

Singapore Company Focus

Serial System

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DBS Group Research . Equity

11 Aug 2008

HOLD S\$0.07 STI : 2,807.54

Upgrade from FULLY VALUED

Price Target : 12-Month S\$ 0.08

Reason for Report : 1H08 Results

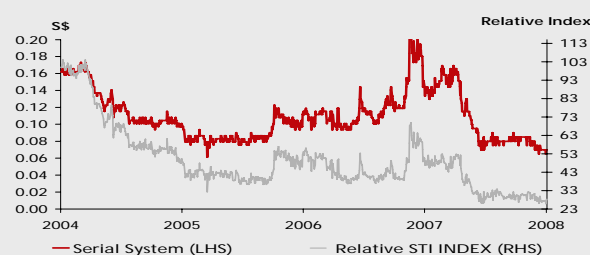
Potential Catalyst: Sustained margins, injection of new businesses

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Price Relative



Forecasts and Valuation

FY Dec (\$ m)	2006A	2007A	2008F	2009F
Turnover	364.4	476.2	527.2	562.4
EBITDA	(1.4)	5.3	12.4	13.5
Pre-tax Profit	(4.1)	8.8	8.3	9.3
Net Profit	(5.0)	7.3	6.8	7.6
Net Pft (Pre Ex.)	(7.0)	0.2	6.8	7.6
EPS (S cts)	(1.4)	1.9	1.1	1.3
EPS Pre Ex. (S cts)	(1.9)	0.1	1.1	1.3
EPS Gth Pre Ex (%)	(2.7)	nm	1,973.9	11.4
Diluted EPS (S cts)	(1.1)	1.8	0.9	1.0
Net DPS (S cts)	1.4	1.8	0.7	0.7
BVPer Share (S cts)	22.3	13.1	12.4	13.0
PE (X)	nm	3.6	6.2	5.6
PE Pre Ex. (X)	nm	128.7	6.2	5.6
P/Cash Flow (X)	nm	2.8	5.2	4.7
EV/EBITDA (X)	nm	9.3	6.1	5.7
Net Div Yield (%)	19.5	26.4	9.6	9.6
P/Book Value (X)	0.3	0.5	0.6	0.5
Net Debt/Equity (X)	0.4	0.3	0.4	0.4
ROAE (%)	(6.1)	9.1	8.9	9.9

Earnings Rev (%): 17.0 13.1
 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

Steady turnaround in fortunes

Story: In 1H08, the Group continued its turnaround story, and recorded net profit of S\$3.1m compared to a net loss (pre-extraordinaries of ~S\$7.5m) of S\$3.3m in 1H07. In line with our expectations, interim dividends of S\$0.33 per share were declared as well.

Point: The turnaround in profit was slightly above our expectations owing to better-than-expected gross margins and lower provisions for trade receivables and inventories. Revenues were up 19% to S\$258.5m in 1H08, driven by growth in both its established North Asian market (up 12%) and the emerging markets in South and South-East Asia (up 73% due to higher sales contribution from Singapore, Thailand and India). Gross margin in 1H08 came in at 8.9% compared to 8.5% in 1H07 on the back of higher revenues, and better cost management led to a decline in total SG&A expenses from 10.5% of sales in 1H07 to 8.9% in 1H08. The Group's 33.3%-owned associate company, Bull Will Co., ended up in the black as well – contributing S\$0.1m to the bottomline as against a loss of S\$0.3m in 1H07.

Relevance: The significant dilution arising from the rights and warrants issues last year, along with concerns on sustainability of margins in the face of global inflationary pressures and slowing end-user demand, has weighed heavily on share price performance in recent months and we believe valuations right now are too conservative at 0.6x P/BV. We continue to value the counter at 0.8x P/BV and hence, upgrade our recommendation to HOLD at a Target Price of S\$0.085. The Group ended 1H08 with cash reserves of S\$20m (positive operating cash flow of S\$6.4m in 1H08) and dividend payout of at least 50-60% is expected for FY08, translating to a yield in excess of 10%.

