

# Singapore Company Focus

## Serial System

Bloomberg: SERL SP | Reuters: SERL.SI

DBS Group Research . Equity

7 Mar 2008

### FULLY VALUED S\$0.09

FSSTI : 2,917.92

**Price Target** : 12-Month S\$ 0.08 (Prev S\$0.14)

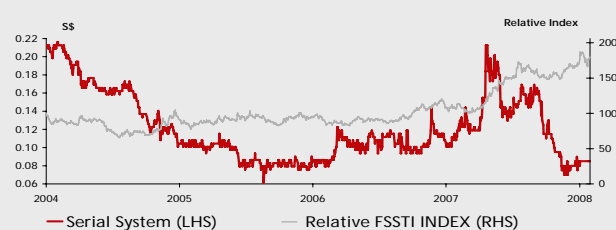
**Reason for Report** : FY07 Results

**Potential Catalyst**: New business injections

#### Analyst

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#### Price Relative



#### Forecasts and Valuation

FY Dec (\$ m)	2006A	2007A	2008F	2009F
Turnover	364.4	476.2	523.8	550.0
EBITDA	(1.4)	5.3	10.7	12.1
Pre-tax Profit	(4.1)	8.8	7.0	8.0
Net Profit	(5.0)	7.3	5.8	6.7
Net Pft (Pre Ex.)	(7)	0	6	7
EPS (S cts)	(1.4)	1.8	1.0	1.1
EPS Pre Ex. (S cts)	(1.9)	0.1	1.0	1.1
EPS Gth Pre Ex (%)	(2.7)	(102.6)	1,804.2	15.3
Diluted EPS (S cts)	(1.1)	1.5	0.7	0.8
Net DPS (S cts)	1.4	1.8	1.0	1.0
BVPer Share (S cts)	22.3	13.0	12.2	12.3
PE (X)	(6.2)	4.7	8.8	7.7
PE Pre Ex. (X)	(4.4)	168.5	8.8	7.7
P/Cash Flow (X)	(14.2)	3.7	7.2	6.4
EV/EBITDA (X)	(47.0)	10.8	8.0	7.3
Net Div Yield (%)	16.1	21.6	11.8	11.8
P/Book Value (X)	0.4	0.7	0.7	0.7
Net Debt/Equity (X)	0.4	0.3	0.4	0.5
ROAE (%)	(6.1)	9.1	7.6	9.1

**Earnings Rev (%)**: -

**Consensus EPS (S cts)**: -

**Sector** : Technology

**Principal Business**: Distributor of electrical and electronics components

### SGX MAS Research Incentive scheme

#### New equity dilutes decent results

**Story**: Serial Systems posted strong results in 2H07 and net profit for FY07 surprised on the upside at S\$7.3m. Stripping away extra-ordinary gains of S\$7.1m, profit stood at S\$0.2m. Thus, the Group broke even after four consecutive years of being in the red. The extra-ordinary gains were owing to the sale of the Group's entire stake in Wintech.

**Point**: Full year revenues stood at S\$476.2m, up 31% y-o-y and 2H07 revenues at S\$258.2m was up 50% y-o-y. The increase was largely driven by the semiconductors/ components distribution business in China, where revenue was up 45% y-o-y to S\$278m. Thailand also registered strong sales growth during the year. Though average gross profit margin dropped to 8.7% in FY07 from 9.8% in FY06 due to competitive operating environment, total operating expenses were much better controlled, which resulted in operating profit of S\$4.6m in FY07 as compared to a loss of S\$2.0m in FY06.

**Relevance**: Though performance in 2H07 was commendable with a sharp decline in SG&A costs as a % of sales, it would be very difficult for the Group to maintain current margin levels unless it scales up fast to achieve greater economies of scale. The net profit guarantees in FY08 from the three subsidiaries, in which the Group acquired higher stakes in FY07, add up to S\$8.2m. However, we take a more conservative view on account of global economic volatility and forecast FY08 net profit at S\$5.8m. With significant dilution arising from the recent rights and warrants issue, our TP has been suitably adjusted to **S\$0.08** and the counter still looks **FULLY VALUED** to us.

#### At A Glance

Issued Capital (m shrs)	603
Mkt. Cap (S\$m/US\$m)	51.3 / 36.9
Major Shareholders	
Derek Goh Bak Heng (%)	35.8
Goi Seng Hui (%)	10.5
Free Float (%)	53.7
Avg. Daily Vol. ('000)	405

