# Singapore Company Focus
# Serial System

**Bloomberg: SERL SP | Reuters: SERL.SI**

DBS Group Research . Equity 28 Aug 2009

## HOLD S$0.075 STI : 2,642.23

Upgrade from FULLY VALUED

**Price Target :** 12-Month S$ 0.07 (Prev S$ 0.05)
**Reason for Report :** 1H09 Results
**Potential Catalyst:** Improving consumer demand from Europe/US

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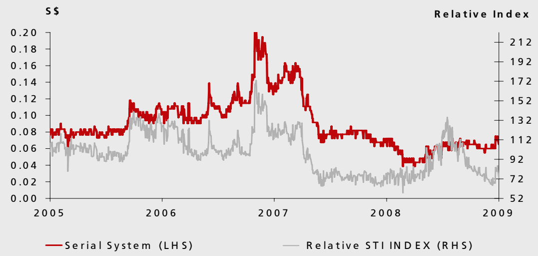
### Price Relative




### Forecasts and Valuation

| FY Dec (S$ m) | 2007A | 2008A | 2009F | 2010F |
|---|---|---|---|---|
| Turnover | 476.2 | 510.6 | 482.3 | 520.4 |
| EBITDA | 5.3 | 10.9 | 6.9 | 8.0 |
| Pre-tax Profit | 8.8 | 8.0 | 4.8 | 6.0 |
| Net Profit | 7.3 | 6.0 | 3.4 | 4.3 |
| Net Pft (Pre Ex.) | 0.2 | 6.0 | 3.4 | 4.3 |
| EPS (S cts) | 1.9 | 1.0 | 0.5 | 0.6 |
| EPS Pre Ex. (S cts) | 0.1 | 1.0 | 0.5 | 0.6 |
| EPS Gth Pre Ex (%) | (102.8) | 1,737.1 | (48.2) | 15.9 |
| Diluted EPS (S cts) | 1.8 | 0.8 | 0.4 | 0.5 |
| Net DPS (S cts) | 1.8 | 0.6 | 0.3 | 0.3 |
| BVPer Share (S cts) | 13.1 | 13.2 | 11.8 | 12.1 |
| PE (X) | 3.9 | 7.5 | 14.5 | 12.5 |
| PE Pre Ex. (X) | 137.9 | 7.5 | 14.5 | 12.5 |
| P/Cash Flow (X) | 3.0 | 6.1 | 10.7 | 10.3 |
| EV/EBITDA (X) | 9.7 | 5.6 | 9.4 | 8.5 |
| Net Div Yield (%) | 24.6 | 7.7 | 4.0 | 4.0 |
| P/Book Value (X) | 0.6 | 0.6 | 0.6 | 0.6 |
| Net Debt/Equity (X) | 0.3 | 0.2 | 0.2 | 0.1 |
| ROAE (%) | 9.1 | 7.6 | 4.2 | 5.0 |
| | | | | |
| Earnings Rev (%): | | | 162.5 | 84.7 |
| Consensus EPS (S cts): | | | 0.5 | 0.6 |

**ICB Industry** : Technology
**ICB Sector:** Technology Hardware & Equipmen
**Principal Business:** Distributor of electrical and electronics components

*Source of all data: Company, DBS Vickers, Bloomberg*

## SGX MAS Research Incentive scheme

## Encouraging signs

- **Revenue, profits better than expected**
- **Gross margins held up, operating costs affected by allowances for receivables/ inventory**
- **Balance sheet shored up by recent rights issue**
- **Upgrade to HOLD, TP revised up to S$0.07**

**Sales rebounded in 2Q.** Group turnover of S$229.1m in1H09 was down 11% y-o-y. 2Q09 witnessed a stronger-than-expected recovery in sales which rebounded 27% over 1Q09 and was down only 2% y-o-y. This was largely a result of restocking activities in the global electronics components supply chain. Also, resilient sales in China and addition of new customers were able to partly offset double-digit declines in electronics demand from end-users in Europe and the US. While the Group was able to sustain gross margin of 9% despite lower sales – by focusing on higher margin products – operating expenses were affected by higher allowances for receivables and inventory obsolescence. As a result, net profit of S$1.2m was down 62% y-o-y, coming in only slightly above our estimates.

