

**FULLY VALUED S\$0.16 STI : 2,508.03**

Price Target : 12-Month S\$ 0.13

Reason for Report : 1H06 Results

Potential Catalyst: Expansion of regional footprint.

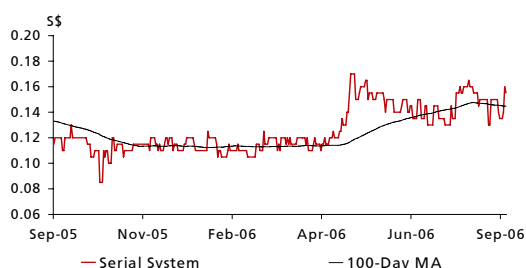
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**FORECASTS AND VALUATION**

FY Dec (\$\$ m)	2004A	2005A	2006F	2007F
Turnover	313.6	303.7	377.6	415.1
EBITDA	(1.5)	(1.5)	5.8	7.6
Pre-tax Profit	(2.0)	(5.1)	4.5	2.4
Net Profit	(4.0)	(6.0)	4.0	2.0
Net Pft (Pre Ex.)	(4.0)	(6.0)	2.3	2.0
EPS (\$ cts)	(1.3)	(2.0)	1.1	0.5
EPS Gth (%)	(227)	48	(156)	(51)
Diluted EPS (\$ cts)	(1.3)	(1.9)	0.9	0.4
DPS (\$ cts)	0.3	0.0	0.0	0.0
BV Per Share (\$ cts)	24.8	22.3	23.5	24.0
PE (X)	(11.6)	(7.9)	14.0	28.5
P/Cash Flow (X)	(9.1)	(9.9)	11.4	12.1
EV/EBITDA (X)	(54.0)	(61.1)	19.5	15.4
Net Div Yield (%)	2.1	0.0	0.0	0.0
P/Book Value (X)	0.6	0.7	0.7	0.6
Net Debt/Equity (X)	0.4	0.5	0.6	0.6
ROAE (%)	(5.2)	(7.6)	4.8	2.3

**SHARE PRICE CHART****AT A GLANCE**

Issued Capital (m shrs)	365
Mkt. Cap (S\$m/US\$m)	56.5 / 35.9
Major Shareholders	
Derek Goh Bak Heng (%)	37.6
Goi Seng Hui (%)	15.4
0 (%)	0.0
Free Float (%)	51.7
Avg. Daily Vol. ('000)	71

Earnings Rev :	FY06: -	FY07: -
Consensus EPS :	FY06: -	FY07: -
Variance vs Cons :	FY06: -	FY07: -

Sector : TECHNOLOGY

Bloomberg/Reuters Code: SERL SP EQUITY/SERL.SI

Principal Business: Distributor of electrical and electronics components

**SGX-MAS Research Incentive Scheme****Serial System****Turnaround priced in**

- **Story:** Serial's 1H06 results were in line with our estimates.
- **Point:** Revenue grew 52% y-o-y, resulting in a net profit (pre-extraordinaries) of S\$1.3m. We expect a weaker 2H due to the disposal of an associate, Wintech Microelectronics Co. Ltd. ("Wintech") and slowing growth of the semiconductor industry. Key catalysts would be M&A and expansion in North Asia.
- **Relevance:** We maintain our Fully Valued rating and price target of S\$0.13 based on 12x FY06 earnings. Key risk would be rising competition.

**Turned profitable in 1H06.** Serial turned around in 1H06 after three consecutive half year of losses. Excluding the S\$2m out-of-court settlement for the legal suit against Philips, net profit would have been S\$1.3m. Revenue grew 52% y-o-y boosted by strong demand in North Asia. North Asia primarily China, Taiwan and Korea, continue to be the most important region, contributing about 80% of total sales.

**Disposal of interest in Wintech.** In June 2006, management announced the disposal of its stake in Wintech, amounting to S\$37.6m. Hence, the company would not equity account Wintech's profit from June 2006 onwards. This will significantly reduce 2H06 earnings. We believe the shares held should be sold in the near term, as the company could use the proceeds to fund expansion.

**Profitable but weaker 2H.** We expect a weaker 2H due to the disposal of Wintech and slowing growth of the semiconductor industry. We project pricing pressure to continue. As such, we conservatively project 2H revenue and pre-extraordinaries earnings to fall 4% and 48% h-o-h, respectively. Management plans to expand its regional presence through M&A in North Asia. Growing its top line to achieve better economic of scale could be one of the best strategies to expand earnings at this point in time.

**Maintain Fully Valued with target price of S\$0.13.** We maintain our Fully Valued rating and price target of S\$0.13 based on 12x FY06 earnings. Key catalyst would be M&A and expansion. Key risk would be rising competition.

