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Recommendation:

HOLD

Previous call: Hold at \$0.085

Price

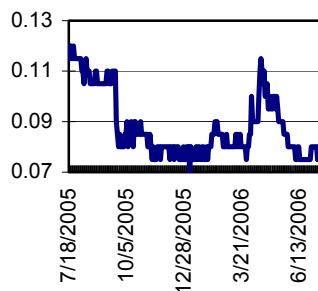
Previous close **\$0.08**
Fair value **\$0.10**

Share Statistics

Shares	1,920.4m
Market Cap.	S\$153.6m
Trailing PER	NA
Forward PER	NA
P/Bk	0.7x
52-week Price Range	0.07-0.12
52-week PER Range	NA
Listing Bourse	SGX- MainBoard
Major Shareholders	Avenue Asia 22.6%, Delta Venture 19.3%, Thakral Investment 15.4%

Source: Bloomberg; Phillip Securities Research

Price Chart



Company Profile

Thakral Corp is a specialist in Supply Chain Management, Marketing and Brand Building. The Group is also involved strategically in contract manufacturing, as well as logistics and property

Thakral Corporation Ltd

Update

Singapore

Where is the gem?

18th July 2006

Changing hands: 3 top executives, Mr Inderbethyl Singh Thakral (CEO/Group MD), Mr Mr Pradeep Kumar (COO) and Mr Ravi Sreen (CFO), had announced their resignations in the last 6 months. Mr Inderbethyl will be staying on in Thakral as a non-executive director. Their departure came at a time where Thakral is facing slowing revenue, weakening margins and deep losses. Replacements for the COO and CFO have already been found, namely Mr Sherman Kwek (COO) and Mr Tan Eng Kwee (CFO). The position of CEO is currently vacant.

FY06 results: Revenue for FY06 came in at \$392m, about 6.5% lower than our estimates as sales from the Supply Chain Management Division (“SCM”) continued to slump. Losses for FY06 came in at \$32.6m, larger than our forecast of \$29m mainly due to additional impairment charges that Thakral took in the last quarter for the home entertainment business. This is despite earlier assurance that there will be no additional provisions other than those taken in 3Q06. Excluding the additional charge, performance was actually better than our expectation mainly due to lower administrative expenses and foreign exchange gain.

The negatives: With top management leaving together, our outlook for Thakral has deteriorated. While we do not doubt the capability of the new management team, we believe that the experience of the former team will not be easily replicated within a short timeframe. We continued to be concerned about the overall GPM, which stands at 6.2% for 4Q06 and 7.3% for FY06, a far cry from the 10.7% achieved in FY05. We reckon that GPM will have to improve to around 8.5 - 9% to achieve breakeven on an operating basis. We believe that the current problem with the parallel imports is one that cannot be resolved easily just by simply improving efficiency and reducing overheads. It seems to us that the business model can no longer operate profitably in the current environment. With Thakral deeply entrenched in the China market and the Panasonic brand products accounting for the majority of its revenue, we would expect drastic changes from the new management team if they were to turn the Company around. While Thakral has raised some \$70m worth of cash recently through the issuance of rights and bonds, we find it strange that there are currently no concrete plans on how to utilize the cash holding to enhance profitability.

And the only positive: There have been recent speculations of a potential take over by substantial shareholder Venture Delta, which is an indirectly wholly-owned subsidiary of China Yuchai International Limited, a subsidiary of Hong Leong Asia (“HLA”) Limited. Venture Delta currently holds a 19.35% stake in Thakral and some 52.9m convertible bonds due in 2009. If Venture Delta converts all its convertible bonds, its shareholding in Thakral will increase to 36.85%, resulting in a general offer. While we do not comment on speculation, we cannot help but notice HLA’s presence on Thakral’s board. Based on the latest annual report, there are several directors and key management personnel with HLA links, namely Non-Executive Director Mr Neo Teck Pheng (Investment Manager of City Developments Limited and Hong

Leong Management Services Pte Ltd), Non-Executive Director Mr Teo Tong Kooi (CEO and director of HLA, President and director of China Yuchai), Alternate Director to Mr Teo Tong Kooi, Mr Ting Si Tien (Group CFO of HLA, Director and CFO of China Yuchai), Non-Executive Director Mr Wong Hong Ren (Executive Director of Millennium & Copthorne Hotel plc, Chairman and President of Grand Plaza Hotel, Chairman of Millennium & Copthorne Hotels New Zealand Limited and CDL Investments New Zealand and LKN-Primefield Limited) and Thakral's recently appointed COO, Mr Shermin Kwek, son of Mr Kwek Leng Beng (Executive Chairman of Hong Leong Group Singapore).

So where is the gem? We find it puzzling on why HLA will be keen on Thakral. HLA's products include fridges, air-conditioners, diesel engines, industrial packaging materials and building materials while Thakral's is more of a distributor of consumer electronic products. We find little synergy between the products of the 2 companies. Thakral's business also does not appear to be too attractive. Margins for Thakral's core Supply Chain Management ("SCM") division should continue to come under pressure in the short-term while the EMS division is a very small-scale operation and have not been profitable for the last 3 years. The property division, with almost all projects completed, is unlike to generate much revenue going forward.

