SGX – MAS Research Incentive Scheme

Stella Tan
☎ 65-6531 1295
FAX 65-6536 4435
stellatanjh@phillip.com.sg

Singapore / Tech – Dist & Mfg / FY07 Results

Thakral Corporation Ltd

Work In Progress

19th March 2007

Recommendation

HOLD

Previous call: Hold at $0.095

Price

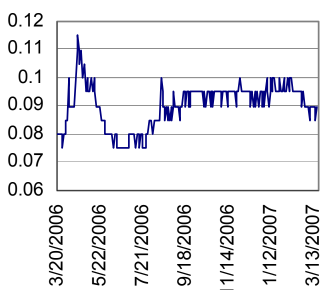
Previous close	**$0.09**
Fair value	**$0.10**

Share Statistics

Shares	2456.4m
Market Cap.	S$221.1m
Trailing PER	N/m
Forward PER	N/m
P/Bk	0.9x
52-week Price Range	0.07-0.12
52-week PER Range	N/m
Listing Bourse	SGX-MainBoard
Major Shareholders	Venture Delta 36.6%, Avenue Asia 17.6%, Thakral Investment 12.0%

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

FY07 results. (Note: FY07 comprises nine months' contributions, due to the change in FY end from March to Dec.) Thakral's 9M/FY07 results came in weaker than expected, mainly due to some allowances made in the last quarter. Revenue came in at $166.5 mil, declining 47.9% against 9M06 revenue of $319.6 mil, as heavy competition and supply issues continued to take its toll on sales. Gross profit margin took a severe beating in Q3, falling to an abysmal 0.2%. As a result, GPM for the year fell to 5.7% from 7.6% in the corresponding period last year. Net losses declined 52.7% from -$25.3 mil in FY06 to -$12.0 mil, and would have fallen in line with our expectations, if not for write-offs charged to cost of sales.

Supply Chain Management: Revenue for the segment fell 50.7% from $299.5 mil in 9M06 to $147.8 mil in 9M/FY07, and margins continued to come under pressure. In the face of a fiercely competitive operating environment, the segment has yet to return to profitability. Management is aggressively pushing for a radically improved product mix, so as to drive sales volume. This will involve both an increase in SKU under existing brands, and partnering with new principals to provide enhanced options to customers. It is also working to expand distribution networks (which, essentially translates to expanding its customer base) in order to provide suppliers with greater value.

EMS: Segmental revenue improved by 5.1% to $12.3 mil, from $11.7 mil in the previous corresponding period. From our records that date back to FY02, the unit has yet to see a single year of profitability. The division underwent a change in management at the end of the last quarter, and is in the midst of enforcing a revamp in the unit. The new management plans to fully exploit the existing capabilities of the plant, which include Printed Circuit Board (PCB) manufacturing and testing, and the production of finished electronic goods. Plans are also in place to create more stable streams of revenue by refining customer profile. Following the successful implementation of these changes, utilization rate should improve substantially for the turn-key EMS provider.

Property: Despite the 44.7% decline in revenue from property sales from $8.5 mil in 9M06 to $4.7 mil in 9M/FY07, the property division is the only unit to have turned in a profit in the latest FY. Management has advised that the bulk of sales in FY07 were recorded in the final quarter, following a major ramp up in sales efforts and a fine-tuning of the price to more appropriate levels. To date, over 80% of the Wujiang development has been sold. In light of the recent enforcement of the Land Appreciation Tax by the Chinese government, the Company has already made provisions slightly in excess of S$0.2 mil.

Operational and balance sheet refurbishment: As mentioned, 9M/FY07 results would have come in largely in line with our expectations if not for allowances made for slow moving inventory and old raw materials amounting to $3.9 mil. These allowances, together with allowances made for aging receivables, ongoing staff rationalization exercises, and a significant year on year reduction in opex from $35.4 mil in 9M06 to $25.1mil in 9M/FY07 indicates to us that the Management is committed to making durable changes in operational structure.

Recommendation: We have adjusted our top line projection for FY07 (CY2007) upwards to $227.1 mil on the back of stronger property sales, while PATMI has been revised downwards to -$3.5 mil to reflect the effect of lower margins. We have also introduced our FY08 projection, where we expect for Thakral to break-even with modest net earnings of $0.7 mil on revenue of $301.6 mil. Our P/BV peg has been also raised from 0.9x to 1.0x to credit the tidied balance sheet. Maintain HOLD with fair value estimate of $0.10.