## Company Focus

## Serial System

### Results Summary and Comments

FY Dec (\$m)	1H05	2H05	1H06	% yoy	% hoh	Comment
<b>Sales</b>						
Semiconductors/Component Distribution	125.8	183.5	192.1	53%	5%	59% revenue growth for North Asia (which account for >80% of total revenue).
Other operations	0.9	0.8	0.2	-78%	-76%	
<b>PBT</b>						
Semiconductors/Component Distribution	(2.9)	0.8	1.0	nm	25%	
Other operations	0.1	(4.0)	2.3	nm	nm	
<b>Profit &amp; Loss</b>						
Sales	126.7	177.0	192.3	52%	9%	
Gross profit	14.6	18.9	18.7	28%	-1%	
S, G & A	(18.7)	(22.8)	(19.1)	2%	-17%	
Opg Pft	(2.2)	(1.8)	2.0	nm	nm	
Interest expense	(1.1)	(1.5)	(1.6)	39%	5%	Increase in borrowing and higher interest rate.
Associates	0.9	0.4	1.4	59%	221%	
Exceptional Gain / (Loss)	0.0	0.0	2.0	nm	nm	Out-of-court settlement for legal suit against Philips.
Pretax profit	(2.4)	(2.8)	3.9	nm	nm	
Tax	(0.2)	(0.7)	(0.2)	-20%	-73%	
Minority interest	(0.2)	0.2	(0.4)	86%	nm	
Net profit	(2.8)	(3.2)	3.3	nm	nm	
<b>MARGINS</b>						
Gross margin (%)	12%	11%	10%			Rising competition reduced margin.
SGA % Sales	-15%	-13%	-10%			
Opg Mgn (%)	-2%	-1%	1%			
Profit Mgn (%)	-2%	-2%	2%			

Source : Company, DBS Vickers

## Company Focus

## Serial System

### Income Statement (\$S m)

FY Dec	2004A	2005A	2006F	2007F
Turnover	313.6	303.7	377.6	415.1
Cost of Goods Sold	(282.9)	(270.2)	(341.0)	(375.3)
<b>Gross Profit</b>	<b>30.7</b>	<b>33.5</b>	<b>36.6</b>	<b>39.9</b>
Other Opg (Exp)/Inc	(35.3)	(37.5)	(33.6)	(35.1)
<b>EBIT</b>	<b>(4.5)</b>	<b>(4.0)</b>	<b>3.0</b>	<b>4.7</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	4.1	1.3	1.8	0.2
Net Interest (Exp)/Inc	(1.6)	(2.4)	(2.4)	(2.4)
Exceptional Gain/(Loss)	0.0	0.0	2.0	0.0
<b>Pre-tax Profit</b>	<b>(2.0)</b>	<b>(5.1)</b>	<b>4.5</b>	<b>2.4</b>
Tax	(2.0)	(0.9)	(0.5)	(0.5)
Minority Interest	(0.1)	0.0	0.1	0.0
Preference Dividend	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>(4.0)</b>	<b>(6.0)</b>	<b>4.0</b>	<b>2.0</b>
Net profit before Except.	(4.0)	(6.0)	2.3	2.0
EBITDA	(1.5)	(1.5)	5.8	7.6
Sales Gth (%)	(3)	(3)	24	10
EBITDA Gth (%)	(127)	(2)	(485)	31
EBIT Gth (%)	(239)	(11)	(176)	55
Effective Tax Rate (%)	N/A	N/A	11.1	20.0

### Cash Flow Statement (\$S m)

FY Dec	2004A	2005A	2006F	2007F
Pre-Tax Profit	(2.0)	(5.1)	4.5	2.4
Dep. & Amort.	3.0	2.5	2.7	2.8
Tax Paid	(2.6)	(1.6)	(0.7)	(0.5)
Assoc. & JV Inc/(loss)	(4.1)	(1.3)	(1.8)	(0.2)
Non-Cash Wkg.Cap.	(5.8)	(10.9)	(15.6)	(7.9)
Other Operating CF	4.6	6.4	0.0	0.0
<b>Net Operating CF</b>	<b>(7.0)</b>	<b>(10.0)</b>	<b>(10.9)</b>	<b>(3.3)</b>
Capital Exp.(net)	(7.7)	(0.5)	(0.6)	(0.6)
Other Invts.(net)	(3.5)	(2.3)	0.0	0.0
Invts in Assoc. & JV	0.9	(3.0)	0.0	0.0
Div from Assoc & JV	1.8	0.0	0.0	0.0
Other Investing CF	(0.9)	0.9	0.0	0.0
<b>Net Investing CF</b>	<b>(9.4)</b>	<b>(4.9)</b>	<b>(0.6)</b>	<b>(0.6)</b>
Div Paid	(1.0)	(0.6)	0.0	0.0
Chg in Gross Debt	14.8	12.1	8.0	0.0
Capital Issues	0.2	7.0	0.0	0.0
Other Financing CF	(0.7)	1.8	0.0	0.0
<b>Net Financing CF</b>	<b>13.3</b>	<b>20.3</b>	<b>8.0</b>	<b>0.0</b>
Net Cashflow	(3.1)	5.4	(3.5)	(3.9)

