nra capital

# Serial System Ltd

2H10 results update

## BUY

| | |
|---|---|
| **Current Price** | **S$0.15** |
| 23 February 2011 | |
| Fair Value | S$0.20 |

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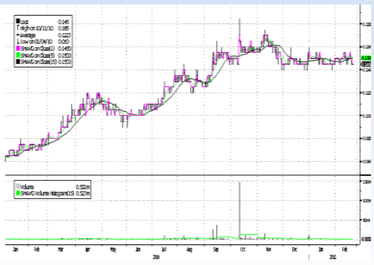
### Historical Chart



*Source: Bloomberg*

### Stock Statistics

| | |
|---|---|
| Market Cap | S$123.2m |
| 52-HI | S$0.185 |
| 52-LOW | S$0.075 |
| Avg Vol (1 yr) | 727,573 |
| Shares Outstanding | 821.1m |
| Free Float | 428.3m |

### Key Indicators

| | |
|---|---|
| ROE 11F | 13.9% |
| ROA 11F | 5.0% |
| P/BK | 1.25x |
| Net gearing | 0.44x |

### Major Shareholders

| | |
|---|---|
| Derek Goh Bak Heng | 36.3% |
| Goi Seng Hui | 11.6% |

## Riding on the new "infotainment" trend

- **Core earnings in line with expectation.** 2H10 net profit of S$9.7m came in 26% above our expectation of S$7.7m due mainly to S$2.3m fair value gain on investment properties. Excluding this, core earnings were fairly in line with our expectation despite 14% lower-than-expected sales but offset by higher margin expansion and lower taxation.
- **Sales increased by 15% yoy in 2H10**, as all countries achieved yoy growth ranging from 10%-90%. The growth was driven largely by the shift of chips manufacturing out of the Western countries to Asia. Singapore grew 90% yoy mainly due to the strong demand for medical devices and equipment makers.
- **Gross margins increased by 0.4% pt yoy to 9% in 2H10** on the back of a better product mix. With a focus on cost efficiency and higher sales to benefit from better economics of scale, EBITDA margins expanded 0.9% pts yoy to 2%. However, margins have declined hoh as the strengthening in Asian currencies put pressure on profit margins.
- **Net gearing reduced from 60% as at end-Jun10 to 44%,** due partly to the S$8m fund raised from the conversion of 97m warrant shares, which expired in December 2010. Despite higher capex and investment spending for total S$9.8m, the group generated S$5.4m of positive free cash flow in 2H10 as cash conversion cycle improved by eight days hoh to 52 days. The group declared an increased final dividend of 0.67cts (0.95cts dividend in total vs 0.51cts last year).
- **We believe Asia will continue to benefit from strong demand for advanced technologies products**, such as smartphones and tablets. Management will continue exploring its regional expansion strategies by working closely with its customers and suppliers, such as Japan (the largest IC trading market in Asia). To achieve its S$1bn sales target for this year, the group will continue looking for M&A opportunities to capitalize on its competitive strengths and extensive distribution networks. **No fundamental impact on TDR in our view,** the group was recently rejected by the Taiwan Stock Exchange for the TDR listing.
- **Maintain our FY11 earnings forecasts** and raised FY12 by 25% to factor in lower operating costs. We have also introduced the FY13 forecast. Our fair value inched up by 1ct to S$0.20 as we roll forward our base from 10x FY10 PER to FY11. The Chairman, Mr Derek Goh, purchased a total 1.937m shares from the open market at between 14.5 to 15 cts last December. **Maintain BUY.**

