



CHINA
DEVELOPMENT
FINANCIAL

COMPANY UPDATE

Singapore

Serrano Limited

(SERR SP; SERR.SI)

Not Rated

Price as of 2 Mar 2015	0.210
12M target price (S\$)	-
Previous target price (S\$)	-
Upside (%)	-

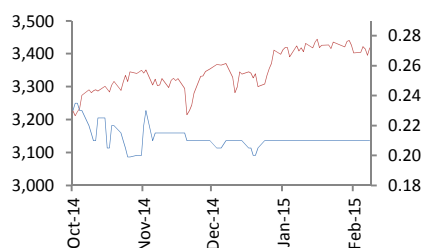
Trading data

Market Cap (S\$m)	31.5
Issued Shares (m)	150.0
Ave Daily Traded (3-Month) Vol / Val	0.0m / S\$0.0m
52 week lo / hi	S\$0.20 / S\$0.25
Free Float	30.9%

Major Shareholders

Wah Heng Design Corp	37.1%
Winston Chia	13.1%

12-Mth SERR SP (Blue) vs. FSSTI



Source: Bloomberg

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An interior fit-out specialist

We met up with the management of Serrano (listed on the catalyst board in October 2014) recently to gain further understanding about its business and its growth plans. Serrano is one of Singapore's leading provider of interior fit-out solutions for the residential, hospitality, retail and commercial sectors in Singapore and across Southeast Asia. They also make and supply a range of furnishings including modular kitchen systems and office systems under its "Wholesale and Retail Furnishings" business.

Landmark projects around the region. Serrano has a solid interior fit-out delivery track record throughout the region. The interior fit-out business focuses on manufacturing and installing home furnishing solutions such as doors and doorframes, kitchen cabinets, wardrobes and vanity cabinets. Some of its landmark fit-out projects in Singapore include, D'leedon, The Interlace, Reflections at Keppel Bay, ICON @ Tanjong Pagar, Ritz Carlton Residences, Somerset Serviced Residence, and the Youth Olympic Village at NTU. Notable projects overseas also include, Traders Hotel and the Star City Thanlyin township development (phase 1) in Yangon, The River and The Met condominiums in Bangkok and the Estella condominium in Ho Chi Minh City.

Modular design of paneling products. One of the key advantage Serrano has, for its interior fit-out business, is its ability to break down the design of the final paneling products into modular parts. These parts can be economically and efficiently produced in large quantities at its Vietnam factory and be flat-packed and shipped to project sites to be installed. Such a system should augment Serrano's capabilities in terms of turnaround time, economies of scale and cost savings, which should allow them to undertake large scale fit-out projects and make competitive bids.

Growth plans. Serrano's new listing status should help increase its ability to win big projects. As of 1 Dec 2014, Serrano has an outstanding order book of S\$93.4m (see figure 4) that extends to 2018. Serrano is also looking to increase its overseas revenue streams in countries such as Myanmar, Thailand, Cambodia and Vietnam by leveraging on its track record in Singapore. It is also ready to explore M&A options that could add synergies to its existing business.

Financials and current trading valuation. Serrano's revenue has been growing at a CAGR of 10% between FY11-FY14. Revenue for FY14 was S\$85.2m (+3% yoy). Excluding IPO and restructuring expenses (~S\$2m), FY14 net profit was S\$3.4m (+4.5% yoy). Of its announced order book of S\$93.4m marked on 31 Dec 2014, 19 out of 26 projects are expected to be handed over in 2015. Based on a simplistic back-of-the-envelope calculation, we estimate that Serrano could see revenue of S\$70.6m from its interior fit-out business in 2015 (see figure 5 for calculations). Serrano is currently trading at 2014 P/E of 9.4x and 2014 EV/EBITDA of 9.8x, excluding IPO and restructuring expenses.