

SGX – MAS Research
Incentive Scheme

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Singapore / Consumer Electronics / 1H07 Results

Thakral Corporation Ltd

Turnaround prospects intact

28th August 2007

Recommendation:

HOLD

Previous call: Hold at \$0.15 on
02 May 07

Price

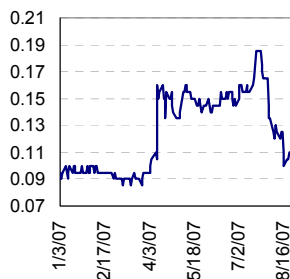
Previous close **\$0.115**
Fair value **\$0.10**

Share Statistics

Shares	2585.1m
Market Cap.	S\$284.4m
Trailing PER	N/m
Forward PER	183.3x
P/Bk	1.1x
52-week Price Range	S\$0.085- \$0.195
52-week PER Range	N/m
Listing Bourse	SGX- MainBoard
Major Shareholders	Venture Delta (34.8%); Thakral Investments (12.8%); Babcock & Brown (9.0%)

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

1H07 earnings surprise. Thakral's results came in stronger than expected in 1H07. Although revenue came in softer at S\$136.6 mil in 1H07 (-3.6% yoy), the Company reversed its -\$8.4 mil net loss position in the previous corresponding period to achieve PATMI of S\$1.8 mil. For the quarter, revenue came in at S\$88.5 mil, an improvement of 28.7% yoy, and the net loss of -\$1.1 mil reported in the same period last year was also reversed as the Company achieved PATMI of S\$1.6 mil in 2Q07.

Ongoing cost-saving measures help boost bottom line. Despite weaker sales, and overall GP margin declining from 8.3% to 7.4% yoy, the Company turned in a PBT of S\$4.0 mil in 1H07 (against loss of -\$1.1 mil in the same period last year). This was mainly due to continuing cost-saving measures being undertaken by the Management. For the half, distribution costs declined 25.1% yoy, while administrative expenses fell 35.6% yoy.

SCM on the road to recovery with new addition to product offering. In an earlier report (17 Nov 06), we noted that the Company possessed little bargaining power relative to its suppliers, due to an over-reliance on a single supplier. To-date, we believe the Company has realigned its relationship with suppliers, with the addition of new brands and products to its product portfolio. New brands being distributed include Kodak, Fuji, and Olympus.

EMS business gaining traction. Although Thakral's EMS business still posted a loss for 1H07, top line has increased 97.1% over the same period last year. Revenue for the segment came in at S\$12.6 mil for the first half, and was mainly attributable to several new customers acquired, and a higher proportion of turnkey work carried out. We expect the segment to turn around this year, based on the progress it has made to-date. However, based on the strategic growth plans articulated by the Management, which involves switching to producing higher value products through the acquisition of new customers, we expect further growth for the segment to be derived only in the longer term.

Valuation and Recommendation. We are keeping to our FY07 projections for Thakral, as Management has advised that business conditions remain challenging. As such, we do not expect the performance witnessed in 1H07 to be repeated in the next half. We maintain our HOLD call on Thakral, with fair value estimate of S\$0.10, based on 1x FY07P/BV.

Key Financial Data

(Financial Year Ended 31 Dec)

	1H06 ^{(1)*}	1H07 ^{(2)*}	YoY (%)	FY07F*	FY08F
Turnover (S\$ m)	141.7	136.6	-1.8	269.1	313.5
EBITDA (S\$ m)	(1.0)	1.9	-288.8	3.3	6.3
EBIT (S\$ m)	(2.4)	0.6	9.5	0.4	3.7
Net Profit (S\$ m)	(8.7)	2.4	N/m	1.7	5.5
Net Profit Margin (%)	N/m	1.8	N/m	0.6	1.7
EPS (cents) (fully diluted)	(0.5)	0.1	N/m	0.1	0.2
Book value per Share (cents)	10.0	10.6	-18.5	9.6	9.8

⁽¹⁾ 6 months ended 30 Jun 2006⁽²⁾ 6 months ended 30 Mar 2007

*CY07 remains as FY07 due to a change in financial year end last year.

Source: Company, Phillip Securities Research

Financials

Year Ended 31 Dec

Income Statement

(S\$m)	FY06	9M/FY07*	FY07F*	FY08F
Revenue	391.7	166.5	269.1	313.5
Cost of sales	362.9	157.1	250.4	292.8
Gross Profit	28.8	9.5	18.7	20.7
Other Income	2.7	3.4	4.6	5.8
Distribution expenses	8.5	4.5	4.6	4.6
Administrative expenses	33.6	20.6	15.5	15.6
Other operating expenses	2.9	2.2	2.9	2.6
Profit from operations	-13.5	-14.5	0.4	3.7
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	2.8	6.0
Tax	-2.2	-0.2	-0.5	-0.4
Loss from discounting operations	-19.3	-0.7	-0.5	-0.5
Net Profit	-32.6	-12.0	1.7	5.5
EBITDA	-10.6	-12.2	3.3	6.3
EPS (S cents)	-1.7	-0.5	0.1	0.2

Balance Sheet

(S\$m)	FY06	9M/FY07*	FY07F*	FY08F
Assets				
Cash	134.5	124.0	132.7	135.5
Inventory	40.3	34.4	28.8	29.3
Receivables	40.1	37.5	36.3	37.6
Other current assets	0.0	0.0	0.0	0.0
Fixed assets	27.3	24.2	14.9	14.7
Other non-current assets	84.9	72.7	69.9	69.9
Total assets	327.1	292.7	282.6	286.9
Liabilities				
Short term borrowings	3.6	0.5	0.4	0.4
Payables	28.6	26.1	26.3	24.9
Other current liabilities	1.9	1.2	1.1	1.1
Long term borrowings	53.6	12.5	12.6	12.6
Other non-current liabilities	0.0	0.0	0.0	0.0
Total liabilities	87.7	40.4	40.5	39.0
Capital and reserves				
Shareholders equity	232.7	246.9	236.5	242.0
Net cash/(debt)	77.3	110.9	119.6	122.5
Book value per share (S cents)	12.2	10.3	9.6	9.8
NTA per share (S cents)	12.2	10.3	9.6	9.8

Cash Flow Statement

(S\$m)	FY06	9M/FY07*	FY07F*	FY08F
Profit before tax and after loss from discontinued operations	-29.8	-12.5	2.3	5.5
Depreciation	2.9	2.2	2.9	2.6
Operating profit before working capital changes	0.4	-12.4	-3.4	0.9
Net cash flow from operating activities	51.6	-5.7	10.1	5.4
Net cash flow from investing activities	-2.1	5.0	-1.9	-2.3
Net cash flow from financing activities	28.8	-3.2	0.1	0.0
Net increase in cash/cash equivalents	73.2	-10.5	8.7	2.8
Cash at end of year	134.5	124.0	132.7	135.5

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

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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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