23.5)	(24.7)
Administrative expenses	(6.0)	(5.4)	(5.7)	(6.0)	(6.3)
Other operating expenses	(19.6)	(15.4)	(15.5)	(16.3)	(17.1)
Net finance costs	(1.6)	(2.4)	(2.3)	(2.1)	(1.9)
<b>Profit before tax</b>	<b>(1.9)</b>	<b>(5.1)</b>	<b>4.2</b>	<b>2.3</b>	<b>2.4</b>
Taxation	(2.0)	(0.9)	0.0	0.0	0.0
<b>Profit after tax</b>	<b>(3.9)</b>	<b>(6.0)</b>	<b>4.2</b>	<b>2.3</b>	<b>2.4</b>
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>4.2</b>	<b>2.3</b>	<b>2.4</b>

Source: Serial System, UOB Kay Hian

**Figure 3: Balance Sheet**

As at 31 Dec (S\$m)	2004	2005	2006F	2007F	2008F
<b>Non-current assets</b>	<b>69.5</b>	<b>67.9</b>	<b>69.0</b>	<b>68.0</b>	<b>67.1</b>
Property, plant & equipment	19.6	17.1	16.3	16.2	16.5
Intangible assets	12.8	9.5	14.1	14.8	15.5
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>142.2</b>	<b>154.5</b>	<b>164.6</b>
Stocks	36.2	49.8	54.9	57.7	60.5
Trade and other receivables	37.4	62.2	73.4	77.0	80.9
Cash & equivalents	9.2	14.5	9.8	15.8	21.2
Others	0.4	1.4	4.1	4.1	2.0
<b>Current liabilities</b>	<b>70.7</b>	<b>88.5</b>	<b>88.6</b>	<b>91.6</b>	<b>97.4</b>
Borrowings	39.7	34.0	34.7	35.0	38.0
Trade and other payables	29.7	53.7	52.7	55.4	58.2
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 4: Cash Flow

As at 31 Dec (\$m)	2004	2005	2006F	2007F	2008F
<b>Operating</b>	<b>(6.9)</b>	<b>(9.6)</b>	<b>(4.4)</b>	<b>7.0</b>	<b>7.3</b>
Pretax profit	(6.1)	(6.4)	4.2	2.3	2.4
Depreciation & amortisation	1.5	1.8	1.8	1.6	1.7
Working capital changes	(8.4)	(12.5)	(17.3)	(3.8)	(4.0)
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>(4.7)</b>	<b>5.9</b>	<b>5.4</b>
<b>Cash &amp; cash equivalent at start of year</b>	<b>12.2</b>	<b>8.2</b>	<b>14.5</b>	<b>9.8</b>	<b>15.8</b>
<b>Cash &amp; cash equivalent at end of year</b>	<b>8.2</b>	<b>14.5</b>	<b>9.8</b>	<b>15.8</b>	<b>21.2</b>

Source: Serial System, UOB Kay Hian

Figure 5: Ratios

Year to 31 Dec	2004	2005	2006F	2007F	2008F
<b>Growth (%)</b>					
Sales	(3.4)	(3.2)	34.2	5.0	5.0
EBITDA	n.m	(47.6)	n.m	(28.6)	1.5
Pretax profit	n.m	(163.2)	181.3	n.m	4.1
Net profit	n.m	(52.9)	169.3	n.m	4.1
EPS	41.1	(40.9)	161.6	n.m	4.1
<b>Profitability (%)</b>					
EBITDA margin	(0.8)	(0.4)	2.1	1.5	1.4
Pretax margin	(0.6)	(1.7)	1.0	0.5	0.5
Net margin	(1.2)	(2.0)	1.0	0.5	0.5
ROA	(2.6)	(3.1)	2.0	1.0	1.0
ROE	(4.9)	(7.0)	4.4	2.2	2.3
<b>Leverage (%)</b>					
LT Debt/Equity	1.2	24.5	22.0	21.0	20.0
Total Debt/Total Assets	26.6	27.6	25.9	24.7	25.0
Total Debt/Equity	53.8	66.2	60.4	57.8	58.2
Net Debt (Cash)/Equity	41.7	48.4	49.5	41.2	36.9
Interest Cover (x)	(2.5)	(1.5)	1.6	0.8	0.8
<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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