

Serial Systems (SERL SP : S\$0.14)

FYE Dec	2004	2005F	2006F
(S\$m)			
Turnover	313.6	329.5	346.0
Net Profit	-4.0	2.9	2.9
EPS (cts)	-1.3	0.9	0.9
PE (x)	nm	13.9	14.1
Div Yield (%)	0.8	0.9	0.9

4Q04 losses of S\$4m wider than our estimate of S\$1m – Maintain Fully Valued

Management did provide a profit warning, hence the market should not be surprised by the loss. However investors should be concerned with the magnitude of the loss, which was wider than our estimates (note dated 11 Jan 05).

The wider loss resulted from lower than expected revenue (-3% YoY) and a S\$5m provision for inventory obsolescence made in 4Q04. Higher financing cost stemming from an increase in borrowings to fund the acquisition of its subsidiary, Sangsoo and Unitron Tech, and the purchase of its leasehold property in Singapore, also contributed to the loss. The bulk of the decline in turnover resulted from the consumer and appliances division, which fell 71% to S\$4.3m.

Earnings are expected to turn around in FY05 largely due to the absence of the S\$5m provision for inventory obsolescence and the expansion of its regional footprint (Taiwan). China will remain the key earnings growth driver and SERL will also focus on expanding its product mix and customer base. We forecast FY05 earnings of S\$2.9m (+81% from our previous forecast of S\$1.6m). However SERL is trading at expensive 2005 PE of 13x. We are maintaining our Fully Valued rating for SERL with a new price target of S\$0.13 or 10x 2005 PE. A better alternative to SERL is Willas-Array, which is trading at 6-7x PE with ROE of 13% (SERL: 4%) and offers a dividend yield of 6-7% (SERL: 1%).

Daily Focus

Result Analyser

FY Sep (\$m)	4Q03	3Q04	4Q04	% QoQ	% YoY	Comment
Segmental						
Semiconductors/Component Distribution	75.1	66.6	74.3	11.6	(1.0)	Hong Kong subsidiary experienced decline in revenue
Other operations	4.8	0.9	0.8	(11.1)	(83.3)	Weak demand and closure of logistic business
Sales	79.8	67.5	75.1	11.3	(5.9)	
Profit & Loss						
Sales	79.8	67.5	75.1	11.3	(5.8)	
Gross profit	7.4	6.9	7.2	3.7	(2.0)	Gross margin declined due to pricing pressure
S, G & A	(7.1)	(8.8)	(12.4)	39.7	73.2	\$5m provision for inventory obsolescence
Opg Pft	0.2	(1.9)	(5.2)	171.3	(2,490.6)	
Interest expense	(0.1)	(0.5)	(0.6)	4.2	339.2	
Associates	1.6	1.6	0.9	(45.3)	(45.9)	Stake in Wintech was reduced to 21% from 22% last year
Pretax profit	1.7	(0.9)	(4.9)	446.0	(394.2)	
Tax	(0.6)	(0.7)	(0.5)	(27.6)	(13.4)	
Minority interest	(0.4)	0.1	0.2	230.9	(144.8)	
Net profit	0.6	(1.6)	(5.2)	234.4	(905.7)	
MARGINS						
Gross margin (%)	9.2	10.3	9.6			
SGA % Sales	(8.9)	(13.1)	(16.5)			
Opg Mgn (%)	0.3	(2.8)	(6.9)			
EBITDA margin (%)	17.3	NA	NA			
Tax rate (%)	36.4	(80.9)	(10.7)			
QOQ CHANGE (%)						
Sales	(8)	(28)	11			
Gross profit	(11)	(19)	4			
SG&A	(2)	24	40			
Opg profit	(78)	(231)	171			
Key Balance Sheet & Cash Flow Items						
DOS Inventory	46.4	74.2	43.8			
DOS Acct Receivables	27.9	44.0	36.4			
Net (Debt) Cash	(9.2)	(43.4)	(31.4)			
Shareholders Funds	80.6	83.9	75.4			
Gearing %	11.4	51.7	41.7			

Source: Company, DBS Vickers

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