**Key Financial Data**

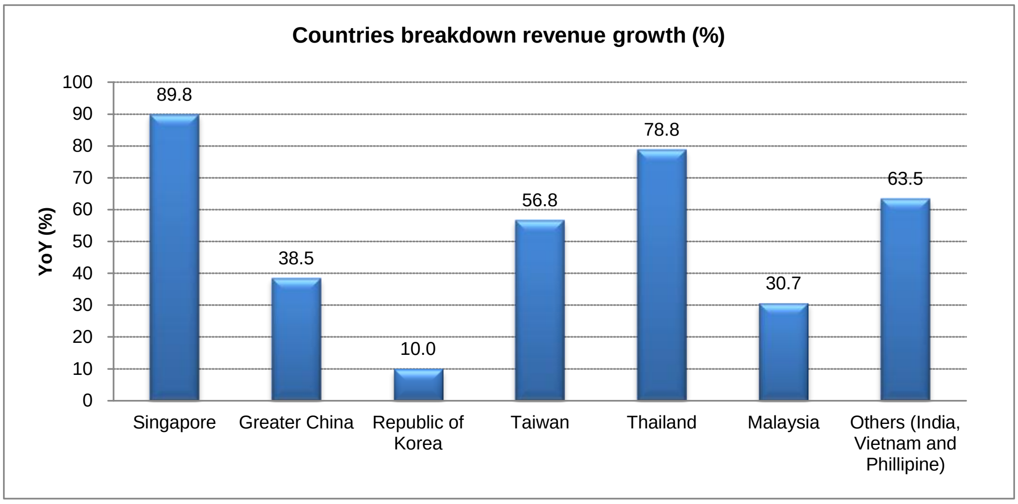
| (S$ m, FYE Dec) | 2009 | 2010 | 2011F | 2012F | 2013F |
|---|---|---|---|---|---|
| Sales | 556.5 | 746.2 | 1,007.5 | 1,108.3 | 1,219.2 |
| Gross Profit | 48.6 | 69.4 | 90.7 | 94.2 | 97.5 |
| Net Profit | 7.5 | 16.2 | 16.6 | 17.7 | 16.4 |
| EPS (cents) | 1.0 | 2.0 | 2.0 | 2.2 | 2.0 |
| EPS growth (%) | 7.2 | 90.7 | 2.6 | 6.7 | (7.3) |
| PER (x) | 14.5 | 7.6 | 7.4 | 7.0 | 7.5 |
| NTA/share (cents) | 10.9 | 12.0 | 12.8 | 14.1 | 15.2 |
| DPS (cents) | 0.5 | 1.0 | 0.9 | 1.0 | 0.9 |
| Div Yield (%) | 3.4 | 6.3 | 6.1 | 6.5 | 6.0 |

*Source: Company, NRA Capital estimates* nra capital

**Results comparison**

| FYE Dec (S$ m) | 2H10 | 2H09 | yoy % chg | 1H10 | hoh % chg | Prev. 2H10F | Comments |
|---|---|---|---|---|---|---|---|
| Revenue | 375.2 | 327.5 | *15* | 371.0 | *1* | 435.9 | 14% below expectation |
| Operating costs | (364.8) | (321.2) | *14* | (359.9) | *1* | (425.3) | Below, lower-than-expected sales |
| EBITDA | 10.5 | 6.2 | *68* | 11.1 | *(6)* | 10.6 | In line |
| *EBITDA margin (%)* | *2.8* | *1.9* | | *3.0* | | *2.4* | Above, 0.3% point above our expectation |
| Depn & amort. | (1.3) | (1.0) | *32* | (1.1) | *24* | (1.1) | Above, higher capex spending |
| EBIT | 9.1 | 5.2 | *75* | 10.0 | *(9)* | 9.6 | In line |
| Interest expense | (1.3) | (0.7) | *75* | (0.9) | *33* | (1.2) | In line |
| Interest & invt inc | 4.5 | 2.4 | *93* | 0.6 | *674* | 2.7 | Above, S$2.3m fair value gains on invt. properties |
| Associates' contrib | 0.2 | 0.3 | *(39)* | 0.2 | *30* | 0.2 | In line |
| Exceptionals | 0.0 | 0.0 | *0* | 0.0 | *0* | 0.0 | |
| **Pretax profit** | **12.6** | **7.2** | *75* | **9.8** | *29* | **11.2** | Above, gain on invt. properties |
| Tax | (2.3) | (0.6) | *287* | (2.7) | *(16)* | (2.6) | Below |
| Tax rate (%) | 17.9 | 8.1 | | 27.4 | | 22.9 | Lower-than-expected taxation |
| Minority interests | (0.7) | (0.3) | *114* | (0.6) | *8* | (1.0) | |
| **Net profit** | **9.7** | **6.3** | *54* | **6.5** | *49* | **7.7** | Above, gain on invt. properties |
| EPS (cts) | 1.2 | 0.9 | *36* | 0.9 | *32* | 1.1 | |

