

14 August 2006

SERIAL SYSTEM

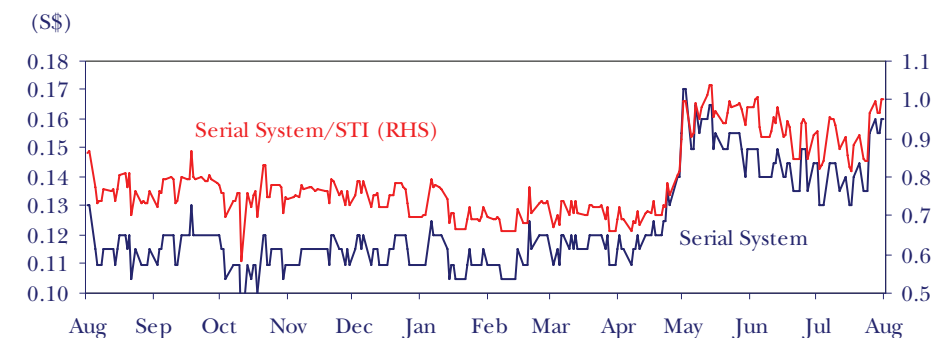
1H06: Back In The Black

First profit since 2004. Serial System registered a net profit of S\$3.3m in 1H06, reversing the S\$2.8m loss in 1H05. Revenue jumped 52% yoy to S\$192.3m, attributed to stronger sales from its North Asia operations. Excluding an exceptional gain of S\$2m for an out-of-court settlement of a legal suit, net profit would have been S\$1.3m.

Spectacular rebound in semiconductors/components distribution sales. Turnover for the Group's semiconductors/components distribution business rose a spectacular 53%, driven by stronger demand, increased customers' base, new product range and new markets. Turnover for semiconductors and components distribution now represents almost 100% of total sales while revenue from its North Asia accounts for over 80% of the Group's total sales.

Margin pressure remains under present competitive space. North Asia (which includes Greater China, Taiwan and South Korea) will continue to drive growth for the Group in 2H06. Management intends to channel more resources to further strengthen its presence there. While we think sales will remain buoyant over the next three years, we are less confident margins will be able to hold up under the present competitive space. Gross margin has fallen from 11.5% in 1H05 to 9.7% in 1H06.

Maintain HOLD. Limited visibility in earnings prospects. In view of the better-than-expected earnings in 1H06, we raise our FY06 net profit forecast from breakeven to S\$4.2m. We believe the depressed share price is likely to stay for a protracted period of time unless there is a convincing turnaround in the Group's operations. Maintain HOLD. Entry price is S\$0.12 based on FY06 PE of 10x.



Results

HOLD | S\$0.16

Sector	Technology
Bloomberg	SERL SP
Website	www.serialsystem.com.sg
Exchange Rate	S\$1.5793/US\$
52-Wk Range (S\$)	0.17/0.085
52-Wk Avg Daily Vol. ('000)	118
No. of Shares (m)	364.7
Market Cap (S\$m)	58.4
	(US\$m)
	36.9
Major Shareholders (%)	
Derek Goh Bak Heng	18.8
Goi Seng Hui	11.6
Book NTA per Share (Rmb)	0.21
ROE (%)	(7.6)
Net Debt per Share (Rmb)	0.11
Alternate Instruments	
Nil	
Results Due	
1Q: n.a.	1H: Aug
3Q: n.a.	Final: Feb
Market PE - STI (x)	
2005	12.3
2006F	14.3
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Year to 31 Dec	Turnover (S\$m)	EBIDTA (S\$m)	Net Profit (S\$m)	EPS (¢)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (¢)
2004	313.6	(2.5)	(4.0)	(1.32)	n.a.	n.a.	n.a.	0.3
2005	303.7	(1.3)	(6.0)	(1.97)	n.a.	n.a.	n.a.	0.0
2006F	407.6	8.8	4.2	1.14	n.a.	14.0	11.6	0.0
2007F	427.9	6.3	2.3	0.62	(45.7)	25.8	16.3	0.0
2008F	449.3	6.4	2.4	0.65	4.1	24.8	16.1	0.0

Consensus net profit – n.a.

Figure 1: Revenue and Net Profit by Segment

Year to 31 Dec (\$m)	2004	2005	2006F	2007F	2008F
Revenue					
Semiconductors/components distribution	309.3	301.9	407.6	427.9	449.3
Consumer digital appliances	4.3	1.8	0.0	0.0	0.0
Net Profit					
Semiconductors / components distribution	8.7	(3.4)	4.2	2.3	2.4
Consumer digital appliances	(7.1)	(5.4)	0.0	0.0	0.0
Net Margin (%)					
Semiconductors/components distribution	2.8	(1.1)	1.0	0.5	0.5
Consumer digital appliances	(165.1)	(300.0)	0.0	0.0	0.0

