

Analyse This...

CIMB Research Team +65 6225-1228

Thakral Corporation Ltd

Focus on higher margin products pays off...

 THK SP
 BUY; TP : S\$0.05

 Price @16/05/11: S\$0.03
 52-wk range (SGD): 0.025 – 0.035
 Market cap: S\$78.4m

Maintain BUY; TP of S\$0.05

- **Maintain BUY, target price of S\$0.05 intact.** We continue to peg our target price at 1x CY11 P/BV to derive a target price of S\$0.05. No change to our earnings estimate. The company has declared an interim dividend of 0.1 sct, translating into a yield of 3.3%.
- **1Q11 net profit of S\$1.4m (+737% yoy) was in line with expectations.** We see clear returns from its strategy to focus on higher margin products within its distribution segment which Thakral has embarked on a few quarters ago. It resulted in better gross and EBITDA margins which eventually lifted bottom line despite lower turnover.
- **All in, we are optimistic about its outlook for FY11.** Thakral's distribution business is expected to benefit from China's progressive shift towards increased reliance on domestic consumption to rebalance its economy. The Group is also making good progress in its real estate business, with windows of opportunities expected to remain open for a few years due to tight liquidity in the banking market.

Results summary

FYE Dec (S\$m)	1QFY11	1QFY10	YoY Chg
Revenue	108.4	111.0	-2.4%
Gross profit	8.0	4.9	62.3%
EBITDA	2.9	0.2	1513.9%
Core net profit	1.4	0.2	736.5%

Financial ratios (%)	1QFY11	1QFY10	YoY Chg
Gross profit margin	7.4	4.4	+2.9% pts
EBITDA margin	2.7	0.2	+2.5% pts
Core net profit margin	1.3	0.2	+1.2% pts

Balance Sheet	1QFY11	4QFY10	QoQ Chg
Total debt (S\$m)	13.5	7.3	85.5%
Total cash (S\$m)	43.9	33.2	32.3%
NAV per share (S cts)	3.80	3.83	-0.7%

Source: Company, CIMB Research

1Q11 results within expectation

- 1Q11 net profit of S\$1.4m (+737% yoy) was in line with our expectations. We see clear returns from the strategy to focus on higher margin products within its distribution segment which the Group has embarked on a few quarters ago. It resulted in better gross and EBITDA margins which eventually lifted bottom line despite marginally lower turnover.
- 1Q11 revenue dipped -2.4% yoy to S\$108m as the Group focused its efforts on higher margin (distribution) businesses by making more effective use of its resources following its capital reduction exercise. Though the Group's turnover was mainly contributed by its consumer electronics division, its property division also sold some of its commercial property units during the quarter.

- Its strategy to focus on higher margin business paid off, as its gross profit margin grew +2.9% pts yoy (-0.1% pt qoq) to 7.4% in 1Q11. Other income fell 95% yoy to S\$0.1m as 1Q10's other income included a S\$1.5m gain from disposal of property in China. Finance costs rose to S\$0.2m (1Q10: non-material) for the quarter due to trade finance and bank loans taken to finance its real estate business.
- Net cash per share rose from 1.0 sct at end of 4Q10 to 1.2 scts at the end of 1Q11, mainly due to an increase in cash balance despite having higher debt. Operating cash flows turned positive in the quarter (+S\$6.9m) from an out flow of -S\$4.2m in 4Q10 as working capital management improved.

Financial highlights

FYE Dec	2009	2010	2011F	2012F	2012F
Revenue (S\$ m)	438.8	409.3	560.0	627.1	702.1
EBITDA (S\$ m)	4.3	37.0	5.8	7.5	8.0
EBITDA margins (%)	1.0	9.0	1.0	1.2	1.1
Pretax profit (S\$ m)	10.7	39.2	3.8	4.5	4.9
Net profit (\$ m)	11.5	37.5	3.0	3.5	3.9
EPS (S cts)	0.44	1.44	0.11	0.13	0.15
EPS growth (%)	+156%	+226%	-92%	+16%	+11%
P/E (x)	6.8	2.1	26.1	22.5	20.3
Core EPS (cts)	0.44	0.13	0.11	0.13	0.15
Core EPS growth (%)	+156%	-71%	-9%	+16%	+11%
Core P/E (x)	6.8	23.7	26.1	22.5	20.3
Gross DPS (S cts)	-	-	0.1	0.1	0.1
Dividend yield (%)	-	-	3.3	3.3	3.3
P/NTA (x)	0.3	0.8	0.7	0.7	0.6
ROE (%)	5.3	22.9	2.8	3.0	3.2
Net cash per share (S\$)	4.5	0.4	0.5	0.3	0.1
P/CF (x)	7.3	2.1	22.3	19.4	17.6
EV/EBITDA (x)	12.0	1.4	8.9	6.9	6.5

Source: Company, CIMB Research

Looking ahead...

- **Distribution business.** China is making progress in rebalancing its economy to rely more on domestic consumption, and Thakral expects to benefit from this trend. The recent earthquake in Japan had a considerable impact on the supply of goods to the market, but the Group was able to tide over the challenging period, thanks to sufficient inventories held. The situation is now gradually normalising.
- **Real estate arm.** The Group is also making good progress in its real estate business. It has entered into three real estate projects in Australia with a total cash investment of S\$8.9m till date. The window for these types of investments is expected to continue for a few years due to tight liquidity in the banking market and the withdrawal of foreign lenders from this sector in Australia.
- **All in,** Thakral's outlook for FY11 remains healthy. The Group will continue to pursue its strategy to grow its two core businesses in line with its mission to deliver positive shareholder value.

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