**Balance sheet looks stronger.** The Group raised S$6.3m through a rights issue earlier this year, largely to pay back short-term borrowings – partly incurred to acquire a new business to distribute Texas Instruments products in Taiwan and the PRC.

**2H is seasonally stronger.** While the Group continues to expect challenging market conditions, we believe improving industry fundamentals (beyond inventory restocking) will continue to drive steady earnings recovery, going forward. We revise up our FY09-10 net profit estimates by about S$2m and upgrade our call to HOLD (TP S$0.07, pegged to 0.7x P/BV).

### At A Glance

| | |
|---|---|
| Issued Capital (m shrs) | 724 |
| Mkt. Cap (S$m/US$m) | 54.3 / 37.7 |
| Major Shareholders | |
| Derek Goh Bak Heng (%) | 35.7 |
| Goi Seng Hui (%) | 10.5 |
| Free Float (%) | 53.8 |
| Avg. Daily Vol.('000) | 395 |

## Earnings Summary and Comparisons

| FY Dec (S$ m) | 1H08 | 2H08 | 1H09 | Y-o-Y Chg | H-o-H Chg |
|---|---|---|---|---|---|
| Sales | 258.5 | 252.1 | 229.1 | -11% | -9% |
| Cost of Goods Sold | (235.6) | (228.3) | (208.5) | -12% | -9% |
| Gross Profit | 22.9 | 23.7 | 20.6 | -10% | -13% |
| Other Operating Income | 2.6 | 2.6 | 1.7 | -35% | -37% |
| *Distribution* | (11.8) | (10.3) | (9.6) | -19% | -7% |
| *Administrative* | (3.1) | (3.1) | (2.6) | -15% | -16% |
| *Others* | (5.6) | (7.6) | (7.4) | 33% | -2% |
| Other Operating Expenses | (20.4) | (21.0) | (19.6) | -4% | -6% |
| EBIT | 5.1 | 5.4 | 2.7 | -48% | -51% |
| Non-Operating Income | 0.0 | 0.0 | 0.0 | | |
| Interest Income | 0.0 | 0.2 | 0.0 | | -100% |
| Interest Expense | (1.1) | (1.1) | (0.6) | -49% | -48% |
| Share of Associates' or JV Income | 0.1 | (0.5) | (0.2) | -415% | -68% |
| Exceptional Gains/(Losses) | 0.0 | 0.0 | 0.0 | | |
| Pretax Profit | 4.1 | 3.9 | 1.9 | -53% | -51% |
| Tax | (0.6) | (0.8) | (0.7) | 16% | -10% |
| Minority Interests | (0.3) | (0.3) | (0.0) | -85% | -82% |
| Net Profit | 3.1 | 2.9 | 1.2 | -62% | -59% |
| | | | | | |
| Margins (%) | | | | | |
| Gross Margin | 8.9 | 9.4 | 9.0 | | |
| SGA % Sales | 7.9 | 8.3 | 8.6 | | |
| EBITDA Margin | 2.2 | 2.3 | 1.4 | | |
| EBIT Margin | 2.0 | 2.1 | 1.2 | | |
| Pre-tax Margin | 1.6 | 1.6 | 0.8 | | |
| Net Margin | 1.2 | 1.1 | 0.5 | | |

*Source: Company, DBS Vickers*

## Income Statement (S$ m)

| FY Dec | 2007A | 2008A | 2009F | 2010F |
|---|---|---|---|---|
| Turnover | 476.2 | 510.6 | 482.3 | 520.4 |
| Cost of Goods Sold | (434.7) | (463.9) | (438.9) | (473.6) |
| **Gross Profit** | 41.5 | 46.7 | 43.4 | 46.8 |
| Other Opg (Exp)/Inc | (36.9) | (36.1) | (37.1) | (39.8) |
| **Operating Profit** | 4.6 | 10.5 | 6.3 | 7.1 |
| Other Non Opg (Exp)/Inc | 0.0 | 0.0 | 0.0 | 0.0 |
| Associates & JV Inc | (0.7) | (0.5) | (0.3) | 0.0 |
| Net Interest (Exp)/Inc | (2.3) | (2.0) | (1.2) | (1.1) |
| Exceptional Gain/(Loss) | 7.1 | 0.0 | 0.0 | 0.0 |
| **Pre-tax Profit** | 8.8 | 8.0 | 4.8 | 6.0 |
| Tax | (1.3) | (1.4) | (1.1) | (1.2) |
| Minority Interest | (0.2) | (0.6) | (0.3) | (0.4) |
| Preference Dividend | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net Profit** | 7.3 | 6.0 | 3.4 | 4.3 |
| Net profit before Except. | 0.2 | 6.0 | 3.4 | 4.3 |
| EBITDA | 5.3 | 10.9 | 6.9 | 8.0 |
| | | | | |
| Sales Gth (%) | 30.7 | 7.2 | (5.5) | 7.9 |
| EBITDA Gth (%) | (470.1) | 106.4 | (36.5) | 14.8 |
| Opg Profit Gth (%) | (331.0) | 127.7 | (39.7) | 11.4 |
| Net Profit Gth (%) | (246.5) | (17.3) | (43.0) | 26.4 |
| Effective Tax Rate (%) | 14.4 | 17.3 | 22.0 | 20.0 |

