

Serial System Ltd

1H10 results update

BUY

Current Price **S\$0.13**
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Fair Value **S\$0.19**

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Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$94.5m
52-HI	S\$0.14
52-LOW	S\$0.055
Avg Vol (1 yr)	727,573
Shares Outstanding	727.573m
Free Float	314.9m

Key Indicators

ROE 10F	12.6%
ROA 10F	4.9%
P/BK	1.11x
Net gearing	0.60x

Major Shareholders

Derek Goh Bak Heng	35.7%
Goi Seng Hui	12.5%

Expansion mode

- **Strong as expected.** 1H10 net profit of S\$6.5m came in 51% above our expectation of S\$4.3m. The key variances were better-than-expected sales and margin expansion, partially offset by forex losses, higher financial costs and a higher effective tax rate.
- **Sales powered up by 62% yoy in 1H10** on a strong recovery in demand for electronics products in South-East Asian markets (+80% yoy), especially Singapore, Thailand and Malaysia. North Asia (China, Korea and Taiwan) continued to perform well, led by more new customers in China and higher sales to existing customers in South Korea and Taiwan.
- **Gross margins increased 0.6% pt yoy to 9.6% in 1H10** on the back of a better product mix. With a focus on cost efficiency and benefits from scale, EBITDA margins expanded 1.9% pts yoy to 3%. Despite higher financial costs and forex losses (S\$1.5m), pretax and net profits jumped 407% and 446% yoy respectively.
- **Net gearing increased from 27% as at end-Dec 09 to 60%**, as a result of: 1) higher working-capital requirements in preparation for more business in 2H10; and 2) its subsidiary's purchase and installation of a LED advertising display media wall at Grand Park Orchard. Cash conversion cycle slightly increased by four days yoy to 60 days.
- **S\$1bn revenue target for next year.** Management displayed confidence in achieving S\$1bn revenue next year through a continued focus on lucrative markets such as China, Korea and Taiwan and expansion in emerging markets like India and Vietnam. The Semiconductor Industry Association (SIA) is projecting worldwide chip sales growth of 28.4% yoy to US\$290.5bn for this year. The growth forecast for next year is 6.3% yoy to S\$308.7bn, followed by 2.9% yoy growth in 2012 to US\$317.8bn.
- **Raising forecasts and maintain Buy.** We raise our FY10-12 earnings forecasts by 20-54% to factor in more robust GDP numbers for Singapore and the region. As such, our fair value rises from S\$0.14 to S\$0.19, still pegged at 10x FY10 PER. We maintain our **Buy** recommendation. Although management indicated that it is likely to maintain a 40-50% dividend payout this year, we maintain our dividend forecast of 0.5 cent for now, implying a 25% payout.

Key Financial Data

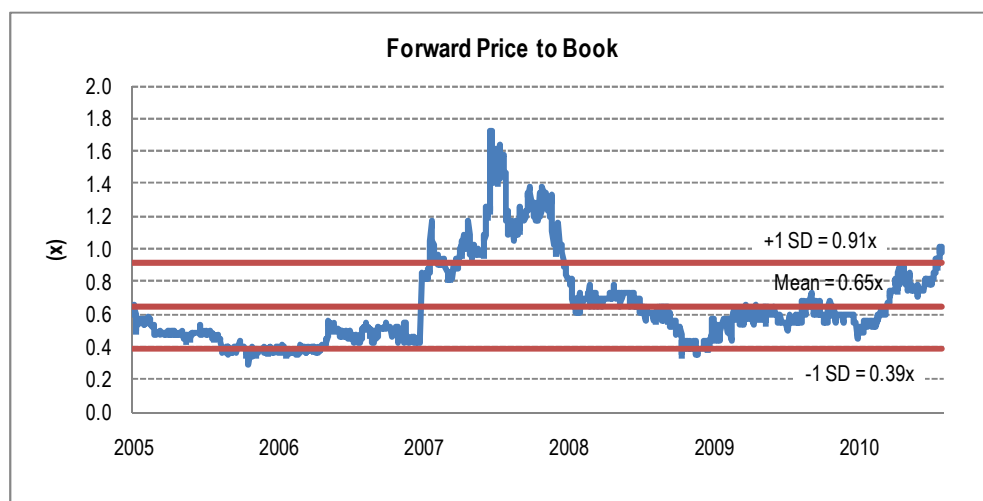
(S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Sales	510.6	556.5	806.9	1,049.0	1,101.4
Gross Profit	46.7	48.6	75.0	89.2	88.1
Net Profit	6.0	7.5	14.2	16.7	14.1
EPS (cents)	1.0	1.0	1.9	2.3	1.9
EPS growth (%)	(17.3)	7.2	88.4	17.8	(15.2)
PER (x)	13.5	12.6	6.7	5.7	6.7
NTA/share (cents)	11.2	10.9	13.4	15.3	16.8
DPS (cents)	0.6	0.5	0.5	0.5	0.5
Div Yield (%)	4.3	3.9	3.8	3.8	3.8