At A Glance

Issued Capital (m shrs)	603
Mkt. Cap (S\$m/US\$m)	42.2 / 30.1
Major Shareholders	
Derek Goh Bak Heng (%)	35.8
Goi Seng Hui (%)	10.5
Free Float (%)	53.7
Avg. Daily Vol. ('000)	95

Results Summary and Comments

Currency S\$	1H07	1H08	y-o-y chg	Comments
FY Dec (m)				
Sales	217.9	258.5	19%	Higher sales in Singapore, Thailand, India
Cost of Goods Sold	(199.3)	(235.6)	18%	
Gross Profit	18.6	22.9	23%	
Other Operating Income	3.0	2.6	-12%	Lower commission & service income
<i>Distribution</i>	(11.4)	(11.8)	3%	
<i>Administrative</i>	(2.6)	(3.1)	16%	Higher staff costs/ rentals from continued expansion in China
<i>Others</i>	(8.8)	(5.6)	-37%	Lower provision for trade receivables and inventories
Other Operating Expenses	(22.9)	(20.4)	-11%	
EBIT	(1.4)	5.1	nm	
Non-Operating Income	0.0	0.0		
Interest Income	0.0	0.0		
Interest Expense	(1.2)	(1.1)	-9%	
Share of Associates' or JV Income	(0.3)	0.1	-117%	
Exceptional Gains/(Losses)	7.1	0.0		In 1H07, gain on sale of Wintech stake
Pretax Profit	4.2	4.1	-4%	
Tax	(0.3)	(0.6)	98%	
Minority Interests	0.1	(0.3)	-464%	
Net Profit	4.0	3.1	-22%	
Net Profit (pre ex.)	(3.1)	3.1	nm	
Margins (%)				
Gross Margin	8.5	8.9		Margins still below historical highs owing to competitive pricing environment
SGA % Sales	10.5	7.9		Better cost and inventory management
EBIT Margin	-0.6	2.0		
Pre-tax Margin	1.9	1.6		
Net Margin	1.8	1.2		

Source: Company, DBS Vickers

Income Statement (\$\$ m)

FY Dec	2006A	2007A	2008F	2009F
Turnover	364.4	476.2	527.2	562.4
Cost of Goods Sold	(328.6)	(434.7)	(480.2)	(511.8)
Gross Profit	35.8	41.5	46.9	50.6
Other Opg (Exp)/Inc	(37.8)	(36.9)	(36.1)	(38.9)
Operating Profit	(2.0)	4.6	10.8	11.7
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)	(2.6)	(2.6)
Exceptional Gain/(Loss)	2.0	7.1	0.0	0.0
Pre-tax Profit	(4.1)	8.8	8.3	9.3
Tax	(0.4)	(1.3)	(1.2)	(1.3)
Minority Interest	(0.5)	(0.2)	(0.3)	(0.4)
Preference Dividend	0.0	0.0	0.0	0.0
Net Profit	(5.0)	7.3	6.8	7.6
Net profit before Except.	(7.0)	0.2	6.8	7.6
EBITDA	(1.4)	5.3	12.4	13.5
Sales Gth (%)	20.0	30.7	10.7	6.7
EBITDA Gth (%)	630.7	(470.1)	134.2	8.4
Opg Profit Gth (%)	(50.1)	(331.0)	133.8	8.8
Net Profit Gth (%)	(16.9)	(246.5)	(6.6)	11.4
Effective Tax Rate (%)	N/A	14.4	14.4	14.4

Cash Flow Statement (\$\$ m)

FY Dec	2006A	2007A	2008F	2009F
Pre-Tax Profit	(4.1)	8.8	8.3	9.3
Dep. & Amort.	1.7	1.3	1.5	1.6
Tax Paid	(1.1)	(1.2)	(0.8)	(1.2)
Assoc. & JV Inc/(loss)	1.1	0.7	(0.2)	(0.2)
Non-Cash Wkg.Cap.	(10.5)	(1.7)	(7.4)	(5.1)
Other Operating CF	0.9	(6.7)	0.0	0.0
Net Operating CF	(12.1)	1.2	1.4	4.4
Capital Exp.(net)	0.0	(0.2)	(0.5)	(0.5)
Other Invt.(net)	16.2	27.7	0.0	0.0
Invt 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
Net Investing CF	20.7	18.2	(0.5)	(0.5)
Div Paid	0.0	(7.1)	(11.1)	(4.0)
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
Net Financing CF	(10.2)	(16.9)	(11.1)	(4.0)
Net Cashflow	(1.6)	2.5	(10.2)	(0.2)

