

**FULLY VALUED S\$0.14**

STI : 3,023.80

Price Target : 12-Month S\$ 0.13

Reason for Report : Comemnt on announcements

Potential Catalyst: Expansion of regional footprint.

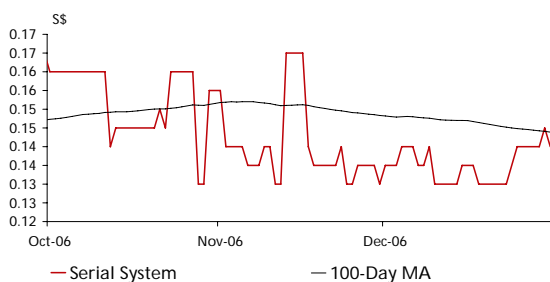
**ANALYST**

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**FORECASTS AND VALUATION**

FY Dec (\$\$ m)	2005A	2006F	2007F	2008F
Turnover	303.7	377.6	396.2	416.1
EBITDA	(1.5)	(4.7)	8.1	9.1
Pre-tax Profit	(5.1)	(6.0)	3.1	3.7
Net Profit	(6.0)	(4.5)	2.5	3.0
Net Pft (Pre Ex.)	(6.0)	(6.1)	2.5	3.0
EPS (S cts)	(2.0)	(1.2)	0.7	0.8
EPS Gth (%)	48	(38)	(156)	21
Diluted EPS (S cts)	(1.9)	(1.0)	0.5	0.7
DPS (S cts)	0.0	0.0	0.0	0.0
BVPer Share (S cts)	22.3	21.1	21.8	22.6
PE (X)	(7.1)	(11.4)	20.4	16.9
P/Cash Flow (X)	(8.9)	(14.4)	9.8	8.7
EV/EBITDA (X)	(58.1)	(21.2)	9.6	8.4
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.6	0.7	0.6	0.6
Net Debt/Equity (X)	0.5	0.5	0.3	0.2
ROAE (%)	(7.6)	(5.6)	3.2	3.7

**SHARE PRICE CHART****AT A GLANCE**

Issued Capital (m shrs)	364.7
Mkt. Cap (S\$m/US\$m)	51.1 / 33.2
Major Shareholders	
Derek Goh Bak Heng (%)	38.0
Goi Seng Hui (%)	11.6
Free Float (%)	50.4
Avg. Daily Vol. ('000)	84

Earnings Rev :  
 Consensus EPS :  
 Variance vs Cons :

Sector : Technology  
 Bloomberg/Reuters Code: SERL SP EQUITY/SERL.SI  
 Principal Business: Distributor of electrical and electronics components

**SGX MAS Research Incentive scheme****Serial System****Profit Warning**

➤ **Story:** Serial warned that the company might record a loss for FY06 on a provision for Vitelcom's trade receivables, amounting to S\$11m. In addition, the company has also reduced its stake in Wintech to a mere 10.8%, which would significantly reduce its associate income in 4Q06.

➤ **Point:** Hence, in anticipation of a full provision of S\$11m for Vitelcom's trade receivable, we have revised FY06 earnings forecast to a net loss of S\$4.5m, from S\$4.5m net profit previously. Moving into FY07, we expect Serial to turn profitable as it expands its regional presence through M&A in North Asia.

➤ **Relevance:** In view of high earnings risk, we maintain our Fully Valued rating and price target of S\$0.13 based on 0.72x P/Bv.

**Provision for Vitelcom's trade receivables lead to losses.** Serial's customer, Vitelcom Mobile technology ("Vitelcom"), revealed that it would not be able to fully repay trade receivables owing to Serial amounting to S\$11m as it is at present experiencing financial difficulties. In anticipation of a full provision, we have revised 2H06 earnings forecast from a S\$1.2m profit to loss making of S\$7.8m, bringing down the full year bottomline to a loss of S\$4.5m, from a S\$4.5m net profit previously.

**Reduction of stake in Wintech Microelectronics to 10.81%, from 20.45% in 1H06.** Serial recently disposed 9.64% of Wintech Microelectronics for a S\$0.6m gain. The net proceeds of approximately S\$19m are meant to: (I) fund the business operations and expansion plans; (II) repay bank borrowings; and (III) fund the working capital. Consequently, Serial would not equity account Wintech's earnings at associate level starting 4Q06. Note that this reduction would significantly lower Serial's bottomline as Wintech contributed 35% of net profit for 1H06. There is no significant change to our forecast as we have factored the move in our previous estimates.

