

Serial System Ltd

2H09 results update

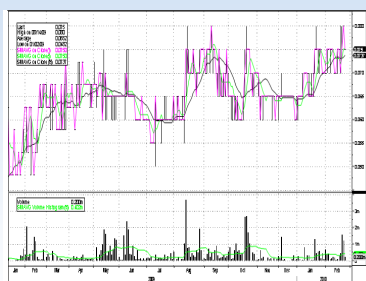
BUY

Current Price S\$0.08
22 February 2010

Fair Value S\$0.14

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Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$57.9m
52-HI	S\$0.08
52-LOW	S\$0.05
Avg Vol (1 yr)	381,951
Shares Outstanding	724.11m
Free Float	314.9m

Key Indicators

ROE 10F	10.0%
ROA 10F	4.8%
P/BK	0.73x
Net gearing	0.27x

Major Shareholders

Derek Goh Bak Heng	35.7%
Goi Seng Hui	12.5%

Asia seen as a key to drive growth

- **Above expectations.** 2H09 net profit of S\$6.3m came in 9% above our profit expectation of S\$5.8m. The key variances were better-than-expected sales and lower-than-expected effective tax rate. However, this was slightly offset by lower-than-expected gross margins.
- **Sales jumped 30% yoy and 43% qoq in 2H09** due to stronger demand for electronics products in Asian markets, especially China and Korea. Lower sales were experienced by Singapore, Thailand and Malaysia which relied heavily on export to the US and Europe where demand for electronic products were mostly affected by the economic crisis. China accounted for 57% of the group's total sales for FY2009 and the group now operates 23 sales offices in key cities of China.
- **Gross margins slipped by 0.9% pts to 8.5% in 2H09** reflecting the highly competitive nature of the electronics industry coupled with the negative effects of the financial and economic crisis. Including the S\$0.9m forex loss and lower effective tax rate, pretax and net profits jumped 82% and 118% yoy respectively.
- **Net gearing remained comfortable.** Serial System generated S\$6.6m of negative free cash flow in 2H09 due mainly to higher working capital requirement by its Hong Kong and Korean subsidiaries to finance increased volume of businesses. Its net gearing increased from 16% as at end-Jun09 to 27%. However, cash conversion cycle was shortened by 11 days yoy to 53 days. As expected, the board declared a higher-than-expected final dividend of 0.38 cts as compared to 0.25 cts in previous years.
- **A largest distributor for Texas Instrument (TI) in China and Korea now** after acquiring the distribution rights for certain electronic components manufactured by Texas Instruments in China and Taiwan in May-09. Management also pointed the shortage for TI's product in 4Q09 slightly affected its business late last year till early this year. However, the supply is stabilising now. We see this as a good sign for electronic component distributors as pricing will be less volatile. We also believe this year the demand for electronic components will continue to be driven from Asia. Nevertheless, recovery from the USA and Europe market will be a bonus.
- **Raised forecast and maintain Buy.** We have raised our FY10-11 forecast by 21% and 33% respectively. We have also introduced FY12 forecast. As such, our fair value has risen from S\$0.11 to S\$0.14, still pegged on 10x FY10 PER. We maintain our **buy** recommendation.

