

# Analyse This ...

CIMB Research Pte Ltd - +(65) 6225-1228

## Serial System Ltd

*When the world suffers, no one is immune*

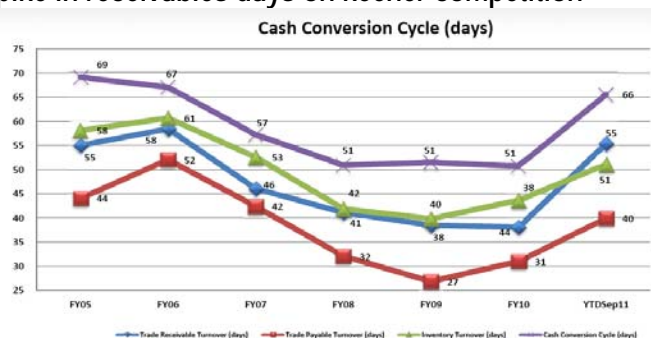
SERL SP  
BUY, TP S\$0.16  
3Q11 Results

Price @21/10/11: S\$0.13  
52-week range (SGD): 0.13 – 0.17  
Market cap: S\$117.7m

### Maintain BUY, TP S\$0.16 (from S\$0.23 previously)

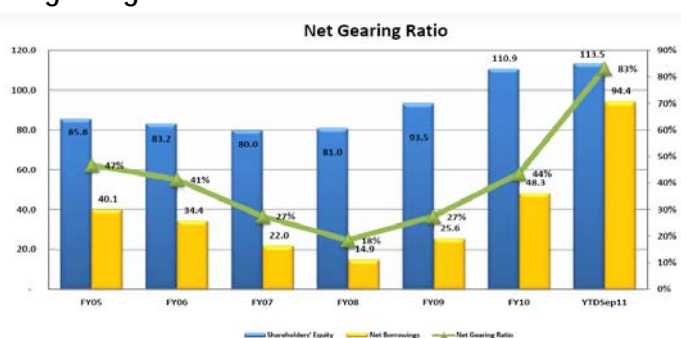
- 3Q11 results presentation.** Last Thursday, Serial held a results briefing for its third quarter results. Note that Serial only releases full financial details at its first-half and full year results announcement.
- Maintain BUY, TP S\$0.16.** Serial priced its TDR at a historical FY10 P/E of 8.75x (pre-TDR) and at a historical FY10 P/E of 9.64x (post TDR). The TDR pricing at 8.75x is similar to how we have always valued Serial, a slight 10.0% discount to its Taiwanese brethren, WPG historical forward P/E of 9.65x. Dividend yields of 5.6% to 7.3% will continue to support the share price as Serial look forward to continued growth in FY12 with contributions from its new acquisitions and business initiatives kicking in.
- Expecting a slowdown too.** On outlook, with the global economic uncertainties and flooding in Thailand affecting the global technology supply chain, Serial is expecting a tougher business environment ahead. We cut our FY11-FY13 EPS estimates by an average 29% per annum.
- Hurt by the strong S\$.** 9M sales were hurt by the weaker US\$ vis-à-vis the S\$. In US\$ terms, sales grew 16.2% yoy but in S\$ terms, the growth was 3.7% yoy. The expansion of its China and Korean presence brought about higher operating expenses leading to lower profitability.
- Balance sheet deteriorated.** Serial's receivables days spiked up in response to the longer credit days dished out by competitors. Net gearing rose to 0.83x from 0.75x at 1H11. Factoring in the recently concluded TDR, proforma net gearing would have fallen to 0.62x.
- Special one-off dividend.** Serial also announced a special one-off dividend of 0.16 Scts per share. The dividend is payable on 18 November.

### Spike in receivables days on keener competition



Source: Company

### Net gearing increased



Source: Company

### 9M11 performance

	9M11	9M10	% chg yoy
Sales (US\$ m)	473	407	16.2
Sales (S\$ m)	586.7	566	3.7
Gross Profit (S\$ m)	54.1	54.4	-0.6
Net Profit (S\$ m)	9.6	10.5	-8.6
GPM (%)	9.2	9.6	-0.4 ppt
NPM (%)	1.56	1.86	-0.3 ppt

Source: CIMB, Company

### Financial summary

FYE Dec	2009	2010	2011F	2012F	2013F
Revenue (S\$ m)	556.5	746.2	802.2	882.4	970.7
yoy growth (%)	9.0	34.1	7.5	10.0	10.0
EBITDA (S\$ m)	10.2	24.2	22.7	27.0	30.2
EBITDA margins (%)	1.8	3.2	2.8	3.1	3.1
Pretax profit (S\$ m)	9.1	22.4	19.7	23.2	26.0
Net profit (S\$ m)	7.5	16.2	13.3	15.1	17.2
yoy growth (%)	24.1	116.4	(18.1)	14.2	13.7
EPS (S cts)	1.1	2.2	1.7	1.8	2.1
EPS growth (%)	11.3	96.0	(20.4)	6.2	13.7
P/E (x)	11.7	6.0	7.5	7.1	6.2
Gross DPS (S cts)	0.51	0.95	0.73	0.84	0.95
Dividend yield (%)	3.9	7.3	5.6	6.4	7.3
P/NTA (x)	1.2	1.1	1.0	0.9	0.9
NTA/sh (S cts)	10.9	12.0	13.2	14.1	15.1
BVPS (S cts)	12.7	13.2	14.3	15.1	16.1
ROE (%)	8.7	16.2	11.2	11.4	12.2
Net gearing (%)	27.8	44.7	64.0	64.9	65.5
P/CF (x)	10.2	5.6	7.3	6.5	5.8
EV/EBITDA (x)	15.0	6.3	6.7	5.7	5.1
New EPS (Sing cts)	na	na	1.7	1.8	2.1
Old EPS (Sing cts)	na	na	2.4	2.6	3.0
% change in EPS estimates	na	na	(27.7)	(29.1)	(30.1)
Consensus	nm	14.0	2.1	2.4	2.6
CIMB/Consensus (x)	nm	nm	0.83	0.77	0.81

Source: Company, CIMB Research

### About Serial System

- What it does:** Leading electronics components distributor in the Asia Pacific region.
- Key principals represented:**



- Located in:** Singapore at 8 Ubi View #05-01 Serial System Building Singapore 408554. Present in India, Greater China, Korea and the ASEAN region.
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