**Results Summary and Comments**

	FY06	FY07	yoy chg	Comments
<b>FY Dec (\$\$m)</b>				
Sales	364.4	476.2	31%	Driven by higher sales in China
Cost of Goods Sold	(328.6)	(434.7)	32%	
Gross Profit	35.8	41.5	16%	
Other Operating Income	8.4	6.0	-29%	
<i>Distribution</i>	(20.0)	(23.5)	17%	Higher commission expenses due to higher sales and continued expansion activities in China
<i>Administrative</i>	(5.1)	(5.3)	4%	
<i>Others</i>	(21.1)	(14.1)	-33%	Lower impairment loss provisions and lower currency translation loss
Other Operating Expenses	(46.2)	(42.8)	-7%	
EBIT	(2.0)	4.6	nm	
Interest Income	0.2	0.3	90%	
Interest Expense	(3.2)	(2.6)	-18%	Lower borrowings, lower cost of borrowings
Share of Associates' or JV Income	(1.1)	(0.7)	-41%	
Exceptional Gains/(Losses)	2.0	7.1	254%	Gain on sale of Wintech shares in FY07 as compared to payment for out-of-court legal settlement in FY06
Pretax Profit	(4.1)	8.8	nm	
Tax	(0.4)	(1.3)	237%	
Minority Interests	(0.5)	(0.2)	-59%	
Net Profit	(5.0)	7.3	nm	
Net Profit (pre ex.)	(7.0)	0.2		
<b>Margins (%)</b>				
Gross Margin	9.8	8.7		Continued competitive environment
SGA % Sales	12.7	9.0		Better cost control, efficiency, economies of scale
EBIT Margin	(0.5)	1.0		
Pre-tax Margin	(1.1)	1.8		
Net Margin	(1.4)	1.5		

Source: Company, DBS Vickers

**Company Focus**

**Income Statement (\$\$ m)**

FY Dec	2006A	2007A	2008F	2009F
Turnover	364.4	476.2	523.8	550.0
Cost of Goods Sold	(328.6)	(434.7)	(476.6)	(500.5)
<b>Gross Profit</b>	<b>35.8</b>	<b>41.5</b>	<b>47.1</b>	<b>49.5</b>
Other Opg (Exp)/Inc	(37.8)	(36.9)	(38.1)	(39.1)
<b>Operating Profit</b>	<b>(2.0)</b>	<b>4.6</b>	<b>9.1</b>	<b>10.4</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	(1.1)	(0.7)	0.2	0.2
Net Interest (Exp)/Inc	(3.0)	(2.3)	(2.3)	(2.5)
Exceptional Gain/(Loss)	2.0	7.1	0.0	0.0
<b>Pre-tax Profit</b>	<b>(4.1)</b>	<b>8.8</b>	<b>7.0</b>	<b>8.0</b>
Tax	(0.4)	(1.3)	(1.0)	(1.2)
Minority Interest	(0.5)	(0.2)	(0.1)	(0.2)
Preference Dividend	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>(5.0)</b>	<b>7.3</b>	<b>5.8</b>	<b>6.7</b>
Net profit before Except.	(7.0)	0.2	5.8	6.7
EBITDA	(1.4)	5.3	10.7	12.1
Sales Gth (%)	20.0	30.7	10.0	5.0
EBITDA Gth (%)	630.7	(470.1)	101.6	12.8
Opg Profit Gth (%)	(50.1)	(331.0)	96.6	14.4
Net Profit Gth (%)	(16.9)	(246.5)	(20.2)	15.3
Effective Tax Rate (%)	N/A	14.4	14.4	

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

FY Dec	2006A	2007A	2008F	2009F
Pre-Tax Profit	(4.1)	8.8	7.0	8.0
Dep. & Amort.	1.7	1.3	1.5	1.5
Tax Paid	(1.1)	(1.2)	(0.8)	(1.0)
Assoc. & JV Inc/(loss)	1.1	0.7	(0.2)	(0.2)
Non-Cash Wkg.Cap.	(10.5)	(1.7)	(6.9)	(3.8)
Other Operating CF	0.9	(6.7)	0.0	0.0
<b>Net Operating CF</b>	<b>(12.1)</b>	<b>1.2</b>	<b>0.5</b>	<b>4.6</b>
Capital Exp.(net)	0.0	(0.2)	(0.5)	(0.5)
Other Invnts.(net)	16.2	27.7	0.0	0.0
Invnts in Assoc. & JV	3.2	(4.4)	0.0	0.0
Div from Assoc & JV	1.6	0.0	0.0	0.0
Other Investing CF	(0.3)	(4.8)	0.0	0.0
<b>Net Investing CF</b>	<b>20.7</b>	<b>18.2</b>	<b>(0.5)</b>	<b>(0.5)</b>
Div Paid	0.0	(7.1)	(11.1)	(6.1)
Chg in Gross Debt	(8.0)	(12.4)	0.0	0.0
Capital Issues	0.0	7.3	0.0	0.0
Other Financing CF	(2.2)	(4.7)	0.0	0.0
<b>Net Financing CF</b>	<b>(10.2)</b>	<b>(16.9)</b>	<b>(11.1)</b>	<b>(6.1)</b>
Net Cashflow	(1.6)	2.5	(11.1)	(2.0)

