

Serial System Ltd

Company update

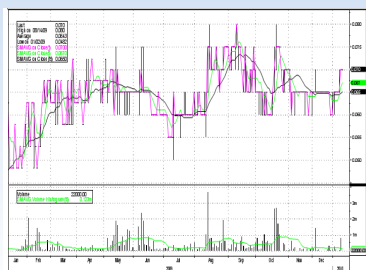
BUY (upgrade)

Current Price **S\$0.07**
11 January 2010

Fair Value **S\$0.11**

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Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$50.7m
52-HI	S\$0.08
52-LOW	S\$0.05
Avg Vol (1 yr)	892,894
Shares Outstanding	724.11m
Free Float	374.8m

Key Indicators

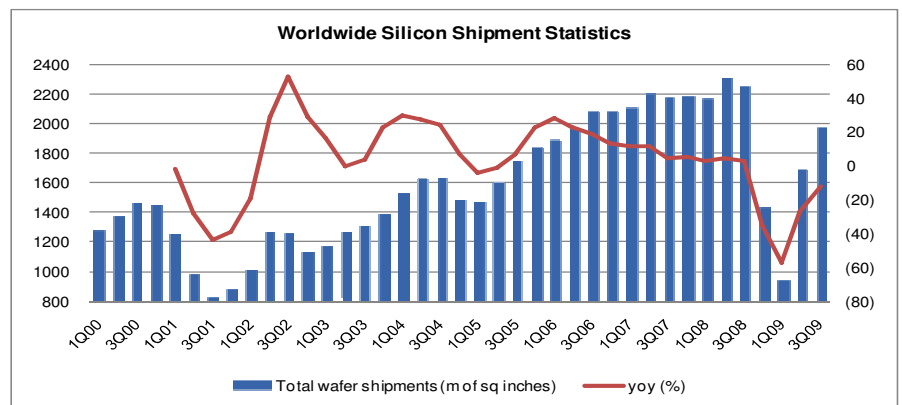
ROE 09F	7.6%
ROA 09F	3.9%
P/BK	0.6x
Net gearing	0.18x

Major Shareholders

Derek Goh Bak Heng	35.7%
Goi Seng Hui	12.5%

Stronger than expected demand for chips in 2H

- All factors pointing to positive growth for semiconductors.** Recently, most of the market research firms changed their forecasts dramatically. VLSI Research pointed out that lower capacity, combined with low inventory, is likely to keep chip prices high in year 2010. Semiconductor Industry Association adjusted their sales forecast to be more optimistic, projecting revenues of about US\$242bn or 10.2% growth in 2010. Gartner revised its forecast for 2010 revenue to bounce back to US\$255bn (an increase of 13%). Future Horizon even talks about explosive growth for the total IC industry over the coming couple of years, believing the industry will grow 22% in 2010.



Source: SEMI Silicon Manufacturers Group

- Driven by the next generation of electronics products.** We believe this year's demand will continue to be driven by the next generation product such as smart phones, tablet PCs, netbooks, e-books, LED TV and not forgetting energy saving products including air-conditioners, washing machines and refrigerators. As one of the major traders for semiconductors and electronic components, Serial System is clearly benefitting from the up cycle.
- Raised forecasts and upgrade recommendation to BUY.** Given the stronger than expected rebound in chips sales, we have raised our FY09-11 forecasts by 47-88%. We peg our fair value now on 10x FY10 PER instead of 0.8x FY09 PBR. As such, our fair value has been raised from S\$0.08 to S\$0.11. Given the potential of 64% upside and higher dividend payout (yield projected to be 3.9% in FY09), we upgrade our call from Hold to Buy.

Key Financial Data

(S\$ m, FYE Dec)	2007	2008	2009F	2010F	2011F
Sales	476.2	510.6	515.7	567.2	624.0
Gross Profit	41.5	46.7	49.0	53.3	56.8
Net Profit	7.3	6.0	6.9	8.3	8.1
EPS (cents)	1.2	1.0	1.0	1.1	1.1
EPS growth (%)	188.5	(17.3)	(0.5)	19.5	(1.8)
PER (x)	6.0	7.3	7.3	6.1	6.2
NTA/share (cents)	10.9	11.2	10.5	11.4	12.1
DPS (cents)	1.9	0.6	0.3	0.3	0.4
Div Yield (%)	27.6	8.0	3.9	3.9	5.9