Source: Serial System, UOB Kay Hian

Figure 2: Profit & Loss

Year to 31 Dec (S\$m)	2004	2005	2006F	2007F	2008F
Sales	313.6	303.7	407.6	427.9	449.3
Cost of sales	(282.9)	(270.2)	(366.0)	(384.3)	(403.5)
Gross Profit	30.7	33.5	41.6	43.7	45.8
Other operating income	6.9	4.1	6.0	4.0	4.0
Distribution costs	(16.5)	(20.8)	(22.4)	(23.5)	(24.7)
Administrative expenses	(6.0)	(5.4)	(5.7)	(6.0)	(6.3)
Other operating expenses	(19.6)	(15.4)	(15.5)	(16.3)	(17.1)
Net finance costs	(1.6)	(2.4)	(2.3)	(2.1)	(1.9)
Profit before tax	(1.9)	(5.1)	4.2	2.3	2.4
Taxation	(2.0)	(0.9)	0.0	0.0	0.0
Profit after tax	(3.9)	(6.0)	4.2	2.3	2.4
Minority interests	(0.1)	0.0	0.0	0.0	0.0
Net Profit	(3.9)	(6.0)	4.2	2.3	2.4

Source: Serial System, UOB Kay Hian

Figure 3: Balance Sheet

As at 31 Dec (S\$m)	2004	2005	2006F	2007F	2008F
Non-current assets	69.5	67.9	69.0	68.0	67.1
Property, plant & equipment	19.6	17.1	16.3	16.2	16.5
Intangible assets	12.8	9.5	14.1	14.8	15.5
Investment in associate company	34.4	38.1	35.5	34.0	32.0
Others	2.8	3.1	3.0	3.0	3.0
Current assets	83.2	127.9	142.2	154.5	164.6
Stocks	36.2	49.8	54.9	57.7	60.5
Trade and other receivables	37.4	62.2	73.4	77.0	80.9
Cash & equivalents	9.2	14.5	9.8	15.8	21.2
Others	0.4	1.4	4.1	4.1	2.0
Current liabilities	70.7	88.5	88.6	91.6	97.4
Borrowings	39.7	34.0	34.7	35.0	38.0
Trade and other payables	29.7	53.7	52.7	55.4	58.2
Current tax liabilities	1.3	0.7	1.2	1.2	1.2
Non-current liabilities	2.6	21.6	21.3	21.3	21.3
Borrowings	0.9	19.9	19.9	19.9	19.9
Deferred tax liabilities	1.0	1.0	1.0	1.0	1.0
Others	0.7	0.6	0.4	0.4	0.4
Shareholders' funds	75.4	81.5	90.5	95.1	99.6
Share capital	30.4	36.5	38.0	40.0	42.0
Share premium	49.1	50.0	50.0	50.0	50.0
Others	(4.1)	(5.0)	2.5	5.1	7.6
Minority interests	3.9	4.3	3.9	6.0	4.0
Total equity	79.4	85.8	94.4	101.1	103.6

Source: Serial System, UOB Kay Hian

Figure 4: Cash Flow

As at 31 Dec (\$m)	2004	2005	2006F	2007F	2008F
Operating	(6.9)	(9.6)	(4.4)	7.0	7.3
Pretax profit	(6.1)	(6.4)	4.2	2.3	2.4
Depreciation & amortisation	1.5	1.8	1.8	1.6	1.7
Working capital changes	(8.4)	(12.5)	(17.3)	(3.8)	(4.0)
Income tax paid	(2.6)	(1.6)	0.0	0.0	0.0
Investing	(9.4)	(4.8)	(3.0)	(3.5)	(4.1)
Capex	(7.8)	(0.5)	(1.0)	(1.5)	(2.0)
Proceeds from sale of plant and equipment	0.5	0.1	0.2	0.4	0.6
Others	(2.1)	(4.3)	(2.2)	(2.4)	(2.7)
Financing	12.2	20.7	2.8	2.5	2.3
Net Borrowings	14.9	(6.5)	5.0	5.0	5.0
Dividends paid	(1.0)	(0.6)	(1.0)	(1.3)	(1.5)
Others	(1.6)	27.9	(1.2)	(1.2)	(1.2)
Net Cash Inflow/(Outflow)	(4.1)	6.3	(4.7)	5.9	5.4
Cash & cash equivalent at start of year	12.2	8.2	14.5	9.8	15.8
Cash & cash equivalent at end of year	8.2	14.5	9.8	15.8	21.2

Source: Serial System, UOB Kay Hian

Figure 5: Ratios

Year to 31 Dec	2004	2005	2006F	2007F	2008F
Growth (%)					
Sales	(3.4)	(3.2)	34.2	5.0	5.0
EBITDA	n.m	(47.6)	n.m	(28.6)	1.5
Pretax profit	n.m	(163.2)	181.3	n.m	4.1
Net profit	n.m	(52.9)	169.3	n.m	4.1
EPS	41.1	(40.9)	161.6	n.m	4.1
Profitability (%)					
EBITDA margin	(0.8)	(0.4)	2.1	1.5	1.4
Pretax margin	(0.6)	(1.7)	1.0	0.5	0.5
Net margin	(1.2)	(2.0)	1.0	0.5	0.5
ROA	(2.6)	(3.1)	2.0	1.0	1.0
ROE	(4.9)	(7.0)	4.4	2.2	2.3
Leverage (%)					
LT Debt/Equity	1.2	24.5	22.0	21.0	20.0
Total Debt/Total Assets	26.6	27.6	25.9	24.7	25.0
Total Debt/Equity	53.8	66.2	60.4	57.8	58.2
Net Debt (Cash)/Equity	41.7	48.4	49.5	41.2	36.9
Interest Cover (x)	(2.5)	(1.5)	1.6	0.8	0.8
Working Capital Management (Days)					
Debtors' turnover	44	75	66	66	66
Creditors' turnover	35	65	47	47	47
Inventory turnover	47	67	55	55	55

Source: Serial System, UOB Kay Hian

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