One possibility could be the cash holding. However, if HLA is looking at Thakral's net cash position of 4 cents per share, it probably does not need to place so many senior management staff into the board. Another possibility could be the logistic network that Thakral has developed over the years to support its SCM division. While we lack the expertise to pin a value to that, HLA could probably tap into the network to further expand its distribution reach for its white goods. In short, we are unsure of HLA's intention, if any, at the moment. Investor should note that in the event of a general takeover, the offer price would be at \$0.08 (as stated in Thakral's recent announcement), which is the current trading price of Thakral.

Recommendation: We feel that the challenging environment that Thakral is operating in is unlikely to see significant improvement in the short term. Without a clear indication on where the Company is heading, we are also unsure if the Company can be turned around quickly. Fundamentally, we think there will be little upside surprises in the short term. Downside risks include further margins erosion and execution risk associated with the new management team. We have lowered our forecast for FY07 due to lower margins assumption. We have also lowered our fair value to \$0.10 based on 0.85x FY07 book value. With the weak outlook and the lack of any dividend yield, we find little incentive to hold on to the stock at this point of time. Despite that, we recommend a HOLD at the moment as we have yet to speak to the new management team on their plans and strategies for the future, which may change our outlook for the Company.

Key Financial Data

(Financial Year Ended 31st March)

	4Q05	4Q06	FY05	FY06	YoY	FY07
Turnover (S\$ m)	131.8	73.0	522.3	391.7	-25	368.0
EBITDA (S\$ m)	7.7	-1.0	24.6	-10.6	NA	-2.1
EBIT (S\$ m)	7.1	-1.7	22.3	-13.5	NA	-5.2
NPATMI (S\$ m)	4.6	-7.5	18.3	-32.0	NA	-3.9
ROE (%)	9.2	NA	9.1	NA	NA	NA
EPS (cents)	0.3	-0.4	1.0	-1.7	NA	-0.2
Book value per Share (cents)	11.5	12.2	11.5	12.2	6	12.0

Source: Company, Phillip Securities Research

Business Segment	FY05	Operating Profit	FY06	Operating Profit
Supply Chain Management (S\$m)	503.0	27.9	365.7	-7.9
Electronic Manufacturing Services (S\$m)	16.0	-2.5	14.3	-4.1
Property Holding (S\$m)	1.4	-0.9	8.9	2.2
Others (S\$m)	1.9	0.1	2.7	-2.3
Total	522.3	24.6	391.7	-12.1

Source: Company, Phillip Securities Research

Year Ended 31 Mar

Income Statement

(S\$m)	FY05	FY06	FY07F
Revenue	535.3	417.3	368.0
Cost of sales	478.1	389.5	341.8
Gross Profit	57.3	27.8	26.2
Other Income	3.6	2.0	2.6
Distribution expenses	12.6	11.0	8.1
Administrative expenses	26.7	42.3	22.8
Other operating expenses	2.3	3.0	3.1
Profit from operations	19.2	(26.4)	(5.2)
Exceptional items	0.0	0.0	0.0
Finance costs	1.0	2.8	1.5
Share of profits from associates	(0.1)	0.0	0.0
Interest income	0.3	1.2	2.2
Profit before tax	19.6	(26.0)	(4.5)
Tax	(1.2)	(2.1)	0.3
Minority Interest	0.2	(1.2)	0.4
Net Profit	18.5	(29.3)	(3.9)
EBITDA	21.6	(23.4)	(2.1)
EPS (S cents)	1.0	(1.6)	(0.2)

Balance Sheet

(S\$m)	FY05	FY06	FY07F
Assets			
Cash	61.3	134.5	131.5
Inventory	91.6	40.3	41.0
Receivables	66.3	40.1	42.3
Other current assets	3.2	0.0	0.0
Fixed assets	26.0	27.3	25.8
Other non-current assets	21.4	84.9	84.9
Total assets	269.8	327.1	325.5
Liabilities			
Short term borrowings	11.5	3.6	4.8
Payables	28.6	28.6	28.0
Other current liabilities	1.1	1.9	1.9
Long term borrowings	20.8	53.6	56.6
Other non-current liabilities	0.0	0.0	0.0
Total liabilities	62.0	87.7	91.3
Capital and reserves			
Minority Interest	5.4	6.6	7.0
Shareholders equity	201.8	232.7	228.9
Net cash/(debt)	29.0	77.3	70.2
Book value per share (S cents)	1.0	(1.6)	(0.2)
NTA per share (S cents)	11.5	13.3	12.0

Cash Flow Statement

(S\$m)	FY05	FY06	FY07F
Profit before tax	19.7	(29.8)	(4.5)
Depreciation	2.3	2.9	3.0
Operating profit before working capital changes	17.7	0.4	(3.5)
Net cash flow from operating activities	16.8	51.6	(5.6)
Net cash flow from investing activities	(1.6)	(2.1)	(1.6)
Net cash flow from financing activities	7.5	28.8	4.2
Net increase in cash/cash equivalents	19.2	73.2	(3.0)
Cash at end of year	61.3	134.5	131.5

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BUY	>15% upside from the current price
HOLD	Trade within \pm 15% from the current price
SELL	>15% downside from the current price

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