

Analyse this...

Retail Research

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Serial System Ltd

 SERL SP
 BUY: TP: S\$0.12

 Price @1/3/10: S\$0.085
 52-week range (SGD): 0.055 – 0.085
 Market cap – S\$61.6m

Maintain BUY - more optimistic on FY10

- Maintain **BUY**. Target price based on parity to NTA is raised to **S\$0.12** from S\$0.11 previously.
- 6% prospective yields offer downside protection while net gearing remains manageable at 0.27x in FY09 and could fall to 0.16x in FY10.
- Implied CY11 P/E of 8.1x is reasonable as it represents an 18% discount to the peer sector average CY11 P/E of 9.9x.

Net profit grew 24% yoy

Results summary								
	FY09	FY08	yoy chg (%)	2H09	2H08	yoy chg (%)	1H09	hoh chg (%)
Sales (\$\$ mil)	556.5	510.6	9.0	327.5	252.1	29.9	229.1	43.0
Gross profit (\$\$ mil)	48.6	46.7	4.1	28.0	23.7	18.0	20.6	35.8
Operating profit (\$\$ mil)	10.2	10.7	(4.4)	7.6	5.6	35.7	2.7	183.8
Net profit (\$\$ mil)	7.5	6.0	24.4	6.3	2.9	118.5	1.2	432.9
			Chg (in ppt)			Chg (in ppt)		
Gross profit margin (%)	8.7	9.1	(0.4)	8.5	9.4	(0.9)	9.0	
Operating profit margin (%)	1.8	2.1	(0.3)	2.3	2.2	0.1	1.2	
Net profit margin (%)	1.3	1.2	0.2	1.9	1.1	0.8	0.5	
			yoy chg (%)			yoy chg (%)		
EPS (Sing cts)	1.1	1.0	11.0			#DIV/0!	0.2	
Net asset value per share (Sing cts)	12.9	13.4	(3.6)			#DIV/0!	12.1	
Current ratio (x)	1.6	1.8	(9.6)			#DIV/0!	1.8	
Quick ratio (x)	0.9	1.2	(20.8)			#DIV/0!	1.2	
Net gearing (x)	0.3	0.2	43.9			#DIV/0!	0.2	
ROE (%)	8.2	7.6	0.6				2.8	
Receivables days	45	41	10				49	
Inventory days	50	32	56				39	
Payable days	39	24	62				32	
Cash cycle in days	56	49	5				56	

Source: CIMB-GK Research, Company

Backend loaded FY09

- Sales and net profit were 21% and 17% above our expectation respectively.
- The variance between our profit forecast and that reported by Serial came primarily from the sales performance. While we were looking at a 10% yoy sales decline (1H09 sales fell 11% yoy), Serial System reported a 9% yoy rise in sales.
- 2H09 performance was very strong. Half-on-half, sales grew 43% in 2H09 versus a 2.5% decline half-on-half in 2H08. 2H09 sales accounted for 59% of full year sales versus just 49%. 2H09 net profit accounted for 84% of the full year total. Last year, 2H08 net profit was just 48% for the year's total.
- The better sales performance was due to demand from the North Asia cluster (China, South Korea and Taiwan) as well as component shortages.
- EPS was 1.11 Sing cts and book value per share was 12.9 Sing cts.
- A final DPS of 0.38 Sing cts was proposed. Full year DPS was 0.51 Sing cts versus 0.58 Sing cts in FY08.

Management executed well

- In our 1H09 results commentary, we wrote that "management (was) executing well". Second half performance demonstrated that management executed well beyond our expectation.
- On outlook, Serial System remains concerned over macro risks but at the micro level, the Group is more confident of the outlook for FY10 compared with FY09.

Financial analysis

FYE Dec	2008	2009	2010F	2011F	2012F
Revenue (\$\$ m)	510.6	556.5	606.6	661.2	720.7
EBITDA (\$\$ m)	11.5	11.8	14.5	17.1	19.2
EBITDA margins (%)	2.3	2.1	2.4	2.6	2.7
Pretax profit (\$\$ m)	8.0	9.1	11.1	13.7	15.8
Net profit (\$\$ m)	6.0	7.5	8.7	10.8	12.5
EPS (cts)	1.0	1.1	1.2	1.5	1.7
EPS growth (%)	-49%	+13%	+11%	+24%	+16%
P/E (x)	8.8	7.8	7.0	5.7	4.9
FD EPS (cts)	1.0	0.9	1.1	1.3	1.5
FD P/E (x)	8.8	9.4	8.1	6.5	5.7
Gross DPS (cts)	0.6	0.5	0.5	0.5	0.5
Dividend yield (%)	6.6	5.9	6.0	6.0	6.0
P/NTA (x)	0.7	0.8	0.7	0.7	0.6
ROE (%)	7.5	8.6	9.1	10.5	11.3
Net gearing (%)	18.4	27.4	15.5	12.9	9.8
P/CF (x)	7.0	6.9	6.0	4.9	4.3
EV/EBITDA (x)	7.2	7.0	5.7	4.9	4.3

Peer valuation

	Bloomberg ticker	Mkt cap (US\$ m)	Core P/E (x)	P/BV (x)	ROE (%)	Div yield (%)	
			CY10	CY11	CY10	CY10	
Arrow Electronics	ARW US	3,380.5	11.0	9.5	1.1	10.3	0.0
Avnet inc	AVT US	4,189.3	10.9	9.9	1.3	11.8	0.0
WPG Holdings	3702 TT	1,524.1	11.9	10.3	2.4	21.7	4.9
	Sector average		11.3	9.9	1.6	14.6	1.6

Source: Bloomberg

About Serial System

- Serial System was established in Singapore in 1988 as a distributor of semiconductors and electronic components in the Asia Pacific region, offering design support, materials planning, inventory management, programming and assembly services.
- The Group also provides technology solutions and aims to add value to its customers with turnkey design, warehousing and logistics services. Products distributed by Serial System are used in the semiconductor, medical, automotive, office automation, telecommunications and consumer electronics industries.
- Serial System has an established presence in key Asian markets such as China, Hong Kong, Malaysia, Korea, Taiwan, Thailand, Philippines, India and Vietnam.

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