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

FY Dec	1H2005	2H2005	1H2006	2H2006
Turnover	126.7	177.0	192.3	185.2
Cost of Goods Sold	(112.1)	(158.1)	(173.6)	(167.3)
<b>Gross Profit</b>	<b>14.6</b>	<b>18.9</b>	<b>18.7</b>	<b>17.9</b>
Other Oper. (Exp)/Inc	(16.8)	(20.7)	(16.7)	(16.9)
<b>EBIT</b>	<b>(2.2)</b>	<b>(1.8)</b>	<b>2.0</b>	<b>1.0</b>
Associates & JV Inc	0.9	0.4	1.4	0.4
Net Interest (Exp)/Inc	(1.0)	(1.4)	(1.5)	(0.9)
Exceptional Gain/(Loss)	0.0	0.0	2.0	0.0
<b>Pre-tax Profit</b>	<b>(2.4)</b>	<b>(2.8)</b>	<b>3.9</b>	<b>0.6</b>
Tax	(0.2)	(0.7)	(0.2)	(0.3)
Minority Interest	(0.2)	0.2	(0.4)	0.5
<b>Net Profit</b>	<b>(2.8)</b>	<b>(3.2)</b>	<b>3.3</b>	<b>0.7</b>
Net profit bef Except.	(2.8)	(3.2)	1.4	0.7
EBITDA	(2.2)	0.7	2.0	3.7
Sales Gth (%)	(11)	40	9	(4)
EBITDA Gth (%)	(48)	(132)	186	84
EBIT Gth (%)	(69)	(19)	(213)	(51)
Gross Margins (%)	11.5	10.7	9.7	9.7
EBIT Margins (%)	(1.7)	(1.0)	1.1	0.5

Source: Company, DBS Vickers

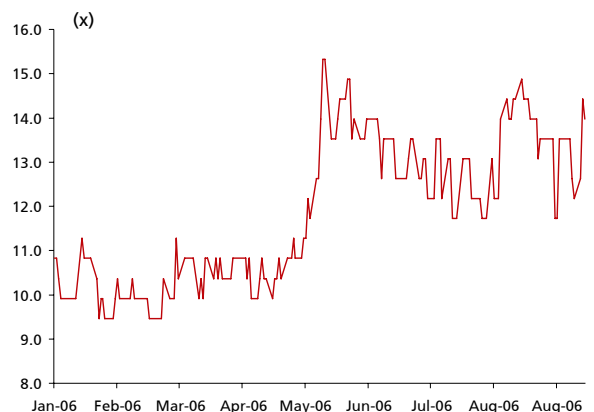
### Balance Sheet (\$S m)

FY Dec	2004A	2005A	2006F	2007F
Net Fixed Assets	19.6	17.1	15.7	14.2
Invts in Assocs & JVs	34.4	38.1	39.9	40.1
Other LT Assets	15.5	12.6	11.9	11.1
Cash & ST Invts	9.2	14.5	11.0	7.1
Other Current Assets	74.0	114.0	141.3	155.1
<b>Total Assets</b>	<b>152.7</b>	<b>196.5</b>	<b>219.9</b>	<b>227.7</b>
ST Debt	39.7	34.6	42.6	42.6
Other Current Liab	31.0	54.5	65.9	71.8
LT Debt	0.9	19.9	19.9	19.9
Other LT Liabilities	1.7	1.6	1.6	1.6
Shareholder's Equity	75.4	81.5	85.5	87.5
Minority Interests	3.9	4.3	4.2	4.2
<b>Total Cap. &amp; Liab.</b>	<b>152.7</b>	<b>196.5</b>	<b>219.9</b>	<b>227.7</b>
Non-Cash Wkg. Cap	43.0	59.6	75.4	83.3
Net Cash/(Debt)	(31.4)	(40.1)	(51.6)	(55.5)

### Rates & Ratios

FY Dec	2004A	2005A	2006F	2007F
Gross Margin (%)	9.8	11.0	9.7	9.6
EBITDA Margin (%)	(0.5)	(0.5)	1.5	1.8
EBIT Margin (%)	(1.4)	(1.3)	0.8	1.1
Net Profit Margin (%)	(1.3)	(2.0)	1.1	0.5
ROAE (%)	(5.2)	(7.6)	4.8	2.3
ROA (%)	(0.2)	(1.4)	2.4	2.2
ROCE (%)	(10.5)	(2.4)	2.2	0.0
Div Payout Ratio (%)	N/A	N/A	0.0	0.0
Interest Cover (x)	(2.8)	(1.7)	1.3	1.9
Debtors Turn (days)	39.0	74.7	74.7	74.7
Creditors Turn (days)	25.6	57.4	58.6	58.7
Inventory Turn (days)	46.7	67.3	66.3	66.2
Current Ratio (x)	1.2	1.4	1.4	1.4
Quick Ratio (x)	0.7	0.9	0.8	0.8
Net Debt/Equity (X)	0.4	0.5	0.6	0.6
Capex to Debt (%)	19.0	0.8	0.9	1.0
N.Cash/(Debt)PS (S cts)	(10.4)	(11.0)	(14.1)	(15.2)
Opq CFPS (S cts)	(0.39)	0.31	1.28	1.27
Free CFPS (S cts)	(4.85)	(3.44)	(3.15)	(1.07)

### PE Chart (x)



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