Source: Company, NRA Capital estimates

Profit & Loss (\$\$ m, FYE Dec)	2007	2008	2009F	2010F	2011F
Revenue	476.2	510.6	515.7	567.2	624.0
Operating expenses	(475.5)	(500.6)	(507.4)	(558.8)	(616.1)
EBITDA	0.7	9.9	8.3	8.4	7.8
Depreciation & amortisation	(1.3)	(0.9)	(0.9)	(0.9)	(0.9)
EBIT	(0.7)	9.0	7.4	7.5	6.9
Net interest & invt income	3.0	(0.5)	2.1	3.5	4.0
Associates' contribution	(0.7)	(0.5)	(0.2)	0.0	0.0
Exceptional items	7.1	0.0	0.0	0.0	0.0
Pretax profit	8.8	8.0	9.3	11.1	10.9
Tax	(1.3)	(1.4)	(2.1)	(2.5)	(2.5)
Minority interests	(0.2)	(0.6)	(0.2)	(0.2)	(0.2)
Net profit	7.3	6.0	6.9	8.3	8.1
Wt. shares (m)	625.8	625.8	724.1	724.1	724.1
Shares at year-end (m)	625.8	625.8	724.1	724.1	724.1

Balance Sheet (\$\$ m, as at Dec)	2007	2008	2009F	2010F	2011F
Fixed assets	6.9	6.2	6.0	5.7	5.5
Intangible assets	11.0	9.8	14.0	14.0	14.0
Other long-term assets	15.0	17.1	17.1	17.1	17.1
Total non-current assets	32.9	33.0	37.0	36.8	36.6
Cash and equivalents	15.4	15.4	23.2	18.7	18.7
Stocks	65.8	40.7	53.7	61.7	68.1
Trade debtors	61.6	52.7	60.6	67.3	72.5
Other current assets	5.8	5.3	5.8	7.2	8.4
Total current assets	148.5	114.2	143.3	154.9	167.7
Trade creditors	55.2	28.8	51.6	56.7	62.4
Short-term borrowings	27.2	28.4	25.8	27.2	28.1
Other current liabilities	8.2	6.6	6.3	6.7	7.0
Total current liabilities	90.7	63.7	83.6	90.7	97.4
Long-term borrowings	10.2	2.0	5.2	2.8	3.1
Other long-term liabilities	0.5	0.5	0.1	0.1	0.1
Total long-term liabilities	10.7	2.5	5.3	2.9	3.2
Shareholders' funds	79.0	79.6	89.8	96.3	101.5
Minority interests	1.1	1.4	1.6	1.8	2.1
NTA/share (\$\$)	0.11	0.11	0.10	0.11	0.12
Total Assets	181.4	147.2	180.3	191.7	204.3
Total Liabilities + S'holders' funds	181.4	147.2	180.3	191.7	204.3

Cash Flow (\$\$ m, FYE Dec)	2007	2008	2009F	2010F	2011F
Pretax profit	8.8	8.0	9.3	11.1	10.9
Depreciation & non-cash adjustments	(0.7)	7.9	2.5	1.6	1.7
Working capital changes	(3.0)	2.3	0.2	(11.4)	(8.0)
Cash tax paid	(1.5)	(0.5)	(1.8)	(1.2)	(1.4)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	3.5	17.7	10.3	0.1	3.3
Capex	(0.8)	(0.3)	(5.6)	(0.4)	(0.4)
Net investments & sale of FA	19.1	(3.2)	(0.5)	0.0	0.0
Others	0.3	0.2	(0.4)	(0.6)	(0.3)
Cash flow from investing	18.5	(3.4)	(6.5)	(1.1)	(0.8)
Debt raised/(repaid)	(9.9)	(7.1)	0.6	(0.9)	1.1
Equity raised/(repaid)	7.3	0.0	6.3	0.0	0.0
Dividends paid	(7.1)	(3.2)	(2.0)	(2.0)	(3.0)
Cash interest & others	(9.8)	(4.0)	(0.8)	(0.6)	(0.7)
Cash flow from financing	(19.5)	(14.4)	4.0	(3.5)	(2.5)
Change in cash	2.5	(0.0)	7.8	(4.5)	0.0
Change in net cash/(debt)	12.4	7.1	7.2	(3.6)	(1.1)
Ending net cash/(debt)	(22.0)	(14.9)	(7.7)	(11.3)	(12.5)

KEY RATIOS (FYE Dec)	2007	2008	2009F	2010F	2011F
Revenue growth (%)	30.7	7.2	1.0	10.0	10.0
EBITDA growth (%)	107.6	1,397.5	(16.5)	1.5	(7.0)
Pretax margins (%)	1.8	1.6	1.8	2.0	1.7
Net profit margins (%)	1.5	1.2	1.3	1.5	1.3
Interest cover (x)	4.4	4.7	8.5	10.2	9.7
Effective tax rates (%)	14.4	17.3	23.0	23.0	23.0
Net dividend payout (%)	165.6	58.1	28.8	24.1	36.8
Debtors turnover (days)	46.1	40.8	40.1	41.2	40.9
Stock turnover (days)	52.6	41.9	36.9	41.0	41.7
Creditors turnover (days)	38.7	30.0	28.4	34.8	34.8

Source: Company, NRA Capital Estimates

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