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

FY Dec	1H2006	2H2006	1H2007	2H2007
Turnover	192.3	172.1	217.9	258.2
Cost of Goods Sold	(173.6)	(154.9)	(199.3)	(235.4)
<b>Gross Profit</b>	<b>18.7</b>	<b>17.1</b>	<b>18.6</b>	<b>22.9</b>
Other Oper. (Exp)/Inc	(16.7)	(21.1)	(20.0)	(16.9)
<b>EBIT</b>	<b>2.0</b>	<b>(4.0)</b>	<b>(1.4)</b>	<b>6.0</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	1.4	(2.5)	(0.3)	(0.3)
Net Interest (Exp)/Inc	(1.5)	(1.5)	(1.2)	(1.1)
Exceptional Gain/(Loss)	2.0	0.0	7.1	0.0
<b>Pre-tax Profit</b>	<b>3.9</b>	<b>(8.0)</b>	<b>4.2</b>	<b>4.5</b>
Tax	(0.2)	(0.2)	(0.3)	(1.0)
Minority Interest	(0.4)	(0.1)	0.1	(0.3)
<b>Net Profit</b>	<b>3.3</b>	<b>(8.3)</b>	<b>4.0</b>	<b>3.3</b>
Net profit bef Except.	1.3	(8.3)	(3.1)	3.3
EBITDA	4.3	(5.8)	(1.0)	6.3
Sales Gth (%)	8.7	(10.5)	26.6	18.5
EBITDA Gth (%)	278.1	(233.1)	(83.2)	(749.3)
Opg Profit Gth (%)	(212.8)	(298.5)	(66.5)	(541.6)
Net Profit Gth (%)	(204.8)	(348.6)	(148.2)	(18.5)
Gross Margins (%)	9.7	9.9	8.5	8.9
Opg Profit Margins (%)	1.1	(2.3)	(0.6)	2.3

Source: Company, DBS Vickers

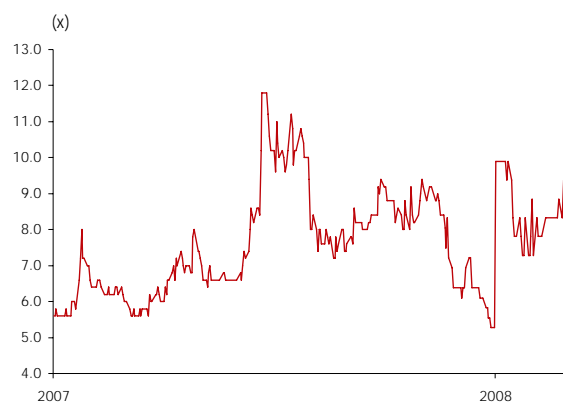
**Balance Sheet (\$\$ m)**

FY Dec	2006A	2007A	2008F	2009F
Net Fixed Assets	15.4	6.9	6.1	5.2
Invnts in Assocs & JVs	0.0	4.0	4.1	4.3
Other LT Assets	35.0	22.1	21.9	21.8
Cash & ST Invts	12.9	15.4	4.3	2.3
Other Current Assets	121.6	133.1	146.3	153.5
<b>Total Assets</b>	<b>184.9</b>	<b>181.4</b>	<b>182.7</b>	<b>187.1</b>
ST Debt	32.3	27.2	27.2	27.2
Other Current Liab	53.8	63.5	69.9	73.5
LT Debt	15.0	10.2	10.2	10.2
Other LT Liabilities	0.7	0.5	0.5	0.5
Shareholder's Equity	81.2	79.0	73.6	74.3
Minority Interests	1.9	1.1	1.2	1.4
<b>Total Cap. &amp; Liab.</b>	<b>184.9</b>	<b>181.4</b>	<b>182.7</b>	<b>187.1</b>
Non-Cash Wkg. Cap	67.8	69.7	76.4	80.0
Net Cash/(Debt)	(34.4)	(22.0)	(33.1)	(35.1)

**Rates & Ratio**

FY Dec	2006A	2007A	2008F	2009F
Gross Margins (%)	9.8	8.7	9.0	9.0
Opg Profit Margin (%)	(0.5)	1.0	1.7	1.9
Net Profit Margin (%)	(1.4)	1.5	1.1	1.2
ROAE (%)	(6.1)	9.1	7.6	9.1
ROA (%)	(2.6)	4.0	3.2	3.6
ROCE (%)	(1.6)	3.6	7.4	8.1
Div Payout Ratio (%)	N/A	152.8	104.1	90.3
Net Interest Cover (x)	(0.7)	2.0	4.0	4.1
Asset Turnover (x)	1.9	2.6	2.9	3.0
Debtors Turn (avg days)	61.5	48.5	48.2	49.3
Creditors Turn (avg days)	50.4	44.8	46.8	47.9
Inventory Turn (avg days)	60.7	52.6	52.9	54.1
Current Ratio (x)	1.6	1.6	1.6	1.5
Quick Ratio (x)	0.9	0.9	0.8	0.8
Net Debt/Equity (X)	0.4	0.3	0.4	0.5
Capex to Debt (%)	(0.1)	0.7	1.3	1.3
N. Cash/(Debt)PS (S cts)	(9.4)	(3.6)	(5.5)	(5.8)
Opg CFPS (S cts)	(0.4)	0.7	1.2	1.4
Free CFPS (S cts)	(3.3)	0.2	0.0	0.7

**Segmental Breakdown**



DBSV recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (0-15% total return over the next 12 months for small caps, 0-10% for large caps)

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*Share price appreciation + dividends*

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## Company Focus

Serial System

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