

# Singapore Company Focus

## Serial System

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DBS Group Research . Equity

4 Mar 2009

FULLY VALUED S\$0.065 STI : 1,528.51

Price Target : 12-Month S\$ 0.05

Reason for Report : FY08 Results

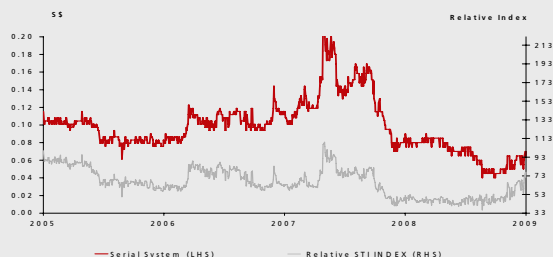
Potential Catalyst: Uptick in Chinese consumer demand

### Analyst

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### Price Relative



### Forecasts and Valuation

FY Dec (\$ m)	2007A	2008F	2009F	2010F
Turnover	476.2	510.6	419.1	453.8
EBITDA	5.3	10.9	4.6	5.9
Pre-tax Profit	8.8	8.0	1.7	3.1
Net Profit	7.3	6.0	1.3	2.4
Net Pft (Pre Ex.)	0.2	6.0	1.3	2.4
EPS (S cts)	1.9	1.0	0.2	0.4
EPS Pre Ex. (S cts)	0.1	1.0	0.2	0.4
EPS Gth Pre Ex (%)	(102.8)	1,737.1	(79.8)	75.5
Diluted EPS (S cts)	1.8	0.8	0.2	0.3
Net DPS (S cts)	1.8	0.6	0.1	0.2
BVPer Share (S cts)	13.1	13.2	12.1	12.3
PE (X)	3.3	6.5	32.3	18.4
PE Pre Ex. (X)	119.5	6.5	32.3	18.4
P/Cash Flow (X)	2.6	5.3	19.1	13.3
EV/EBITDA (X)	9.0	5.1	14.1	10.3
Net Div Yield (%)	28.4	8.9	1.8	3.1
P/Book Value (X)	0.5	0.5	0.5	0.5
Net Debt/Equity (X)	0.3	0.2	0.3	0.2
ROAE (%)	9.1	7.6	1.6	2.9

Earnings Rev (%): (82.8) -  
 Consensus EPS (S cts): -

ICB Industry : Technology

ICB Sector: Technology Hardware & Equipmen

Principal Business: Distributor of electrical and electronics components

## SGX MAS Research Incentive Scheme

### Challenging year ahead

2H08 results disappointed, as sales in 4Q08 plummeted sharply to S\$111m, compared to S\$132m in 4Q07 and quarterly average of S\$133m for the first 3 quarters of FY08. Still, overall FY08 revenue grew 7% to S\$510m, mainly owing to higher distribution activities in China. The Group declared a final dividend of 0.25Scts per share, slightly lower than our estimates and translating to a 58% payout in FY08. However, FY09 promises to be a challenging year, and we estimate revenues to dip by ~18%, leading to a sharp 78% drop in profitability and hence, dividend payout. As such, we maintain our FULLY VALUED call at an unchanged target price of S\$0.05, based on 0.5x fully diluted NBV/ share.

**2<sup>nd</sup> half decline but full year sales up y-o-y.** Full year growth of 7% was achieved on the back of a 5% growth from North Asia (China, Korea, Taiwan) and a 19% growth from emerging SE Asian markets of Philippines, Thailand and India. Gross margin improved 0.4 ppts to 9.1% in FY08 – owing to the higher turnover achieved – while SG&A expenses continued to be well managed, at 8.1% of sales, down from 9% in FY07. This led to a core net profit of S\$6.6m in FY08, up from S\$3.4m (adjusted for S\$3.2m impairment costs) in FY07. To recap, reported FY07 net profit of S\$7.3m included S\$7.1m gain on sale of an equity investment.

**Rights issue will dilute shareholding.** On 31<sup>st</sup> Dec'08, the Group announced a non-underwritten rights issue to raise up to S\$7.5m in new capital. However, we believe net proceeds may likely range from S\$3-4m, including a S\$2.3m undertaking by key shareholder, Dr. Derek Goh. The proceeds will be utilized to reduce borrowings and for working capital needs. In the absence of a tangible growth platform to utilize the proceeds, the rights issue will cause negative overhang on share price in the near-term. As such, we maintain FULLY VALUED, TP S\$0.05.