Key Financial Data

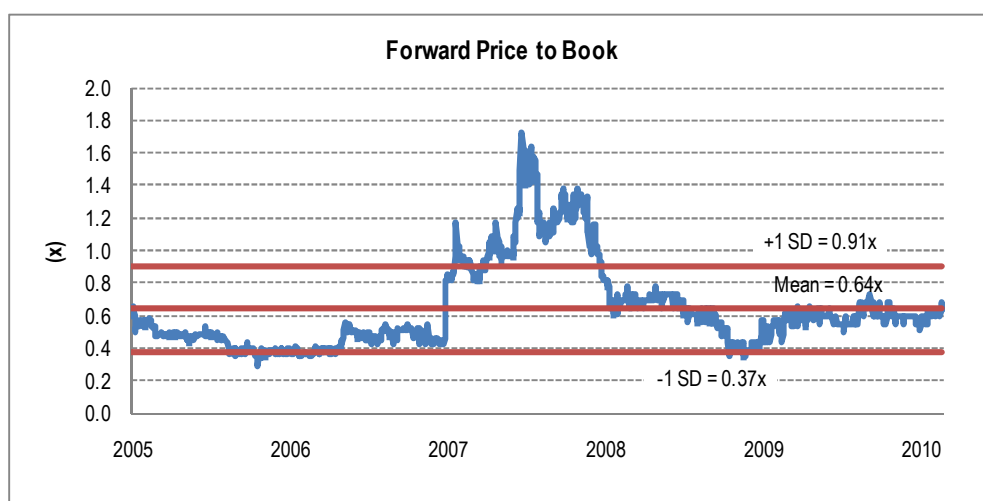
(S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Sales	510.6	556.5	640.0	704.0	739.2
Gross Profit	46.7	48.6	52.5	56.3	59.1
Net Profit	6.0	7.5	10.0	10.8	11.8
EPS (cents)	1.0	1.0	1.4	1.5	1.6
EPS growth (%)	(17.3)	7.2	34.2	7.8	9.4
PER (x)	8.3	7.7	5.8	5.4	4.9
NTA/share (cents)	11.2	10.9	11.8	12.8	14.0
DPS (cents)	0.6	0.5	0.5	0.5	0.5
Div Yield (%)	7.0	6.4	6.2	6.2	6.2

Source: Company, NRA Capital estimates

Results comparison

FYE Dec (S\$ m)	2H09	2H08	yoy % chg	1H09	hoh % chg	Prev. 2H09F	Comments
Revenue	327.5	252.1	30	229.1	43	286.6	14% above expectation
Operating costs	(321.3)	(246.0)	31	(226.4)	42	(280.9)	Above, higher-than-expected sales
EBITDA	6.2	6.1	2	2.6	135	5.7	Above, higher-than-expected sales
EBITDA margin (%)	1.9	2.4		1.1		2.0	Below, 0.1% point below our expectation
Depn & amort.	(1.0)	(0.4)	138	(0.6)	79	(0.3)	Above, amortisation of distribution rights
EBIT	5.2	5.6	(8)	2.1	151	5.3	In line
Interest expense	(0.7)	(1.1)	(33)	(0.6)	29	(0.7)	In line
Interest & invt inc	2.4	(0.1)	3,127	0.6	297	2.8	In line
Associates' contrib	0.3	(0.5)	165	(0.2)	305	(0.1)	Above, turn profit from associates
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	7.2	3.9	82	1.9	271	7.3	In line
Tax	(0.6)	(0.8)	(25)	(0.7)	(17)	(1.4)	Below, lower-than-expected effective tax rate
Tax rate (%)	8.1	19.8		36.3		19.5	
Minority interests	(0.3)	(0.3)	18	(0.0)	611	(0.2)	
Net profit	6.3	2.9	118	1.2	429	5.8	9% above expectation
EPS (cts)	0.9	0.5	88	0.2	429	0.8	9% above expectation

Source: NRA Capital estimates



Source: Bloomberg, NRA Capital Estimates

Profit & Loss (\$\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue	510.6	556.5	640.0	704.0	739.2
Operating expenses	(500.6)	(547.7)	(630.1)	(693.6)	(727.8)
EBITDA	9.9	8.8	9.8	10.4	11.4
Depreciation & amortisation	(0.9)	(1.6)	(1.6)	(1.6)	(1.6)
EBIT	9.0	7.2	8.3	8.8	9.8
Net interest & invt income	(0.5)	1.7	4.0	4.4	4.7
Associates' contribution	(0.5)	0.2	0.4	0.4	0.4
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	8.0	9.1	12.6	13.6	14.8
Tax	(1.4)	(1.3)	(2.1)	(2.3)	(2.5)
Minority interests	(0.6)	(0.4)	(0.4)	(0.5)	(0.5)
Net profit	6.0	7.5	10.0	10.8	11.8
Wt. shares (m)	625.8	724.1	724.1	724.1	724.1
Shares at year-end (m)	625.8	724.1	724.1	724.1	724.1