**Maintain Fully Valued and Target Price of S\$0.13.** We expect Serial to turn profitable going into FY07 as the company expands its regional presence through M&A in North Asia. In view of its rich valuation and earnings uncertainty, we maintain Fully Valued rating on the stock with price target of S\$0.13 based on 0.72x P/Bv.

## Company Focus

## Serial System

### Income Statement (\$\$ m)

FY Dec	2005A	2006F	2007F	2008F
Turnover	303.7	377.6	396.2	416.1
Cost of Goods Sold	(270.2)	(341.0)	(357.8)	(375.7)
<b>Gross Profit</b>	<b>33.5</b>	<b>36.6</b>	<b>38.4</b>	<b>40.4</b>
Other Opg (Exp)/Inc	(37.5)	(44.0)	(33.2)	(34.2)
<b>EBIT</b>	<b>(4.0)</b>	<b>(7.4)</b>	<b>5.2</b>	<b>6.1</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	1.3	1.8	0.2	0.2
Net Interest (Exp)/Inc	(2.4)	(2.4)	(2.3)	(2.6)
Exceptional Gain/(Loss)	0.0	2.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>(5.1)</b>	<b>(6.0)</b>	<b>3.1</b>	<b>3.7</b>
Tax	(0.9)	1.6	(0.6)	(0.8)
Minority Interest	0.0	(0.1)	0.0	0.1
Preference Dividend	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>(6.0)</b>	<b>(4.5)</b>	<b>2.5</b>	<b>3.0</b>
Net profit before Except.	(6.0)	(6.1)	2.5	3.0
EBITDA	(1.5)	(4.7)	8.1	9.1
Sales Gth (%)	(3)	24	5	5
EBITDA Gth (%)	(2)	213	(272)	13
EBIT Gth (%)	(11)	85	(170)	18
Effective Tax Rate (%)	N/A	N/A	20.0	21.0

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

FY Dec	2005A	2006F	2007F	2008F
Pre-Tax Profit	(5.1)	(6.0)	3.1	3.7
Dep. & Amort.	2.5	2.7	2.8	3.0
Tax Paid	(1.6)	(0.7)	1.6	(0.6)
Assoc. & JV Inc/(loss)	(1.3)	(1.8)	(0.2)	(0.2)
Chg in Wkg.Cap.	(10.9)	(15.6)	(3.9)	(4.2)
Other Operating CF	6.4	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>(10.0)</b>	<b>(21.4)</b>	<b>3.4</b>	<b>1.8</b>
Capital Exp.(net)	(0.5)	(0.6)	(0.6)	(0.6)
Other Invnts.(net)	(2.3)	(19.0)	19.0	0.0
Invnts in Assoc. & JV	(3.0)	37.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0
Other Investing CF	0.9	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(4.9)</b>	<b>17.4</b>	<b>18.4</b>	<b>(0.6)</b>
Div Paid	(0.6)	0.0	0.0	0.0
Chg in Gross Debt	12.1	8.0	0.0	0.0
Capital Issues	7.0	0.0	0.0	0.0
Other Financing CF	1.8	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>20.3</b>	<b>8.0</b>	<b>0.0</b>	<b>0.0</b>
Net Cashflow	5.4	4.1	21.8	1.1

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

FY Dec	1H2005	2H2005	1H2006	2H2006
Turnover	126.7	177.0	192.3	185.2
Cost of Goods Sold	(112.1)	(158.1)	(173.6)	(167.3)
<b>Gross Profit</b>	<b>14.6</b>	<b>18.9</b>	<b>18.7</b>	<b>17.9</b>
Other Oper. (Exp)/Inc	(16.8)	(20.7)	(16.7)	(27.4)
<b>EBIT</b>	<b>(2.2)</b>	<b>(1.8)</b>	<b>2.0</b>	<b>(9.5)</b>
Other Non Opg (Exp)/Inc	N/A	N/A	N/A	N/A
Associates & JV Inc	0.9	0.4	1.4	0.4
Net Interest (Exp)/Inc	(1.0)	(1.4)	(1.5)	(0.9)
Exceptional Gain/(Loss)	0.0	0.0	2.0	0.0
<b>Pre-tax Profit</b>	<b>(2.4)</b>	<b>(2.8)</b>	<b>3.9</b>	<b>(9.9)</b>
Tax	(0.2)	(0.7)	(0.2)	1.8
Minority Interest	(0.2)	0.2	(0.4)	0.3
<b>Net Profit</b>	<b>(2.8)</b>	<b>(3.2)</b>	<b>3.3</b>	<b>(7.8)</b>
Net profit bef Except.	(2.8)	(3.2)	1.4	(7.8)
EBITDA	(2.2)	0.7	2.0	(6.7)
Sales Gth (%)	(11)	40	9	(4)
EBITDA Gth (%)	(48)	(132)	186	(431)
EBIT Gth (%)	(69)	(19)	(213)	(565)
Gross Margins (%)	11.5	10.7	9.7	9.7
EBIT Margins (%)	(1.7)	(1.0)	1.1	(5.1)

