Singapore

Results Analyser

DBS Group Research . Equity | 6 March 2007

SGX MAS Research Incentive scheme

Serial System

Price	Result	Performance	Rating	EPS chg	Tgt Pr	Bloomberg	Mkt Cap	PE	PBV
S$0.145	FY06	In line with expectation	Fully Valued (Maintain)	FY07F: nm FY08F: +10%	S$0.15 (Prev: S$0.13)	SERL SP	S$45m US$30m	07 – 20.8x 08 – 17.7x	07 – 0.7x 08 – 0.7x

Comment on Results

Serial's FY06 results were largely in line with our expectation. Net loss shrunk to S$5m (-17% y-o-y) while sales grew to S$364.4m (+20% y-o-y). Excluding the provision for trade receivable due from Vitelcom, amounting to S$8.6m, the group would have registered a net profit of approximately S$4m (from a net loss of S$6m a year ago). This was mainly attributed to lower operating cost (excluding provisions for Vitelcom). However, gross margin slid 1.2ppt to 9.8%, reflecting the continued competitive situation in the distribution markets.

Outlook

Going forward, Serial will continue to put primary focus on its operations in North Asia (in particular China and South Korea), which accounted for more than 85% of the Group's sales for FY06. Management plans to expand its regional presence through M&A in the region. In our view, the operating environment for Serial System remains challenging given: (I) the continued intense competition; (II) rising cost in North Asia.

Recommendation

We expect the topline growth for FY07 to slow down to 5% vs 20% in FY06, as we assume lower sales to customer, Vitelcom. In spite of that, Serial is likely to turn profitable (S$1.9m) going into FY07 underpinned by tighter cost management. We raised our target price to S$0.15, similarly pegged to 0.7x P/Bv, as we roll over valuation to FY07. In view of its rich valuation and remained challenging operating environment, we maintain Fully Valued rating on the stock.

Results Summary – Serial System

FY Mar (S$m)	FY05	FY06	yoy chg	Comments
Sales	303.7	364.4	20%	Strong growth in North Asia, in particular China, South Korea and Taiwan. Increased customer base and product range.
Gross Profit	30.7	33.5	7%	
Other operating income	6.9	4.4	-4%	
Other operating Cost	(41.6)	(46.2)	11%	Inclusive of provision for trade receivable due from customer, Vitelcom, amounting to S$8.6m
EBIT			-50%	
Interest Income	0.2	0.2	-13%	
Interest Expense	(2.6)	(3.2)	22%	
Share of Associates' or JV Income	1.3	(1.1)	-185%	
Exceptional Gains/(Losses)	0.0	2.0	nm	Out-of-court settlement for legal suit against Philips.
Pretax Profit	**(5.1)**	**(4.1)**	-20%	
Tax	(0.9)	(0.4)	-58%	
Minority Interests	0.0	(0.5)	nm	
Net Profit	**(6.0)**	**(5.0)**	nm	
EPS (S$)	-0.020	-0.014		
Margins				
Gross Margin	11.0%	9.8%		Continued competitive operating environment and rising cost.
Net Margin	-2.0%	-1.4%		

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