

# Singapore Result Analyser

DBS Group Research . Equity

14 Aug 2007

## SGX MAS Research Incentive scheme

### Serial System (SERL SP)

#### Disappointment to persist

\$S\$0.19

FULLY VALUED

Price Target: S\$ 0.14 (Prev S\$ 0.15)

Reporting Period	Performance	Mkt Cap	FY	EPS (S cts)	EPS Revision	PE (x)	PBV (x)	Net Dividend Yield (%)
1H07	Below Expectations	S\$70.9m US\$46.7m	2007 2008	0.3 0.5	Down 40% Down 17%	60.1 35.3	0.9 1.0	14.2 5.3

#### Comment on Results

1H07 results (barring extra-ordinaries) were below expectations. The Group posted a net loss (pre extra-ordinaries) of S\$3.5m. Taking into account the profit contribution from the sale of interest in Wintech (S\$7.1m) and fair value gain on investment properties (S\$0.4m), the Group posted a net profit of S\$4.0m, up 20% y-o-y.

Revenue base of S\$217.9m was up 13% y-o-y and 27% q-o-q, mainly from increased demand and customer base in North Asia (+21%). Turnover in South east Asia, however, fell 23% as a result of the loss of a major customer, Vitelcom.

The loss was mainly on account of lower gross margin of 8.5% as compared to 9.7% in 1H06, and an increase in provision for trade receivables of S\$3.5m.

#### Outlook

We project a net loss for 2H07, taking into account the fact that competition continues to grow intensely along with rising costs, especially in North Asia, where 90% of the Group's revenues come from.

Gross margins are expected to fall further and the Group will have to incur additional expenditure in strengthening marketing and distribution channels in North Asia to be able to sustain market share. Unless the Group can find new business opportunities or markets, and strategies to improve margins, the situation does not augur well, going forward into FY 2008 despite possible steady increase in revenue.

#### Recommendation

As such, despite the S\$7.5m one-time gains, we revise FY07 earnings estimates down by 40% to S\$1.4m and FY08 earnings by 17% to S\$2.3m, primarily on account of diminishing margins.

The Group has declared an interim dividend of 1 cent per share (tax-exempt) and a special net interim dividend of 1.7 per share, which translates into a dividend yield in excess of 10%, providing some downside support to the stock price.

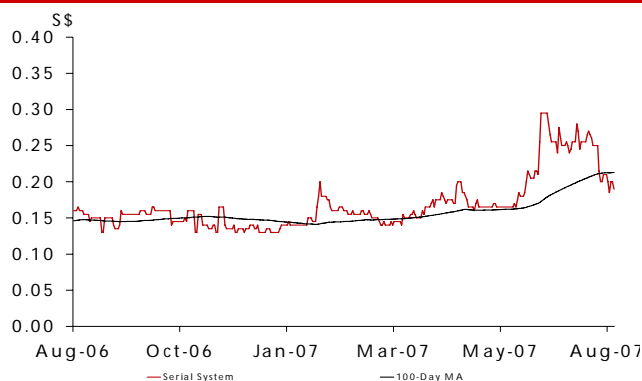
However, concerned by the Groups' rising costs, deteriorating profitability and lack of initiatives, we lower our target price to S\$0.14, pegged at 0.7x P/B, and maintain our recommendation at FULLY VALUED.

**ANALYST:** Singapore Research Team +65 6533 9688 research@dbsvickers.com

**Results Summary**

FY Dec (S\$m)	1H06	2H06	1H07	yoy chg	hoh chg	Comments
Sales	192.3	172.1	217.9	13%	27%	
Cost of Goods Sold	(173.6)	(154.9)	(199.3)	15%	29%	
Gross Profit	18.7	17.1	18.6	0%	9%	
Other Operating Income	2.4	2.1	2.6	7%	22%	
	(10.1)	(9.9)	(11.4)	13%	15%	Higher expansion costs in HK and higher commission expenses
<i>Distribution</i>						
<i>Administrative</i>	(2.4)	(2.7)	(2.6)	10%	-1%	
<i>Others</i>	(6.6)	(14.6)	(8.8)	35%	-39%	Higher provision for trade receivables
Other Operating Expenses	(19.1)	(27.1)	(22.9)	20%	-16%	
EBIT	2.0	(7.9)	(1.8)	-186%	-78%	
Interest Income	0.1	0.1	0.0	-100%	-100%	
Interest Expense	(1.6)	(1.6)	(1.2)	-22%	-25%	Decline in average borrowings
Share of Associates' or JV Income	1.4	(2.5)	(0.3)	-122%	-88%	Loss from newly acquired 36% interest in Bull Will Co.
Exceptional Gains/(Losses)	2.0	3.9	7.5			Gain on sale of Wintech + Gain on investment properties
Pretax Profit	3.9	(8.0)	4.2	8%	-153%	
Tax	(0.2)	(0.2)	(0.3)	73%	55%	
Minority Interests	(0.4)	(0.1)	0.1	-124%	-190%	
	3.3	(8.3)	4.0	20%	-148%	
Net Profit						
Net Profit (pre ex.)	1.3	(12.2)	(3.5)			
<b>Margins (%)</b>						
	9.7	9.9	8.5			Intensely competitive environment and rising costs
Gross Margin						
SGA % Sales	9.9	15.8	10.5			
EBIT Margin	1.1	-4.6	-0.8			
Pre-tax Margin	2.0	-4.7	1.9			
Net Margin	1.7	-4.8	1.8			

Source: Company, DBS Vickers

**Share Price Chart**


Source: DBS Vickers

DBSV recommendations are based on 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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**DBS Vickers Research (Singapore) Pte Ltd** – 8 Cross Street, #02-01 PWC Building, Singapore 048424  
 Tel. 65-6533 9688, Fax: 65-6226 8048  
 Company Regn. No. 198600295W