

SGX – MAS Research Incentive Scheme

Singapore / Consumer Electronics / Update

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Thakral Corporation Ltd

Positive outlook obscured by new shareholder

Recommendation

HOLD

Previous call: Hold at \$0.10

2nd May 2007

Price

Previous close **\$0.135**

Fair value **\$0.10**

Share Statistics

Shares	2529.2m
Market Cap.	S\$341.4m
Trailing PER	N/m
Forward PER	N/m
P/Bk	1.5x
52-week Price Range	\$0.07- \$0.175
52-week PER Range	N/m
Listing Bourse	SGX- MainBoard
Major Shareholders	Venture Delta (35.6%); Thakral Investments (13.1%); Babcock & Brown (9.2%)

Source: Bloomberg; Phillip Securities Research

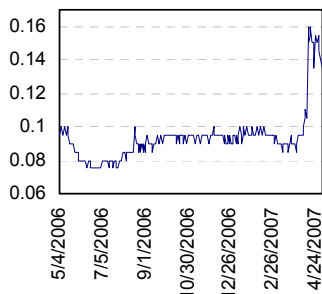
1Q07 Results. Thakral reported revenue of S\$48.2 million (-28.2% YoY) and net profit of S\$0.2 million for 1Q07, up from a loss of S\$1.1 million in the previous corresponding period. Despite a 28.2% YoY decline in revenue, this is the Thakral's first profitable quarter after four consecutive quarters of losses. Better results were aided by non-operating items, as the Company still registered an S\$0.6 million loss from operations. Cost cutting exercises at the Company are ongoing, and Management hopes to be able to further reduce expenses, even after heavy cost reduction in the last FY.

Outstanding receivables repayment to boost FY07 earnings. Over the current FY and the next, Thakral is slated to receive an aggregate amount of S\$6.6 million (plus interest) owing by Thakral Brothers (Private) Limited. According to the repayment schedule, the Company should expect to receive an additional S\$3 million in the current FY. The remaining amount, and additional interest charged up to 31 Dec 07, is expected to be repaid in full by end FY08.

Hong Leong's labour comes to (near) fruition. Since coming on board last year, the Hong Leong Group (which, indirectly owns substantial shareholder, Venture Delta) has maintained a strong presence in the Company, placing several members on the board of directors. The Hong Leong faction has also been involved in the day-to-day running of the Company, with personnel in a key management position. During this time, the new team has attempted to substantially improve operational efficiency and ramp up sales, in an effort to return the Company to profitability. Expenses have been cut considerably, and efforts to improve product mix (so as to improve Thakral's bargaining power as a consumer electronics distributor) are gaining headway. Recently, the Company has also entered into an agreement to recover receivables long overdue from a separate private entity partially owned by the Thakral family businesses – Thakral Brothers (Private) Limited) – which, we doubt would have come to pass had the Company still been under the Thakral family's stewardship. While we do not see the Company making a steadfast return back to the black (ex- write backs of AR outstanding) till FY08, we are confident that the appropriate wheels have been set in motion to place the Company on the road to recovery.

New shareholder's entry obscures outlook. Avenue Asia Capital Management, previously a major shareholder, recently sold its entire 17.6% stake (432 million shares) at 11.5¢/sh via a block trade. Approximately 233.3 million shares were sold to Babcock & Brown Securities Singapore Pty Ltd (Babcock). Babcock's 9.2% interest in the Company makes it the third largest shareholder at present. Babcock's entry comes at a time when the Company looks like it could be on the brink of a turnaround, after having undergone several quarters of operational and balance sheet revamps. At this juncture, we can't help but wonder why Babcock, whose expertise resides chiefly in the areas of real estate, infrastructure, and operating leasing, would want a substantial stake in the Company. While we will not speculate on Babcock's interest in the Company, we have noticed a stark similarity between Babcock and the Hong Leong faction – an affinity for, and an undeniable proficiency