Key Financial Data
(Financial Year Ended 31 Dec)

	FY06	9M/FY07*	YoY (%)	FY07F*	FY08F
Turnover (S$ m)	391.7	166.5	-57.5	227.1	301.6
EBITDA (S$ m)	(10.6)	(12.2)	-15.2	(3.6)	2.1
EBIT (S$ m)	(13.5)	(14.5)	-7.3	(5.8)	(0.2)
Net Profit (S$ m)	(32.6)	(12.0)	N/m	(3.5)	0.7
Net Profit Margin (%)	(8.3)	(3.6)	N/m	(1.5)	0.2
ROE (%)	(18.7)	(4.8)	N/m	(1.4)	0.3
EPS (cents) (fully diluted)	(1.7)	(0.5)	N/m	(0.1)	0.0
Book value per Share (cents)	12.2	10.3	-15.7	10.1	10.1

**9M/FY07 consists of 9 months contribution due to a change in financial year end;*
CY07 remains as FY07
Source: Company, Phillip Securities Research

Financials

Year Ended 31 Dec

Income Statement

(S$m)	FY06	9M/FY07*	FY07F*	FY08F
Revenue	391.7	166.5	227.1	301.6
Cost of sales	362.9	157.1	208.8	277.3
Gross Profit	28.8	9.5	18.4	24.3
Other Income	2.7	3.4	3.4	3.4
Distribution expenses	8.5	4.5	4.6	4.6
Administrative expenses	33.6	20.6	20.8	21.0
Other operating expenses	2.9	2.2	2.2	2.2
Profit from operations	-13.5	-14.5	-5.8	-0.2
FX gain/loss	3.1	0.8	0.0	0.0
Finance costs	2.6	1.0	0.4	0.3
Share of profits from associates	0.4	0.0	0.0	0.0
Interest income	2.0	2.9	2.7	2.6
Profit before tax	-10.5	-11.8	-3.5	2.1
Tax	-2.2	-0.2	-0.2	-0.1
Loss from discounting operations	-19.3	-0.7	-0.5	-0.5
Net Profit	-32.6	-12.0	-3.5	0.7
EBITDA	-10.6	-12.2	-3.6	2.1
EPS (S cents)	-1.7	-0.5	-0.1	0.0

Balance Sheet

(S$m)	FY06	9M/FY07*	FY07F*	FY08F
Assets				
Cash	134.5	124.0	131.8	124.0
Inventory	40.3	34.4	27.1	30.5
Receivables	40.1	37.5	36.3	37.7
Other current assets	0.0	0.0	0.0	0.0
Fixed assets	27.3	24.2	23.9	24.0
Other non-current assets	84.9	72.7	72.4	72.4
Total assets	327.1	292.7	291.6	288.6
Liabilities				
Short term borrowings	3.6	0.5	0.5	0.5
Payables	28.6	26.1	29.2	26.3
Other current liabilities	1.9	1.2	1.2	1.2
Long term borrowings	53.6	12.5	12.5	12.5
Other non-current liabilities	0.0	0.0	0.0	0.0
Total liabilities	87.7	40.4	43.5	40.6
Capital and reserves				
Shareholders equity	232.7	246.9	243.4	244.1
Net cash/(debt)	77.3	110.9	118.7	110.9
Book value per share (S cents)	12.2	10.3	10.1	10.1
NTA per share (S cents)	12.2	10.3	10.1	10.1

Cash Flow Statement

(S$m)	FY06	9M/FY07*	FY07F*	FY08F
Profit before tax and after loss from discontinued operations	-29.8	-12.5	-4.0	1.6
Depreciation	2.9	2.2	2.2	2.2
Operating profit before working capital changes	0.4	-12.4	-7.3	-3.4
Net cash flow from operating activities	51.6	-5.7	9.8	-5.4
Net cash flow from investing activities	-2.1	5.0	-2.0	-2.4
Net cash flow from financing activities	28.8	-3.2	0.0	0.0
Net increase in cash/cash equivalents	73.2	-10.5	7.8	-7.8
Cash at end of year	134.5	124.0	131.8	124.0

**FY end changed from 31st March to 31st December, FY07 forecast only consists of 9 months' contribution. CY07 remains as FY07.*

Phillip Research Stock Selection Systems

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

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

PhillipCapital – Regional Member Companies

SINGAPORE
Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6531 6003
Fax : (65) 6535 6631
Website : www.poems.com.sg

MALAYSIA
Phillip Capital Management Sdn Bhd
B-2-6 Megan Avenue II
12 Jln Yap Kwan Seng
50450 Kuala Lumpur
Tel : (603) 2166 8099
Fax : (603) 2166 5099
Website : www.poems.com.my

HONG KONG
Phillip Securities (HK) Ltd
11-12/F United Centre
95 Queensway, Hong Kong
Tel : (852) 2277 6600
Fax : (852) 2868 5307
Website : www.poems.com.hk

THAILAND
Phillip Securities (Thailand) Public Co Ltd
15/F, Vorawat Building
849 Silom Road
Bangkok Thailand 10500
Tel : (622) 635 7100
Fax : (622) 635 1616
Website : www.poems.in.th

JAPAN
The Naruse Securities Co Ltd
4-2, Nihonbashi Kabutocho
Chuo Ku, Tokyo
Japan 103-0026
Tel : (81) 03-3666-2101
Fax : (81) 03-3664-0141
Website : www.naruse-sec.co.jp

UNITED KINGDOM
King & Shaxson Ltd
6th Floor, Candlewick House
120 Cannon Street
London EC4N 6AS
Tel : (44) 207 426 5950
Fax : (44) 207 6261757
Website : www.kingandshaxson.com