### At A Glance

Issued Capital (m shrs)	603
Mkt. Cap (S\$m/US\$m)	39.2 / 25.3
Major Shareholders	
Derek Goh Bak Heng (%)	35.8
Goi Seng Hui (%)	10.5
Free Float (%)	53.8
Avg. Daily Vol. ('000)	343

## Results Summary and Comments

FY Dec (\$\$ m)	2H07	2H08	Y-o-Y Chg	FY07	FY08	Y-o-Y Chg
Sales	258.2	252.1	-2%	476.2	510.6	7%
Cost of Goods Sold	(235.4)	(228.3)	-3%	(434.7)	(463.9)	7%
Gross Profit	22.9	23.7	4%	41.5	46.7	13%
Other Operating Income	3.0	2.6	-13%	6.0	5.2	-12%
<i>Distribution</i>	(12.0)	(10.3)	-15%	(23.5)	(22.0)	-6%
<i>Administrative</i>	(2.7)	(3.1)	17%	(5.3)	(6.2)	17%
<i>Others</i>	(5.2)	(7.6)	45%	(14.1)	(13.2)	-6%
Other Operating Expenses	(19.9)	(21.0)	5%	(42.8)	(41.4)	-3%
EBIT	6.0	5.4	-10%	4.6	10.5	128%
Interest Income	0.3	0.2	-50%	0.3	0.2	-50%
Interest Expense	(1.4)	(1.1)	-24%	(2.6)	(2.2)	-17%
Share of Associates' or JV Income	(0.3)	(0.5)	55%	(0.7)	(0.5)	-26%
Exceptional Gains/(Losses)	(0.0)	0.0	-100%	7.1	0.0	-100%
Pretax Profit	4.5	3.9	-13%	8.8	8.0	-8%
Tax	(1.0)	(0.8)	-18%	(1.3)	(1.4)	10%
Minority Interests	(0.3)	(0.3)	-7%	(0.2)	(0.6)	204%
Net Profit	3.3	2.9	-12%	7.3	6.0	-17%
<b>Margins (%)</b>						
Gross Margin	8.9	9.4		8.7	9.1	
SGA % Sales	7.7	8.3		9.0	8.1	
EBITDA Margin	2.5	2.3		1.3	2.2	
EBIT Margin	2.3	2.1		1.0	2.1	
Pre-tax Margin	1.8	1.6		1.8	1.6	
Net Margin	1.3	1.1		1.5	1.2	

Source: Company, DBS Vickers

## Income Statement (\$\$ m)

FY Dec	2007A	2008F	2009F	2010F
Turnover	476.2	510.6	419.1	453.8
Cost of Goods Sold	(434.7)	(463.9)	(383.1)	(414.8)
<b>Gross Profit</b>	<b>41.5</b>	<b>46.7</b>	<b>36.0</b>	<b>39.0</b>
Other Opg (Exp)/Inc	(36.9)	(36.1)	(32.3)	(34.0)
<b>Operating Profit</b>	<b>4.6</b>	<b>10.5</b>	<b>3.7</b>	<b>5.0</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.7)	(0.5)	0.0	0.0
Net Interest (Exp)/Inc	(2.3)	(2.0)	(2.0)	(1.9)
Exceptional Gain/(Loss)	7.1	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>8.8</b>	<b>8.0</b>	<b>1.7</b>	<b>3.1</b>
Tax	(1.3)	(1.4)	(0.3)	(0.5)
Minority Interest	(0.2)	(0.6)	(0.1)	(0.2)
Preference Dividend	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>7.3</b>	<b>6.0</b>	<b>1.3</b>	<b>2.4</b>
Net profit before Except.	0.2	6.0	1.3	2.4
EBITDA	5.3	10.9	4.6	5.9
Sales Gth (%)	30.7	7.2	(17.9)	8.3
EBITDA Gth (%)	(470.1)	106.4	(57.5)	27.1
Opg Profit Gth (%)	(331.0)	127.7	(64.4)	33.6
Net Profit Gth (%)	(246.5)	(17.3)	(78.3)	79.7
Effective Tax Rate (%)	14.4	17.3	17.3	17.3

## Cash Flow Statement (\$\$ m)

FY Dec	2007A	2008F	2009F	2010F
Pre-Tax Profit	8.8	8.0	1.7	3.1
Dep. & Amort.	1.3	0.9	0.9	0.9
Tax Paid	(1.2)	(0.5)	(1.7)	(0.3)
Assoc. & JV Inc/(loss)	0.7	0.5	0.0	0.0
Non-Cash Wkg.Cap.	(1.7)	4.6	(6.2)	3.5
Other Operating CF	(6.7)	2.2	0.0	0.0
<b>Net Operating CF</b>	<b>1.2</b>	<b>15.7</b>	<b>(5.3)</b>	<b>7.2</b>
Capital Exp.(net)	(0.2)	(0.7)	(1.0)	(0.5)
Other Invts.(net)	27.7	0.0	0.0	0.0
Invts in Assoc. & JV	(4.4)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0
Other Investing CF	(4.8)	(2.8)	0.0	0.0
<b>Net Investing CF</b>	<b>18.2</b>	<b>(3.6)</b>	<b>(1.0)</b>	<b>(0.5)</b>
Div Paid	(7.1)	(3.2)	(3.5)	(0.8)
Chg in Gross Debt	(12.4)	(7.6)	1.6	0.0
Capital Issues	7.3	0.0	3.1	0.0
Other Financing CF	(4.7)	(1.3)	0.0	0.0
<b>Net Financing CF</b>	<b>(16.9)</b>	<b>(12.1)</b>	<b>1.2</b>	<b>(0.8)</b>
Net Cashflow	2.5	0.1	(5.1)	5.9

