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Recommendation:

HOLD

Previous call: Hold at \$0.08

Price

Previous close **\$0.095**

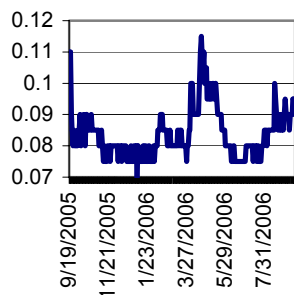
Fair value **\$0.095**

Share Statistics

Shares	2455.0m
Market Cap.	S\$233.23m
Trailing PER	na
Forward PER	na
P/Bk	0.8x
52-week Price Range	0.07-0.12
52-week PER Range	na
Listing Bourse	SGX- MainBoard
Major Shareholders	Delta Venture 36.7%, 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

Thakral Corporation Ltd

Update

Singapore

What's next

20th September 2006

Recent happenings: Rabobank International, the independent financial advisor, had advised shareholders to reject the offer from Venture Delta. Meanwhile, certain directors of Thakral ("Company"), namely Mr Kartar Singh Thakral, Mr Inderbethyl Singh Thakral and Mr Jasvinder Singh Thakral, had informed the Company that they are currently in discussions to consider making competing offers to acquire all the issued ordinary shares and convertible notes issued by the Company. The current major shareholders of Thakral are currently Venture Delta (36.7% stake), Avenue Asia (17.6% stake) and Thakral Investment (12.0% stake).

Profit warning: Thakral had also announced a profit warning with regards to its 2Q07 results. The Supply Chain Management ("SCM") division was affected by delay in the release of new product models while the Electronic Manufacturing Services ("EMS") division was affected by delay in receipt of orders. The recent mandatory conditional cash offer by Venture Delta also resulted in additional administrative expenses and Thakral is expected to make provision for its receivables from a Hong Kong based customer. Although not mentioned, the delayed new product models from the SCM division are likely to be consumer electronic products from Panasonic. Operating margin for the EMS division is also likely to remain in the red, as was in 1Q07. Administrative expenses are expected to inch up marginally though we are unable to get an indication on the size of the provision.

Surprise twist: The move from the Thakral family surprised us. We are constantly under the impression that the Thakral family is looking to move behind the scene in terms of managing the Company. The Thakral family holds shares in Thakral through Thakral Investment. For a start, Thakral Investment did not subscribe to any of the rights and bonds that the Company proposed to issue late last year. While it eventually ended up with a 5.3% stake in both the rights and bonds issued, it should be noted that that portion of shares were under pledge to Hong Leong Finance Limited ("HLFL") and it was HLFL, who exercised its right as a secured lender in order to protect itself from dilution, subscribed to the rights and bonds entitlement and charged it to Thakral Investment. Furthermore, Mr Inderbethyl Singh had stepped down earlier as CEO and Group MD of Thakral, another sign to indicate that the Thakral family is more keen to take a passive role. Despite all that, we do not doubt the financial strength of the Thakral family to launch a counter offer for Thakral.

Future upside should come from Hong Leong Asia ("HLA"): Thakral's core business should still remain challenging in the short term. We do not foresee a turnaround of the SCM division any time soon and the scale of the EMS division is still too small to contribute significantly. Any upside, in our view, is more likely to come from HLA in the form of joint venture or partnership, either to tap on Thakral's existing logistic network or to use Thakral as a vehicle for further expansion into China.

Valuation: Thakral had also changed its financial year-end from 31st March to 31st December and our FY07 forecast will only consist of 9 months contribution. Thakral is recently trading at \$0.09/\$0.095 range, higher than the offer price from Venture Delta. Investors who are keen to take up the general offer from Venture Delta should just dispose their shares in the open market to obtain a better price.