*Source: NRA Capital estimates*





*Source: Bloomberrg, NRA Capital Estimates*

| **Profit & Loss** (S$ m, FYE Dec) | 2009 | 2010 | 2011F | 2012F | 2013F |
|---|---|---|---|---|---|
| Revenue | 556.5 | 746.2 | 1,007.5 | 1,108.3 | 1,219.2 |
| Operating expenses | (547.7) | (724.7) | (980.4) | (1,080.4) | (1,193.2) |
| EBITDA | 8.8 | 21.6 | 27.1 | 27.9 | 26.0 |
| Depreciation & amortisation | (1.6) | (2.4) | (2.4) | (2.4) | (2.4) |
| EBIT | 7.2 | 19.2 | 24.7 | 25.5 | 23.6 |
| Net interest & invt income | 1.7 | 2.9 | (0.9) | 0.0 | 0.5 |
| Associates' contribution | 0.2 | 0.4 | 0.4 | 0.4 | 0.4 |
| Exceptional items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Pretax profit** | **9.1** | **22.4** | **24.2** | **25.9** | **24.4** |
| Tax | (1.3) | (4.9) | (5.8) | (6.2) | (5.9) |
| Minority interests | (0.4) | (1.3) | (1.8) | (2.0) | (2.2) |
| **Net profit** | **7.5** | **16.2** | **16.6** | **17.7** | **16.4** |
| Wt. shares (m) | 724.1 | 821.1 | 821.1 | 821.1 | 821.1 |
| Shares at year-end (m) | 724.1 | 821.1 | 821.1 | 821.1 | 821.1 |

| **Balance Sheet** (S$ m, as at Dec) | 2009 | 2010 | 2011F | 2012F | 2013F |
|---|---|---|---|---|---|
| Fixed assets | 6.0 | 15.0 | 17.2 | 18.3 | 19.5 |
| Intangible assets | 12.8 | 10.0 | 9.5 | 9.1 | 8.6 |
| Other long-term assets | 20.7 | 29.5 | 32.4 | 35.6 | 39.1 |
| **Total non-current assets** | **39.5** | **54.6** | **59.1** | **63.0** | **67.2** |
| Cash and equivalents | 20.7 | 31.3 | 40.9 | 40.5 | 42.3 |
| Stocks | 70.1 | 91.7 | 107.3 | 116.6 | 129.0 |
| Trade debtors | 63.7 | 93.0 | 117.5 | 126.8 | 139.5 |
| Other current assets | 6.4 | 7.8 | 9.0 | 10.4 | 12.1 |
| **Total current assets** | **161.0** | **223.7** | **274.6** | **294.4** | **322.9** |
| Trade creditors | 49.0 | 72.5 | 93.7 | 105.3 | 115.8 |
| Short-term borrowings | 44.3 | 68.5 | 90.7 | 88.7 | 97.5 |
| Other current liabilities | 11.0 | 14.4 | 14.1 | 14.9 | 15.3 |
| **Total current liabilities** | **104.3** | **155.4** | **198.5** | **208.8** | **228.6** |
| Long-term borrowings | 2.1 | 11.2 | 15.1 | 16.6 | 18.3 |
| Other long-term liabilities | 0.6 | 0.8 | 0.8 | 0.8 | 0.8 |
| **Total long-term liabilities** | **2.7** | **12.0** | **15.9** | **17.5** | **19.1** |
| **Shareholders' funds** | **92.0** | **108.2** | **114.9** | **124.7** | **133.7** |
| Minority interests | 1.6 | 2.7 | 4.4 | 6.4 | 8.6 |
| NTA/share (S$) | 0.11 | 0.12 | 0.13 | 0.14 | 0.15 |
| **Total Assets** | **200.5** | **278.3** | **333.7** | **357.3** | **390.0** |
| **Total Liabilities + S'holders' funds** | **200.5** | **278.3** | **333.7** | **357.3** | **390.0** |