Balance Sheet (\$\$ m, as at Dec)	2008	2009	2010F	2011F	2012F
Fixed assets	6.2	6.0	5.1	4.2	3.0
Intangible assets	9.8	12.8	12.8	12.8	12.8
Other long-term assets	17.1	20.7	20.7	20.7	20.7
Total non-current assets	33.0	39.5	38.6	37.7	36.5
Cash and equivalents	15.4	20.7	23.2	22.4	24.9
Stocks	40.7	70.1	70.5	75.8	81.6
Trade debtors	53.3	64.5	71.5	79.6	85.9
Other current assets	4.8	5.6	5.5	6.4	7.5
Total current assets	114.2	161.0	170.8	184.2	199.9
Trade creditors	26.3	51.8	58.2	66.9	71.7
Short-term borrowings	28.4	39.5	35.2	31.7	33.3
Other current liabilities	9.1	8.2	8.8	9.3	9.8
Total current liabilities	63.7	99.4	102.3	107.9	114.8
Long-term borrowings	2.0	6.9	6.4	5.6	4.4
Other long-term liabilities	0.5	0.6	0.3	0.3	0.3
Total long-term liabilities	2.5	7.5	6.7	5.9	4.8
Shareholders' funds	79.6	92.0	98.4	105.6	113.9
Minority interests	1.4	1.6	2.0	2.5	2.9
NTA/share (\$\$)	0.11	0.11	0.12	0.13	0.14
Total Assets	147.2	200.5	209.4	221.9	236.3
Total Liabilities + S'holders' funds	147.2	200.5	209.4	221.9	236.3

Cash Flow (\$\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Pretax profit	8.0	9.1	12.6	13.6	14.8
Depreciation & non-cash adjustments	7.9	5.9	3.8	2.5	2.7
Working capital changes	2.3	(16.7)	(2.5)	(6.2)	(8.9)
Cash tax paid	(0.5)	(2.1)	(1.2)	(1.4)	(1.5)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	17.7	(3.7)	12.8	8.5	7.2
Capex	(0.3)	(5.8)	(0.6)	(0.6)	(0.6)
Net investments & sale of FA	(3.2)	(4.0)	0.0	0.0	0.0
Others	0.2	(0.2)	(0.6)	(0.3)	(0.3)
Cash flow from investing	(3.4)	(10.0)	(1.2)	(0.9)	(0.9)
Debt raised/(repaid)	(7.1)	16.1	(4.8)	(4.3)	0.4
Equity raised/(repaid)	0.0	6.3	0.0	0.0	0.0
Dividends paid	(3.2)	(2.5)	(3.6)	(3.6)	(3.6)
Cash interest & others	(4.0)	(0.9)	(0.7)	(0.5)	(0.6)
Cash flow from financing	(14.4)	19.1	(9.1)	(8.4)	(3.8)
Change in cash	(0.0)	5.4	2.5	(0.8)	2.5
Change in net cash/(debt)	7.1	(10.7)	7.3	3.4	2.1
Ending net cash/(debt)	(14.9)	(25.6)	(18.3)	(14.9)	(12.8)

KEY RATIOS (FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue growth (%)	7.2	9.0	15.0	10.0	5.0
EBITDA growth (%)	1,397.5	(11.4)	11.6	5.7	9.4
Pretax margins (%)	1.6	1.6	2.0	1.9	2.0
Net profit margins (%)	1.2	1.3	1.6	1.5	1.6
Interest cover (x)	4.1	5.2	10.9	11.9	14.3
Effective tax rates (%)	17.3	14.1	17.0	17.0	17.0
Net dividend payout (%)	58.1	49.4	36.1	33.4	30.6
Debtors turnover (days)	41.0	38.6	38.8	39.2	40.9
Stock turnover (days)	41.9	39.8	43.7	41.2	42.2
Creditors turnover (days)	29.1	25.6	31.4	32.4	34.2

Source: Company, NRA Capital Estimates

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