## Quarterly / Interim Income Statement (\$\$ m)

FY Dec	1H2007	2H2007	1H2008	2H2008
Turnover	218	258	259	252
Cost of Goods Sold	(199)	(235)	(236)	(228)
<b>Gross Profit</b>	<b>19</b>	<b>23</b>	<b>23</b>	<b>24</b>
Other Oper. (Exp)/Inc	(20)	(17)	(18)	(18)
<b>Operating Profit</b>	<b>(1)</b>	<b>6</b>	<b>5</b>	<b>5</b>
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	(1)
Net Interest (Exp)/Inc	(1)	(1)	(1)	(1)
Exceptional Gain/(Loss)	7	0	0	0
<b>Pre-tax Profit</b>	<b>4</b>	<b>5</b>	<b>4</b>	<b>4</b>
Tax	0	(1)	(1)	(1)
Minority Interest	0	0	0	0
<b>Net Profit</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>3</b>
Net profit bef Except.	(3)	3	3	3
EBITDA	(1)	6	6	5
Sales Gth (%)	26.6	18.5	0.1	(2.5)
EBITDA Gth (%)	(83.2)	(738.8)	(8.2)	(14.2)
Opg Profit Gth (%)	(66.5)	(541.6)	(14.2)	5.2
Net Profit Gth (%)	(148.2)	(18.5)	(4.1)	(7.9)
Gross Margins (%)	8.5	8.9	8.9	9.4
Opg Profit Margins (%)	(0.6)	2.3	2.0	2.1
Net Profit Margins (%)	1.8	1.3	1.2	1.1

Source: Company, DBS Vickers

## Balance Sheet (\$\$ m)

FY Dec	2007A	2008F	2009F	2010F
Net Fixed Assets	6.9	6.2	6.3	6.0
Invts in Assocs & JVs	4.0	3.7	3.7	3.7
Other LT Assets	22.1	23.2	23.1	23.1
Cash & ST Invts	15.4	15.4	10.4	16.3
Inventory	65.8	40.7	33.4	36.2
Debtors	65.8	57.0	64.5	60.5
Other Current Assets	1.5	1.0	1.0	1.0
<b>Total Assets</b>	<b>181.4</b>	<b>147.2</b>	<b>142.4</b>	<b>146.7</b>
ST Debt	27.2	28.4	30.0	30.0
Other Current Liab	63.5	35.4	28.0	30.5
LT Debt	10.2	2.0	2.0	2.0
Other LT Liabilities	0.5	0.5	0.5	0.5
Shareholder's Equity	79.0	79.6	80.4	82.0
Minority Interests	1.1	1.4	1.5	1.7
<b>Total Cap. &amp; Liab.</b>	<b>181.4</b>	<b>147.2</b>	<b>142.4</b>	<b>146.7</b>
Non-Cash Wkg. Cap	69.7	63.4	71.0	67.2
Net Cash/(Debt)	(22.0)	(14.9)	(21.6)	(15.7)

## Rates &amp; Ratio

FY Dec	2007A	2008F	2009F	2010F
Gross Margins (%)	8.7	9.1	8.6	8.6
Opg Profit Margin (%)	1.0	2.1	0.9	1.1
Net Profit Margin (%)	1.5	1.2	0.3	0.5
ROAE (%)	9.1	7.6	1.6	2.9
ROA (%)	4.0	3.7	0.9	1.6
ROCE (%)	3.2	7.6	2.7	3.6
Div Payout Ratio (%)	152.8	58.1	61.0	56.6
Net Interest Cover (x)	2.0	5.2	1.9	2.6
Asset Turnover (x)	2.6	3.1	2.9	3.1
Debtors Turn (avg days)	48.5	43.9	52.9	50.3
Creditors Turn (avg days)	48.6	38.0	29.3	25.4
Inventory Turn (avg days)	52.7	42.0	35.4	30.7
Current Ratio (x)	1.6	1.8	1.9	1.9
Quick Ratio (x)	0.9	1.1	1.3	1.3
Net Debt/Equity (X)	0.3	0.2	0.3	0.2
Capex to Debt (%)	0.7	2.4	3.1	1.6
N. Cash/(Debt)/PS (S cts)	(3.6)	(2.5)	(3.3)	(2.4)
Opg CFPS (S cts)	0.8	1.8	0.1	0.6
Free CFPS (S cts)	0.2	2.5	(1.0)	1.0

## P/BV



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*Share price appreciation + dividends*

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