## Balance Sheet (S$ m)

| FY Dec | 2007A | 2008A | 2009F | 2010F |
|---|---|---|---|---|
| Net Fixed Assets | 6.9 | 6.2 | 6.3 | 6.0 |
| Invts in Assocs & JVs | 4.0 | 3.7 | 3.4 | 3.4 |
| Other LT Assets | 22.1 | 23.2 | 23.1 | 23.1 |
| Cash & ST Invts | 15.4 | 15.4 | 23.3 | 26.0 |
| Inventory | 65.8 | 40.7 | 40.2 | 43.4 |
| Debtors | 65.8 | 57.0 | 68.9 | 69.4 |
| Other Current Assets | 1.5 | 1.0 | 1.0 | 1.0 |
| **Total Assets** | 181.4 | 147.2 | 166.3 | 172.2 |
| | | | | |
| ST Debt | 27.2 | 28.4 | 30.0 | 30.0 |
| Other Current Liab | 63.5 | 35.4 | 41.3 | 44.6 |
| LT Debt | 10.2 | 2.0 | 7.0 | 7.0 |
| Other LT Liabilities | 0.5 | 0.5 | 0.5 | 0.5 |
| Shareholder's Equity | 79.0 | 79.6 | 85.8 | 88.0 |
| Minority Interests | 1.1 | 1.4 | 1.7 | 2.2 |
| **Total Cap. & Liab.** | 181.4 | 147.2 | 166.3 | 172.2 |
| | | | | |
| Non-Cash Wkg. Cap | 69.7 | 63.4 | 68.9 | 69.2 |
| Net Cash/(Debt) | (22.0) | (14.9) | (13.7) | (11.0) |

## Cash Flow Statement (S$ m)

| FY Dec | 2007A | 2008A | 2009F | 2010F |
|---|---|---|---|---|
| Pre-Tax Profit | 8.8 | 8.0 | 4.8 | 6.0 |
| Dep. & Amort. | 1.3 | 0.9 | 0.9 | 0.9 |
| Tax Paid | (1.2) | (0.5) | (1.7) | (1.1) |
| Assoc. & JV Inc/(loss) | 0.7 | 0.5 | 0.3 | 0.0 |
| Non-Cash Wkg.Cap. | (1.7) | 4.6 | (4.9) | (0.5) |
| Other Operating CF | (6.7) | 2.2 | 0.0 | 0.0 |
| **Net Operating CF** | 1.2 | 15.7 | (0.5) | 5.3 |
| Capital Exp.(net) | (0.2) | (0.7) | (1.0) | (0.5) |
| Other Invts.(net) | 27.7 | 0.0 | 0.0 | 0.0 |
| Invts in Assoc. & JV | (4.4) | 0.0 | 0.0 | 0.0 |
| Div from Assoc & JV | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Investing CF | (4.8) | (2.8) | 0.0 | 0.0 |
| **Net Investing CF** | 18.2 | (3.6) | (1.0) | (0.5) |
| Div Paid | (7.1) | (3.2) | (3.5) | (2.2) |
| Chg in Gross Debt | (12.4) | (7.6) | 6.6 | 0.0 |
| Capital Issues | 7.3 | 0.0 | 6.3 | 0.0 |
| Other Financing CF | (4.7) | (1.3) | 0.0 | 0.0 |
| **Net Financing CF** | (16.9) | (12.1) | 9.4 | (2.2) |
| Net Cashflow | 2.5 | 0.1 | 7.9 | 2.6 |