Source: Company, DBS Vickers

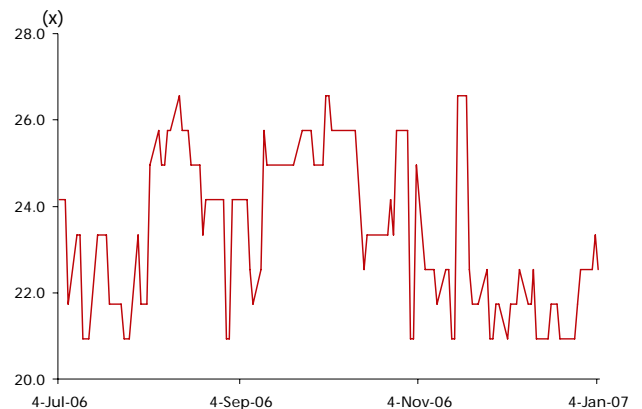
### Balance Sheet (\$\$ m)

FY Dec	2005A	2006F	2007F	2008F
Net Fixed Assets	17.1	15.7	14.2	12.6
Invnts in Assocs & JVs	38.1	2.9	3.1	3.2
Other LT Assets	12.6	11.9	11.1	10.4
Cash & ST Invnts	14.5	37.6	40.4	41.5
Other Current Assets	114.0	141.3	148.2	155.5
<b>Total Assets</b>	<b>196.5</b>	<b>209.4</b>	<b>217.0</b>	<b>223.3</b>
ST Debt	34.6	42.6	42.6	42.6
Other Current Liab	54.5	63.8	69.0	72.3
LT Debt	19.9	19.9	19.9	19.9
Other LT Liabilities	1.6	1.6	1.6	1.6
Shareholder's Equity	81.5	77.0	79.5	82.5
Minority Interests	4.3	4.4	4.3	4.3
<b>Total Cap. &amp; Liab.</b>	<b>196.5</b>	<b>209.4</b>	<b>217.0</b>	<b>223.3</b>
Non-Cash Wkg. Cap	59.6	96.5	79.2	83.2
Net Cash/(Debt)	(40.1)	(44.0)	(22.2)	(21.1)

### Rates & Ratios

FY Dec	2005A	2006F	2007F	2008F
Gross Margin (%)	11.0	9.7	9.7	9.7
EBITDA Margin (%)	(0.5)	(1.2)	2.0	2.2
EBIT Margin (%)	(1.3)	(2.0)	1.3	1.5
Net Profit Margin (%)	(2.0)	(1.2)	0.6	0.7
ROAE (%)	(7.6)	(5.6)	3.2	3.7
ROA (%)	(1.4)	(2.7)	2.7	3.1
ROCE (%)	(2.4)	(4.3)	4.1	5.2
Div Payout Ratio (%)	N/A	N/A	0.0	0.0
Interest Cover (x)	(1.7)	(3.1)	2.3	2.4
Debtors Turn (days)	74.7	74.7	74.7	74.7
Creditors Turn (days)	57.4	57.0	58.9	59.0
Inventory Turn (days)	67.3	66.3	66.3	66.3
Current Ratio (x)	1.4	1.7	1.7	1.7
Quick Ratio (x)	0.9	1.1	1.1	1.1
Net Debt/Equity (X)	0.5	0.5	0.3	0.2
Capex to Debt (%)	0.8	0.9	0.9	1.0
N.Cash/(Debt)PS (S cts)	(11.0)	(12.1)	(6.1)	(5.8)
Opq CFPS (S cts)	0.31	(1.59)	2.02	1.63
Free CFPS (S cts)	(3.4)	(6.0)	0.8	0.3

### PE Chart (x)



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