

Analyse this...

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Thakral Corporation Ltd

 THK SP
 HOLD: TP: S\$0.09

 Price @11/05/10: S\$0.08
 52-week range (SGD): 0.05 – 0.10
 Market cap – S\$209.0m

Downgraded to HOLD; target price of S\$0.09

- Downgraded to **HOLD** (previously BUY); target price of **S\$0.09** unchanged, still on a cum-distribution basis or **S\$0.04** on an ex-distribution basis.
- We continue to peg our target price at 1x CY10 P/BV to derive an ex-distribution target price of S\$0.04.
- 1Q10 core net profit of S\$0.48m (-36.7% yoy) came in below our expectations, mainly due to higher-than-expected distribution costs as a result of marketing activities undertaken in relation to a new product.
- Outlook for its distribution business remain bright given the rising demand for consumer electronics in China while its property business is expected to pick up gradually. We believe that a realistic time line for completion of the capital reduction exercise could be end of 2Q10.

Results summary

FYE Dec (\$m)	1QFY10	1QFY09	YoY Chg
Revenue	111.0	97.9	13.4%
Gross profit	4.9	4.2	16.6%
EBITDA	0.2	0.7	(74.2%)
Core net profit	0.5	0.8	(36.7%)

Financial ratios (%)	1QFY10	1QFY09	YoY Chg
Gross profit margin	4.40	4.31	0.11% pt
EBITDA margin	0.16	0.71	0.55% pt
Core net profit margin	0.43	0.77	0.34% pt

Balance Sheet	1QFY10	4QFY09	YoY Chg
Total debt (\$m)	12.1	4.5	169%
NAV per share (S cts)	8.73	8.72	0.1%

Source: Company, CIMB-GK Research

1Q10 results below expectations

- 1Q10 core net profit of S\$0.48m (-36.7% yoy) came in below our expectations, forming 17.7% of our full year forecast. Net profit of S\$2.01m included a one-off gain on the disposal of a property in China. Variance was mainly due to higher-than-expected distribution costs as a result of marketing activities undertaken in relation to a new product category.
- Revenue rose 13.4% yoy to S\$111.0m on improving demand for consumer electronic products in China. Revenue from consumer electronics distribution business increased 13.2% to S\$110.3m. 1Q10 also saw a one-off gain from disposal of a building in China.
- Gross margin was up a marginal 0.1% pt yoy to 4.4% in 1Q10. Operating expenses (Distribution & Admin) came in at 4.4% (1Q09: 4.7%) of total sales, with the lower admin expense off-setting higher distribution cost. The higher selling cost was a result of the company stepping up its marketing efforts to generate greater awareness for new games and media players.
- Balance sheet remained healthy with a net cash of S\$108.9m (net cash per share: S\$0.042). The Group has also increased borrowings to S\$12.1m in 1Q10 (4Q09: S\$4.5m) to fund capex and working capital requirements in view of the impending capital reduction plan. Operating cashflows however came in at -\$11.8m as Thakral loaded up on cheaper inventories in preparation for the May holidays.

Adjustment to EPS estimates

- In view of the Group's aggressive marketing efforts to promote new products in China, we have raised our FY10-12 distribution expense forecast by 0.1-0.3% pt.
- We have also reduced our FY10 tax expense forecast by 4% pt in view of the lower effective tax rate.
- Accordingly, our FY10-12 core net profit estimates fall by 3-7%.

Forecasts summary

FYE Dec	2008	2009	2010F	2011F	2012F
Revenue (\$m)	382.8	438.8	495.8	560.0	627.1
EBITDA (\$m)	(9.7)	4.3	5.1	5.5	7.0
EBITDA margins (%)	(2.5)	1.0	1.0	1.0	1.1
Pretax profit (\$m)	(12.1)	10.7	5.1	3.1	3.9
Net profit (\$m)	(20.5)	11.5	4.0	2.4	3.0
Core net profit (\$m)	(20.5)	11.5	2.5	2.4	3.0
EPS (S cts)	(0.78)	0.44	0.15	0.09	0.11
EPS growth (%)	-465%	+156%	-65%	-41%	+26%
P/E (x)	nm	18.1	51.8	88.0	69.9
Core EPS (cts)	(0.78)	0.44	0.10	0.09	0.11
Core EPS growth (%)	nm	+156%	-78%	-5%	+26%
Core P/E (x)	nm	18.1	83.4	88.0	69.9
Gross DPS (S cts)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
P/NTA (x)	1.0	0.9	2.1	2.0	2.0
ROE (%)	(8.6)	5.3	2.5	2.3	2.8
Net gearing (%)	nm	nm	15.7	20.6	24.6
P/CF (x)	nm	19.4	46.0	71.3	58.3
EV/EBITDA (x)	nm	21.8	18.6	17.2	13.4

Looking ahead

- **Positive outlook for the distribution business.** The distribution business will continue to be the strategic direction of the Group in 2010. Given the robust outlook of the Chinese economy and the rising demand for consumer electronics products in the country, the Management remains optimistic of its distribution business in 2010.
- **Property business to pick up gradually.** The company's property arm made a good start to 2010, with turnover from this division tripling yoy to S\$0.7m, thanks to successful sales of commercial properties by the property development unit in Wujiang. Though still a small part of the Group, the Management is confident that the business will grow in importance gradually. The Group has been looking at opportunities in markets like Australia and Hong Kong.
- **Capital reduction exercise.** The company announced on 6 May 10 that it has disposed its entire shareholding in India-listed Gateway Distriparks Limited, which resulted in a net gain of S\$29.9m. Thakral is currently seeking High Court's approval for the exercise and will announce the date of cash distribution to shareholders once it receives confirmation from the High Court. We believe that a realistic time line for the exercise could be by the end of 2Q10.

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