

### Serial Systems (SERL SP : S\$0.18)

#### Warns of losses for 2004 – Maintain Fully Valued, TP S\$0.13

Serial Systems (SERL) announced that that it would make a loss instead of a profit in 2004, reasoning that its undisclosed Korean customer, who was involved in the mobile handset business, had delayed orders. The profit warning did not come as a surprise to us but the magnitude of the loss did. It appears that our 96% downward earnings revision on 5 Jan 05 was insufficient.

As we do not anticipate the resumption of orders anytime soon, we have revised our FY04 and FY05 net profit estimates down by a further 225% and 47% respectively. With earnings growth being unexciting and the stock trading at an expensive 2005 PE of 34x, we are maintaining our Fully Valued rating for SERL. We view a better alternative to SERL is Willas-Array, which is trading at 6-7x PE with ROE of 13% (SERL: 2%) and offers a dividend yield of 6-7% (SERL: 1%).

FYE Dec	2003	2004F	2005F	2006F
Sales (S\$m)	324.8	299.5	314.5	314.7
EBITDA (S\$m)	8.0	3.2	3.4	1.8
Net Profit (S\$m)	3.2	-1.0	1.6	0.3
EPS - FD (Sc)	1.1	-0.3	0.5	0.1
EPS Gth (%)	-133.3	-131.3	NM	-83.6
BVps (S\$)	0.3	0.3	0.3	0.3
DPS (Sc)	0.3	0.2	0.1	0.0
P/Sales (x)	0.3	0.2	0.2	0.2
EV/EBITDA (x)	12.2	24.0	22.6	44.7
P/E (x)	25.5	-52.3	34.0	207.5
P/BV (x)	1.1	0.7	0.7	0.7
P/CF (x)	20.1	84.9	15.7	24.5
Div Yield (%)	1.1	0.9	0.4	0.1
ROE (%)	5.4	-0.9	2.4	0.8
Net Gearing (%)	11.4	23.9	24.0	24.2

Source: DBS Vickers, Company

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