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Thakral Corporation Ltd

 THK SP
 BUY: TP: S\$0.09

 Price @19/02/10: S\$0.075
 52-week range (SGD): 0.04 – 0.10
 Market cap – S\$195.9m

Upgrade to BUY; target price raised to S\$0.09

- Upgrade to **BUY**; target price raised to **S\$0.09** (from S\$0.08) on a cum-distribution basis or **S\$0.04** (from S\$0.03) on an ex-distribution basis.
- We continue to peg our target price at 1x CY10 P/NTA to derive an ex-distribution target price of S\$0.04. Target price raised mainly due to improvements in the group's NTA with the valuation gains on investment properties and AFS investments in FY09.
- FY09 net profit of S\$11.8m came in above expectations, thanks to one-off items like a S\$2.7m valuation gain on investment properties and available-for-sale (AFS) investments and a S\$2.0m profit from the Group's discontinued Electronic Manufacturing Services division.
- While future property ventures could potentially fetch higher returns, we expect earnings to come on stream only from FY12 and prefer to await further details before modifying our forecast. Returns from such investments could thus potentially provide upside to our FY12 earnings estimates.

Results summary

FYE Dec (S\$m)	FY08	FY09	YoY Chg (%)
Revenue	382.8	438.8	14.6
Gross profit	13.3	20.2	52.0
EBITDA	-9.7	4.3	nm
NPAT (Continuing operations)	-12.2	9.8	nm
NPAT (Discontinued operations)	-8.7	2.0	nm
PATMI	-20.9	11.5	nm
EPS (S cts)	-0.8	0.4	nm

* Note reclassification in FY08 due to discontinuation of operations in the EMS division

Financial ratios	FY08	FY09	YoY Chg (ppts)
Gross profit margin	3.5%	4.6%	1.1
EBITDA Margin (%)	-2.5%	1.0%	3.5
Net profit margin	-5.3%	2.6%	7.9

Balance sheet	FY08	FY09	YoY Chg (%)
Net cash	118.3	118.4	0.1
Net cash per share (S cts)	4.5	4.5	0.1
NTA per share (S cts)	7.9	8.7	10.7

Source: CIMB-GK Company

FY09 net profit above expectations

- FY09 net profit of S\$11.8m came in above expectations, thanks to one-off items like a S\$2.7m valuation gain on investment properties and available-for-sale (AFS) investments and a S\$2.0m profit from the Group's discontinued Electronic Manufacturing Services division.
- Stripped of these one-off items and foreign exchange gain of S\$1.2m, core net profit of S\$5.8m would have been broadly in line with our net profit expectation of S\$5.6m.
- FY09 earnings showed a strong turnaround from the S\$20.9m loss in FY08. This was attributable to stronger sales and profit margins.
- In particular, gross profit margin for FY09 improved to 4.6% from 3.5% in FY08 due to an enhanced product mix. EBITDA margin also improved to 1.0% from -2.4% in FY08 with tight cost control measures.

Changes in estimates

- We have raised FY10 and FY11 estimates by 6.3% and 5.0% respectively as we reduce our previous finance cost assumptions with the group's intention to divest certain listed investments to meet cash requirements.
- We have also introduced FY12 estimates.

Forecasts summary

FYE Dec	2008	2009	2010F	2011F	2012F
Revenue (S\$ m)	382.8	438.8	495.8	560.0	627.1
EBITDA (S\$ m)	(9.7)	4.3	4.2	6.6	8.8
EBITDA margins (%)	(2.5)	1.0	0.8	1.2	1.4
Pretax profit (S\$ m)	(12.1)	10.7	3.2	2.9	3.6
Net profit (\$ m)	(20.5)	11.5	2.7	2.5	3.1
EPS (S cts)	(0.8)	0.4	0.1	0.1	0.1
EPS growth (%)	-465%	+156%	-76%	-7%	+21%
P/E (x)	nm	17.0	72.2	77.6	64.0
FD EPS (S cts)	(0.8)	0.4	0.1	0.1	0.1
FD P/E (x)	nm	17.0	72.2	77.6	64.0
Gross DPS (S cts)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
P/NTA (x)	1.0	0.9	2.0	1.9	1.9
ROE (%)	(8.6)	5.3	1.7	2.5	2.9
Net gearing (%)	(56.4)	(51.2)	17.7	22.7	27.0
P/CF (x)	(10.1)	18.2	60.0	62.8	53.0
EV/EBITDA (x)	(8.4)	18.8	19.4	12.4	9.3

Capital reduction and cash distribution

- Thakral has received shareholders' approval for the proposed capital reduction and cash distribution of S\$130.6m (5 scs per share).
- Schedule for the cash distribution is as follow:
 - Expected date for court approval: 30 Apr 2010
 - Expected books closure date for capital reduction: 25 May 2010
 - Expected date of payment for cash distribution: 8 Jun 2010
- While there have been concerns on its ability to meet cash requirements, the group has expressed its intention to divest certain listed investments.
- Current net cash position also leaves room for Thakral to gear up, if required, to meet needs for working capital and property investments.

Positive outlook for distribution business

- Thakral has made a successful turnaround since it hived off its electronic manufacturing services (EMS) division and steered its direction back to consumer electronics distribution.
- The group has recently sealed a three-year S\$20.6m deal with Lenovo (Beijing) to be the exclusive distributor of Lenovo's game players and media players in China.
- While initial earnings contributions from the contract could be limited, the group believes that the tie-up would open new distribution channels for the group.
- Furthermore, the tie-up could position the group for distribution rights to game players for other global brands like Sony and Nintendo, currently denied entry by Chinese regulations, should there be a relaxation in regulations in future.

Property ventures going forward

- Thakral plans to set aside S\$25m in capital for property investments to enhance shareholders' returns.
- It has identified Australia as a key market and seeks to invest in projects of medium-sized property developers.
- It has set a 20% required rate of return for such investments and projects which it is considering are expected to have a time-frame of 18 – 24 months.
- Returns from such investments could thus potentially provide upside to our FY12 earnings estimate as we have not factored these in our forecast pending further concrete details.