

Serial Systems

(SERL SP : S\$0.14)

FYE Dec	2004	2005F	2006F
Turnover	313.6	329.5	346.0
Net Profit	-4.0	2.9	2.9
EPS (cts)	-1.3	0.9	0.9
PE (x)	nm	15.1	15.0
Div Yield (%)	0.7	0.9	0.8

Surprising S\$2.4m loss in 1Q05 - Maintain Fully Valued

Serial Systems (SERL) reported a S\$2.4m loss after it advised that all provisions were made in 4Q04 and due to lower contribution from Winstech (S\$0.4m versus S\$1.8m). The loss stemmed from a 27% y-o-y decline in semiconductor distribution sales was caused by weak end demand and rescheduling of orders by customers. SGA to sales also remained relatively high (15% vs 9% a year ago), resulting in a S\$2m pretax loss.

Management has guided for earnings to turn around in FY05, largely due to the absence of the S\$5m provision for inventory obsolescence in 2004 and the expansion of its regional footprint (Taiwan) this year. China will remain the key earnings growth driver and SERL will also focus on expanding its product mix and customer base. We expect SERL to be at least profitable in the next 3 quarters, and meet our FY05 earnings estimate of S\$2.9m.

SERL is trading at expensive 2005 PE of 15x. We maintain our Fully Valued rating and price target of S\$0.10 (10x 2005 PE). We continue to believe that a better alternative to SERL is Willas-Array, which trades at about 6x PE with ROE of 13% and offers a dividend yield of 8% (SERL: 1%).

Result Analyser

FY Sep (\$ \$m)	1Q04	4Q04	1Q05	% QoQ	% YoY	Comment
Segmental						
Semiconductors/Component Distribution	76.2	74.3	55.9	(24.8)	(26.6)	Decline due to rescheduling of orders by customers
Other operations	0.9	0.8	0.3	(62.5)	(66.7)	Weak demand for consumer electronics, particularly in US
Sales	<u>77.1</u>	<u>75.1</u>	<u>56.2</u>	<u>(25.2)</u>	<u>(27.1)</u>	
Profit & Loss						
Sales	<u>77.1</u>	<u>75.1</u>	<u>56.2</u>	<u>(25.2)</u>	<u>(27.2)</u>	
Gross profit	8.0	7.2	6.0	(17.4)	(25.5)	Gross margin flat as efforts to reduce cost paid off
S, G & A	(6.7)	(12.4)	(8.4)	(32.2)	24.4	
Opg Pft	1.3	(5.2)	(2.4)	(53.0)	(292.6)	
Interest expense	(0.2)	(0.6)	(0.5)	(20.6)	171.7	
Associates	1.8	0.9	0.4	(50.5)	(76.9)	Stake in Wintech was reduced to 20.7% from 21.2% last year
Pretax profit	2.9	(4.9)	(2.5)	(49.7)	(184.2)	
Tax	(0.9)	(0.5)	0.0	(108.6)	(104.9)	
Minority interest	(0.2)	0.2	0.0	NM	NM	
Net profit	<u>1.8</u>	<u>(5.2)</u>	<u>(2.4)</u>	<u>(53.8)</u>	<u>(236.2)</u>	
MARGINS						
Gross margin (%)	10.4	9.6	10.6			
SGA % Sales	(8.7)	(16.5)	(14.9)			
Opg Mgn (%)	1.6	(6.9)	(4.3)			
EBITDA margin (%)	NA	NA	NA			
Tax rate (%)	31.3	(10.7)	1.8			
Key Balance Sheet & Cash Flow Items						
DOS Inventory	59.8	43.8	59.2			
DOS Acct Receivables	34.3	36.4	64.5			
Net (Debt) Cash	(30.0)	(31.4)	(33.1)			
Shareholders Funds	82.4	75.4	75.8			
Gearing %	36.4	41.7	43.6			

Source: Company, DBS Vickers

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