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

FY Dec	2H2006	1H2007	2H2007	1H2008
Turnover	172.1	217.9	258.2	258.5
Cost of Goods Sold	(154.9)	(199.3)	(235.4)	(235.6)
Gross Profit	17.1	18.6	22.9	22.9
Other Oper. (Exp)/Inc	(21.1)	(20.0)	(16.9)	(17.8)
EBIT	(4.0)	(1.4)	6.0	5.1
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	(2.5)	(0.3)	(0.3)	0.1
Net Interest (Exp)/Inc	(1.5)	(1.2)	(1.1)	(1.1)
Exceptional Gain/(Loss)	0.0	7.1	0.0	0.0
Pre-tax Profit	(8.0)	4.2	4.5	4.1
Tax	(0.2)	(0.3)	(1.0)	(0.6)
Minority Interest	(0.1)	0.1	(0.3)	(0.3)
Net Profit	(8.3)	4.0	3.3	3.1
Net profit bef Except.	(8.3)	(3.1)	3.3	3.1
EBITDA	(5.8)	(1.0)	6.3	5.7
Sales Gth (%)	(10.5)	26.6	18.5	0.1
EBITDA Gth (%)	(233.1)	(83.2)	(749.3)	(9.7)
Opg Profit Gth (%)	(298.5)	(66.5)	(541.6)	(14.2)
Net Profit Gth (%)	(348.6)	(148.2)	(18.5)	(4.1)
Gross Margins (%)	9.9	8.5	8.9	8.9
Opg Profit Margins (%)	(2.3)	(0.6)	2.3	2.0
Net Profit Margins (%)	(4.8)	1.8	1.3	1.2

Source: Company, DBS Vickers

Balance Sheet (\$\$ m)

FY Dec	2006A	2007A	2008F	2009F
Net Fixed Assets	15.4	6.9	6.1	5.1
Invt in Assocs & JVs	0.0	4.0	4.1	4.3
Other LT Assets	35.0	22.1	21.9	21.8
Cash & ST Invt	12.9	15.4	5.2	5.0
Other Current Assets	121.6	133.1	147.2	157.0
Total Assets	184.9	181.4	184.5	193.2
ST Debt	32.3	27.2	27.2	27.2
Other Current Liab	53.8	63.5	70.5	75.3
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	74.6	78.2
Minority Interests	1.9	1.1	1.4	1.8
Total Cap. & Liab.	184.9	181.4	184.5	193.2
Non-Cash Wkg. Cap	67.8	69.7	76.7	81.6
Net Cash/(Debt)	(34.4)	(22.0)	(32.2)	(32.3)

Rates & Ratio

FY Dec	2006A	2007A	2008F	2009F
Gross Margins (%)	9.8	8.7	8.9	9.0
Opg Profit Margin (%)	(0.5)	1.0	2.0	2.1
Net Profit Margin (%)	(1.4)	1.5	1.3	1.3
ROAE (%)	(6.1)	9.1	8.9	9.9
ROA (%)	(2.6)	4.0	3.7	4.0
ROCE (%)	(1.6)	3.6	8.8	9.1
Div Payout Ratio (%)	N/A	152.8	59.4	53.3
Net Interest Cover (x)	(0.7)	2.0	4.1	4.5
Asset Turnover (x)	1.9	2.6	2.9	3.0
Debtors Turn (avg days)	61.5	48.5	48.0	48.9
Creditors Turn (avg days)	50.4	44.8	46.8	47.6
Inventory Turn (avg days)	60.7	52.6	52.7	53.7
Current Ratio (x)	1.6	1.6	1.6	1.6
Quick Ratio (x)	0.9	0.9	0.8	0.8
Net Debt/Equity (X)	0.4	0.3	0.4	0.4
Capex to Debt (%)	(0.1)	0.7	1.3	1.3
N. Cash/(Debt)PS (S cts)	(9.4)	(3.6)	(5.3)	(5.4)
Opg CFPS (S cts)	(0.4)	0.8	1.5	1.6
Free CFPS (S cts)	(3.3)	0.2	0.2	0.6

PE Chart (x)



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)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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