| **Cash Flow** (S$ m, FYE Dec) | 2009 | 2010 | 2011F | 2012F | 2013F |
|---|---|---|---|---|---|
| Pretax profit | 9.1 | 22.4 | 24.2 | 25.9 | 24.4 |
| Depreciation & non-cash adjustments | 5.9 | 6.6 | 1.8 | 3.8 | 4.2 |
| Working capital changes | (16.7) | (36.2) | (22.4) | (10.8) | (18.8) |
| Cash tax paid | (2.1) | (1.1) | (4.5) | (3.6) | (3.8) |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Cash flow from operations** | **(3.7)** | **(8.3)** | **(0.8)** | **15.3** | **6.1** |
| Capex | (5.8) | (9.8) | (3.1) | (2.1) | (2.1) |
| Net investments & sale of FA | (4.0) | (5.2) | 0.0 | 0.0 | 0.0 |
| Others | (0.2) | (1.1) | (0.3) | (0.3) | (0.3) |
| **Cash flow from investing** | **(10.0)** | **(16.1)** | **(3.5)** | **(2.5)** | **(2.5)** |
| Debt raised/(repaid) | 16.1 | 33.3 | 26.1 | (0.5) | 10.5 |
| Equity raised/(repaid) | 6.3 | 8.7 | 0.0 | 0.0 | 0.0 |
| Dividends paid | (2.5) | (4.9) | (7.5) | (8.0) | (7.4) |
| Cash interest & others | (0.9) | (2.1) | (4.7) | (4.7) | (5.0) |
| **Cash flow from financing** | **19.1** | **35.0** | **13.9** | **(13.2)** | **(1.9)** |
| **Change in cash** | **5.4** | **10.6** | **9.6** | **(0.4)** | **1.7** |
| **Change in net cash/(debt)** | **(10.7)** | **(22.7)** | **(16.5)** | **0.1** | **(8.8)** |
| **Ending net cash/(debt)** | **(25.6)** | **(48.3)** | **(64.8)** | **(64.7)** | **(73.6)** |

| **KEY RATIOS** (FYE Dec) | 2009 | 2010 | 2011F | 2012F | 2013F |
|---|---|---|---|---|---|
| Revenue growth (%) | 9.0 | 34.1 | 35.0 | 10.0 | 10.0 |
| EBITDA growth (%) | (11.4) | 144.8 | 25.5 | 3.0 | (6.7) |
| Pretax margins (%) | 1.6 | 3.0 | 2.4 | 2.3 | 2.0 |
| Net profit margins (%) | 1.3 | 2.2 | 1.6 | 1.6 | 1.3 |
| Interest cover (x) | 5.2 | 18.6 | 12.0 | 9.2 | 8.7 |
| Effective tax rates (%) | 14.1 | 22.1 | 24.0 | 24.0 | 24.0 |
| Net dividend payout (%) | 49.5 | 48.2 | 45.0 | 45.0 | 45.0 |
| Debtors turnover (days) | 38.3 | 38.3 | 38.1 | 40.2 | 39.9 |
| Stock turnover (days) | 39.8 | 43.6 | 39.6 | 40.3 | 40.0 |
| Creditors turnover (days) | 24.7 | 29.7 | 30.1 | 32.8 | 33.1 |

*Source: Company, NRA Capital Estimates*

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