We are still looking at a loss for FY07. While we have tweaked our forecast due to the profit warning, we are currently still unable to determine the impact with regards to the provision. The decline in book value in 1Q07 is mainly attributed to the revaluation of available for sale investments. We have also lowered our fair value to \$0.095 based on 0.9x FY07 book value. Maintain Hold.

Key Financial Data

(Financial Year Ended 31st December*)

	1Q06	1Q07	YoY	FY07*
Turnover (S\$ m)	124.1	67.1	-46%	225.8
EBITDA (S\$ m)	4.4	0.0	-99%	(0.3)
EBIT (S\$ m)	3.7	(0.7)	na	(2.5)
Net Profit (S\$ m)	2.2	(1.1)	na	(2.7)
Net Profit Margin (%)	1.8	na	na	na
ROE (%)	3.5	na	na	na
EPS (cents)	0.1	(0.1)	na	(0.1)
DPS (cents)	0.0	0.0	na	0.0
Book value per Share (cents)	14.1	11.3	-20%	10.7

Source: Company, Phillip Securities Research

*Company has changed its financial year end from 31st March to 31st December, FY07 forecast only consist of 9 months contribution

Year Ended 31 Dec

Income Statement

(S\$m)	FY05*	FY06	FY07F**
Revenue	522.3	391.7	225.8
Cost of sales	469.6	362.9	203.4
Gross Profit	52.7	28.8	22.4
Other Income	3.6	2.7	2.6
Distribution expenses	6.5	8.5	5.0
Administrative expenses	25.3	33.6	20.3
Other operating expenses	2.3	2.9	2.2
Profit from operations	22.3	(13.5)	(2.5)
Exceptional items	0.0	0.0	0.0
FX gain/loss	1.2	3.1	0.0
Finance costs	1.0	2.6	1.3
Share of profits from associates	(0.1)	0.4	0.0
Interest income	0.3	2.0	1.6
Profit before tax	22.6	(10.5)	(2.2)
Tax	(1.2)	(2.2)	0.0
Loss from discounting operations	(3.1)	(19.3)	(0.5)
Minority Interest	0.2	(0.6)	0.0
Net Profit	18.5	(32.6)	(2.7)
EBITDA	24.5	(10.6)	(0.3)
EPS (S cents)	1.0	(1.7)	(0.1)

Balance Sheet

(S\$m)	FY05*	FY06	FY07F**
Assets			
Cash	61.3	134.5	145.7
Inventory	91.6	40.3	30.5
Receivables	66.3	40.1	36.1
Other current assets	3.2	0.0	0.0
Fixed assets	26.0	27.3	27.1
Other non-current assets	21.4	84.9	74.9
Total assets	269.8	327.1	314.3
Liabilities			
Short term borrowings	11.5	3.6	2.9
Payables	28.6	28.6	28.5
Other current liabilities	1.1	1.9	1.9
Long term borrowings	20.8	53.6	12.8
Other non-current liabilities	0.0	0.0	0.0
Total liabilities	62.0	87.7	46.1
Capital and reserves			
Minority Interest	5.4	6.6	5.8
Shareholders equity	201.8	232.7	262.4
Net cash/(debt)	29.0	77.3	129.9
Book value per share (S cents)	11.5	12.2	10.7
NTA per share (S cents)	11.5	12.2	10.7

Cash Flow Statement

(S\$m)	FY05*	FY06	FY07F**
Profit before tax and after loss from discontinued operations	19.5	(29.8)	(2.7)
Depreciation	2.3	2.9	2.2
Operating profit before working capital changes	19.1	0.4	(2.7)
Net cash flow from operating activities	16.8	51.6	12.3
Net cash flow from investing activities	(1.6)	(2.1)	(2.0)
Net cash flow from financing activities	7.5	28.8	0.9
Net increase in cash/cash equivalents	19.2	73.2	11.2
Cash at end of year	61.3	134.5	145.7

restated**Company has changed its financial year end from 31st March to 31st December, FY07 forecast only consist of 9 months contribution*

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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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