Price Chart

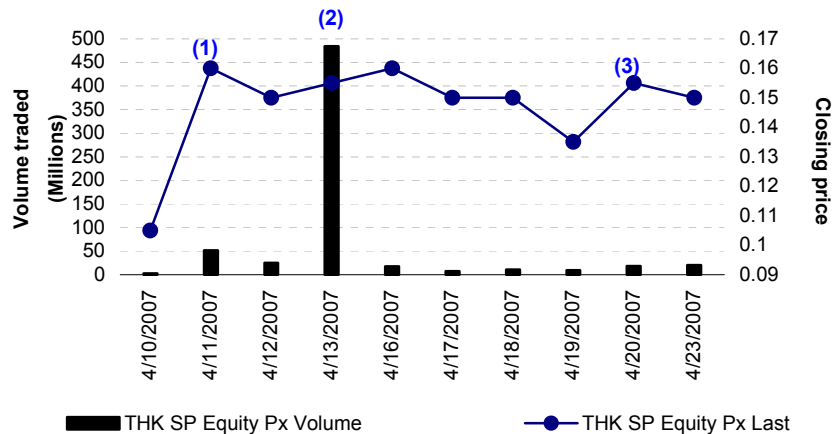


Company Profile

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

in, the real estate business. It is not known who the remaining (approx.) 199 million shares disposed by Avenue Asia were sold to, although it is unlikely the remaining 8% stake was sold to a single buyer.

Figure 1: Recent developments, share price and volume traded



- (1) 11 Apr 07: Thakral closes at 16¢, or 52% higher than previous day's close at 10.5 ¢
- (2) 13 Apr 07:
- Avenue Asia sells off entire stake in Thakral (432 mil) shares) in block trade at 11.5¢/sh.
 - 233 mil of these shares are sold to Babcock & Brown Securities Singapore Pty Ltd, making Babcock & Brown the third largest shareholder with a 9.2% stake.
 - Buyer(s) of remaining (appr.) 199 mil share not known.
- (3) 20 Apr 07: Preview Investments Ltd's conversion of CBs to shares increases Preview Investments' stake in Thakral to 5.4%. As a result, Thakral Investments Limited's (which wholly owns Preview Investments) interest increases to 13.1%. Deemed interest of several members of the Thakral family, who are also Directors, have also increased.

Source: Bloomberg, SGX MASnet, Phillip Securities Research

Maintain HOLD, keep to fair value estimate of 10¢/sh. We have adjusted our earnings estimates for the current FY, after accounting for improved sales on the back of better product mix at the consumer electronics unit, and higher contribution expected from the EMS unit. The collection of receivables outstanding from Thakral Brothers (Private) Limited has also been factored into our revised estimates for FY07 and 08. We are keeping to our price target of 10¢/sh based on 1x FY07 P/BV, as we believe that Thakral's current share price of 13.5¢/sh is reflective of a highly speculative market, and is not fundamentally viable (see Fig. 1). Earnings are still expected to be weak, despite a return to profitability. While a target price of 10¢/sh implies a 26% downside potential, and would usually warrant a downgrade, we are keeping to our HOLD call, as we would prefer to review our recommendation when outlook for the Company becomes more apparent.

Key Financial Data

(Financial Year Ended 31 Dec)

	1Q07 ^{(1)*}	1Q07 ^{(2)*}	YoY (%)	FY07F*	FY08F
Turnover (S\$ m)	67.1	48.2	-28.2	269.1	313.5
EBITDA (S\$ m)	0.0	0.1	47.9	3.3	6.3
EBIT (S\$ m)	(0.7)	(0.6)	9.5	0.4	3.7
Net Profit (S\$ m)	(1.1)	0.2	N/m	1.7	5.5
Net Profit Margin (%)	(0.1)	0.3	N/m	0.6	1.7
EPS (cents) (fully diluted)	(0.1)	0.0	N/m	0.1	0.2
Book value per Share (cents)	11.3	9.2	-18.5	9.6	9.8

⁽¹⁾ 3 months ended 31 Mar 2006

⁽²⁾ 3 months ended 31 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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