## Rates & Ratio

| FY Dec | 2007A | 2008A | 2009F | 2010F |
|---|---|---|---|---|
| Gross Margins (%) | 8.7 | 9.1 | 9.0 | 9.0 |
| Opg Profit Margin (%) | 1.0 | 2.1 | 1.3 | 1.4 |
| Net Profit Margin (%) | 1.5 | 1.2 | 0.7 | 0.8 |
| ROAE (%) | 9.1 | 7.6 | 4.2 | 5.0 |
| ROA (%) | 4.0 | 3.7 | 2.2 | 2.6 |
| ROCE (%) | 3.2 | 7.6 | 4.2 | 4.5 |
| Div Payout Ratio (%) | 152.8 | 58.1 | 63.2 | 50.0 |
| Net Interest Cover (x) | 2.0 | 5.2 | 5.3 | 6.4 |
| Asset Turnover (x) | 2.6 | 3.1 | 3.1 | 3.1 |
| Debtors Turn (avg days) | 48.5 | 43.9 | 47.6 | 48.5 |
| Creditors Turn (avg days) | 48.6 | 38.0 | 30.8 | 32.3 |
| Inventory Turn (avg days) | 52.7 | 42.0 | 33.7 | 32.3 |
| Current Ratio (x) | 1.6 | 1.8 | 1.9 | 1.9 |
| Quick Ratio (x) | 0.9 | 1.1 | 1.3 | 1.3 |
| Net Debt/Equity (X) | 0.3 | 0.2 | 0.2 | 0.1 |
| Net Debt/Equity ex MI (X) | 0.3 | 0.2 | 0.2 | 0.1 |
| Capex to Debt (%) | 0.7 | 2.4 | 2.7 | 1.4 |
| N. Cash/(Debt)PS (S cts) | (3.6) | (2.5) | (1.9) | (1.5) |
| Opg CFPS (S cts) | 0.8 | 1.8 | 0.7 | 0.8 |
| Free CFPS (S cts) | 0.2 | 2.5 | (0.2) | 0.7 |

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

| FY Dec | 2H2007 | 1H2008 | 2H2008 | 1H2009 |
|---|---|---|---|---|
| Turnover | 258 | 259 | 252 | 229 |
| Cost of Goods Sold | (235) | (236) | (228) | (208) |
| **Gross Profit** | 23 | 23 | 24 | 21 |
| Other Oper. (Exp)/Inc | (17) | (18) | (18) | (18) |
| **Operating Profit** | 6 | 5 | 5 | 3 |
| Other Non Opg (Exp)/Inc | 0 | 0 | 0 | 0 |
| Associates & JV Inc | 0 | 0 | (1) | 0 |
| Net Interest (Exp)/Inc | (1) | (1) | (1) | (1) |
| Exceptional Gain/(Loss) | 0 | 0 | 0 | 0 |
| **Pre-tax Profit** | 5 | 4 | 4 | 2 |
| Tax | (1) | (1) | (1) | (1) |
| Minority Interest | 0 | 0 | 0 | 0 |
| **Net Profit** | 3 | 3 | 3 | 1 |
| Net profit bef Except. | 3 | 3 | 3 | 1 |
| EBITDA | 6 | 6 | 5 | 3 |
| | | | | |
| Sales Gth (%) | 18.5 | 0.1 | (2.5) | **(9.1)** |
| EBITDA Gth (%) | (738.8) | (8.2) | (6.8) | **(42.1)** |
| Opg Profit Gth (%) | (541.6) | (14.2) | 5.2 | **(50.6)** |
| Net Profit Gth (%) | (18.5) | (4.1) | (7.9) | (59.0) |
| Gross Margins (%) | 8.9 | 8.9 | 9.4 | **9.0** |
| Opg Margins (%) | 2.3 | 2.0 | 2.1 | **1.2** |
| Net Profit Margins (%) | 1.3 | 1.2 | 1.1 | 0.5 |

## Segmental Breakdown / Key Assumptions


*Source: Company, DBS Vickers*

| |
|---|
| DBSV recommendations are based an Absolute Total Return* Rating system, defined as follows: |
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| BUY (>15% total return over the next 12 months for small caps, >10% for large caps) |
| HOLD (-10 to +15% total return over the next 12 months for small caps, -10 to +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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