

Analyse this...

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Thakral Corporation Ltd

Taking a turn for the better?

 THK SP
 HOLD; TP: S\$0.04

 Price @4/8/10 : S\$0.035
 52-week range (SGD): 0.02 – 0.04
 Market cap : S\$91.4m

Maintain HOLD; target price of S\$0.04

- Maintain **HOLD**; target price of **S\$0.04** unchanged. We continue to peg our target price at 1x CY10 P/BV to derive a target price of S\$0.04.
- 2Q10 core net profit of S\$1.1m (-66.7% yoy) was above our expectations due to better-than-expected gross profit margin for the quarter. Though net profit came in at a whopping S\$30.2m, S\$28.7m was accounted for by a one-off gain on disposal of available-for-sale investments.
- Outlook for its distribution business remain optimistic given the gradual recovery in demand for consumer electronics in Hong Kong and China, while its property business is also expected to pick up.

Results summary

FYE Dec (S\$m)	2QFY10	2QFY09	YoY Chg
Revenue	115.5	114.3	1.0%
Gross profit	6.4	6.0	6.9%
EBITDA	1.55	1.46	6.2%
Core net profit	1.1	3.3	(66.7%)

Financial ratios (%)	2QFY10	2QFY09	YoY Chg
Gross profit margin	5.57	5.26	+0.31% pt
EBITDA margin	1.34	1.28	+0.06% pt
Core net profit margin	0.96	2.90	(1.94%pt)

Balance Sheet	2QFY10	2QFY09	YoY Chg
Total debt (S\$m)	5.4	3.4	56.2%
Total cash (S\$m)	23.4	123.5	(81.1%)
NAV per share (S cts)	3.68	8.06	(54.3%)

Source: Company, CIMB-GK Research

2Q10 results above expectations

- 2Q10 core net profit of S\$1.1m (-66.7% yoy) was above our expectations due to better-than-expected gross profit margin for the quarter. The Group's yoy performance was seemingly unconvincing, mainly a result of unfavourable foreign exchange movements and a lack of contribution from associates. Nevertheless, the reported core earnings bettered our estimate. Though net profit came in at a whopping S\$30.2m, S\$28.7m was accounted for by a one-off gain on disposal of available-for-sale investments; specifically its stake in Gateway Distriparks Ltd, India.
- Revenue edged up 1% yoy to S\$115.5m on the back of gradual recovery in demand for consumer electronic products in Hong Kong and China. Its property division in Wujiang achieved yoy top line growth in excess of 40%, though the small dollar value (2Q10: S\$1.7m) render it insignificant compared to the Group's total turnover.
- Gross margin rose 0.3% pt yoy to 5.6% in 2Q10, as bulk buying lowered its average inventory cost. Operating expenses came in at 4.5% of total sales (2Q09: 4.3%), due to higher selling cost as stepped up marketing efforts for new games and media products continued.
- Balance sheet remained healthy with a net cash of S\$18m (net cash per share: 0.7 scts). The Group also distributed S\$130m of cash back to its shareholders during the quarter as part of its capital reduction exercise.

Adjustment to EPS estimates

- In view of the better-than-expected gross profit margins for the quarter, we have adjusted upwards our gross margin assumptions for FY10-12 by 0.1% pt.
- We have also expanded our selling expense forecasts over FY10-12 to reflect the increasing marketing efforts.
- Accordingly, our FY10-12 core net profit estimates rose by S\$0.3m-0.6m.

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	3.8	5.8	7.5
EBITDA margins (%)	(2.5)	1.0	0.8	1.0	1.2
Pretax profit (S\$ m)	(12.1)	10.7	34.0	3.8	4.4
Net profit (\$ m)	(20.5)	11.5	30.0	3.0	3.5
Core net profit (\$ m)	(20.5)	11.5	2.8	3.0	3.5
EPS (S cts)	(0.78)	0.44	1.15	0.11	0.13
EPS growth (%)	-465%	+156%	+161%	-90%	+16%
P/E (x)	nm	7.9	3.0	30.7	26.5
Core EPS (cts)	(0.78)	0.44	0.11	0.11	0.13
Core EPS growth (%)	nm	+156%	-76%	+6%	+16%
Core P/E (x)	nm	7.9	32.5	30.7	26.5
Gross DPS (S cts)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
P/NTA (x)	0.4	0.4	0.7	0.7	0.7
ROE (%)	(8.6)	5.3	23.6	2.3	2.6

Looking ahead

- **Still optimistic on the distribution business.** The Group continues to be financially strong even after its S\$130.6m capital reduction and cash distribution. Going forward, the Group will make effective use of its remaining capital by taking steps to grow its distribution channels and improve product mix, by adding higher margin products, which should result in improved margins. While China's economic growth may ease in the coming months, the Group believes the impact will be mild as they expect the Chinese government to take steps to manage the pace of growth.
- **Property business expected to pick up.** Sales of the property segment continue to pick up in 2Q10, growing in excess of 40% albeit from a low base in 2Q09. The Group sees further opportunity in the property development business, and will continue to make such investments if the opportunities arise. Such investments will be funded with a combination of internal resources as well as borrowings.