Source: Company, NRA Capital estimates

Results comparison

FYE Dec (S\$ m)	1H10	1H09	yoy % chg	2H09	hoh % chg	Prev. 1H10F	Comments
Revenue	371.0	229.1	62	327.5	13	311.1	19% above expectation
Operating costs	(359.9)	(226.5)	59	(321.2)	12	(306.9)	Above, higher-than-expected sales
EBITDA	11.1	2.6	329	6.2	78	4.2	Above, higher-than-expected sales and margins
EBITDA margin (%)	3.0	1.1		1.9		1.3	Above, 1.6% point above our expectation
Depn & amort.	(1.1)	(0.6)	91	(1.0)	6	(0.8)	Above, amortisation of distribution rights
EBIT	10.0	2.0	395	5.2	92	3.4	Above, higher-than-expected sales and margins
Interest expense	(0.9)	(0.6)	70	(0.7)	32	(0.6)	Above, higher working capital requirements
Interest & invt inc	0.6	0.6	(9)	2.4	(75)	2.6	Below, S\$1.5m forex loss
Associates' contrib	0.2	(0.2)	196	0.3	(53)	0.2	In line
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	9.8	1.9	407	7.2	36	5.6	Above, higher-than-expected sales and margins
Tax	(2.7)	(0.7)	283	(0.6)	362	(1.1)	Above
Tax rate (%)	27.4	36.3		8.1		19.2	
Minority interests	(0.6)	(0.0)	1,309	(0.3)	98	(0.2)	
Net profit	6.5	1.2	446	6.3	3	4.3	51% above expectation
EPS (cts)	0.9	0.2	443	0.9	3	0.6	

Source: NRA Capital estimates



Source: Bloomberg, NRA Capital Estimates

Profit & Loss (S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue	510.6	556.5	806.9	1,049.0	1,101.4
Operating expenses	(500.6)	(547.7)	(785.2)	(1,025.3)	(1,081.5)
EBITDA	9.9	8.8	21.7	23.7	19.9
Depreciation & amortisation	(0.9)	(1.6)	(2.1)	(2.2)	(2.2)
EBIT	9.0	7.2	19.6	21.5	17.7
Net interest & invt income	(0.5)	1.7	1.1	3.2	3.7
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	21.0	25.0	21.8
Tax	(1.4)	(1.3)	(5.3)	(6.3)	(5.4)
Minority interests	(0.6)	(0.4)	(1.6)	(2.1)	(2.2)
Net profit	6.0	7.5	14.2	16.7	14.1
Wt. shares (m)	625.8	724.1	727.3	727.3	727.3
Shares at year-end (m)	625.8	724.1	727.3	727.3	727.3

Balance Sheet (S\$ m, as at Dec)	2008	2009	2010F	2011F	2012F
Fixed assets	6.2	6.0	10.5	12.6	13.8
Intangible assets	9.8	12.8	12.1	11.5	10.9
Other long-term assets	17.1	20.7	22.7	24.9	27.4
Total non-current assets	33.0	39.5	45.3	49.1	52.1
Cash and equivalents	15.4	20.7	35.4	38.8	36.9
Stocks	40.7	70.1	91.5	112.3	111.5
Trade debtors	53.3	63.7	106.5	129.2	126.0
Other current assets	4.8	6.4	9.5	10.8	12.3
Total current assets	114.2	161.0	242.9	291.1	286.7
Trade creditors	26.3	49.0	88.8	115.4	110.1
Short-term borrowings	28.4	39.5	64.6	73.4	66.1
Other current liabilities	9.1	11.0	13.3	14.3	14.5
Total current liabilities	63.7	99.4	166.6	203.1	190.7
Long-term borrowings	2.0	6.9	8.1	8.4	6.6
Other long-term liabilities	0.5	0.6	0.7	0.7	0.7
Total long-term liabilities	2.5	7.5	8.8	9.1	7.4
Shareholders' funds	79.6	92.0	109.6	122.6	133.2
Minority interests	1.4	1.6	3.2	5.3	7.5
NTA/share (S\$)	0.11	0.11	0.13	0.15	0.17
Total Assets	147.2	200.5	288.2	340.2	338.8
Total Liabilities + S'holders' funds	147.2	200.5	288.2	340.2	338.8

Cash Flow (S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Pretax profit	8.0	9.1	21.0	25.0	21.8
Depreciation & non-cash adjustments	7.9	5.9	(2.1)	1.4	1.0
Working capital changes	2.3	(16.7)	(26.9)	(19.7)	(3.9)
Cash tax paid	(0.5)	(2.1)	(1.2)	(2.9)	(3.4)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	17.7	(3.7)	(9.1)	3.8	15.4
Capex	(0.3)	(5.8)	(5.1)	(3.1)	(2.1)
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)	(5.7)	(3.4)	(2.4)
Debt raised/(repaid)	(7.1)	16.1	26.2	9.2	(9.1)
Equity raised/(repaid)	0.0	6.3	9.1	0.0	0.0
Dividends paid	(3.2)	(2.5)	(3.6)	(3.6)	(3.6)
Cash interest & others	(4.0)	(0.9)	(2.2)	(2.5)	(2.2)
Cash flow from financing	(14.4)	19.1	29.4	3.1	(15.0)
Change in cash	(0.0)	5.4	14.6	3.4	(1.9)
Change in net cash/(debt)	7.1	(10.7)	(11.6)	(5.8)	7.2
Ending net cash/(debt)	(14.9)	(25.6)	(37.3)	(43.0)	(35.8)

KEY RATIOS (FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue growth (%)	7.2	9.0	45.0	30.0	5.0
EBITDA growth (%)	1,397.5	(11.4)	146.8	8.9	(15.9)
Pretax margins (%)	1.6	1.6	2.6	2.4	2.0
Net profit margins (%)	1.2	1.3	1.8	1.6	1.3
Interest cover (x)	4.1	5.2	17.5	12.5	9.9
Effective tax rates (%)	17.3	14.1	25.0	25.0	25.0
Net dividend payout (%)	58.1	49.4	25.6	21.7	25.6
Debtors turnover (days)	41.0	38.3	38.5	41.0	42.3
Stock turnover (days)	41.9	39.8	40.3	38.7	40.3
Creditors turnover (days)	29.1	24.7	31.2	35.5	37.4

Source: Company, NRA Capital Estimates

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