

Analyse This...

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Thakral Corp. Ltd.

Still no signs of improvement

 THK SP
 SELL; TP: S\$0.023
 2Q12 Results Note

 Price @06/08/12: S\$0.028
 52-week range (S\$): 0.023 – 0.051
 Market cap: S\$73.1m

Margin contraction weighs on results. Maintain Sell.

• Key positives in 2Q12:

- 1) Revenue of S\$81m was down 2% yoy, but 10% higher than our expected S\$74m. TCL's revenue was impacted by the general slow down in its principal PRC market including Hong Kong as well as the slowdown in demand in its export markets.
- 2) A steep increase in the market price of the group's listed Australian equity investment, Thakral Holdings (-3.5%), pursuant to a takeover offer led to an unrealised increase in the carrying value of its AFS investments.

• Key negatives:

- 1) Gross margin fell further to 5.9% and was below our estimate of 9.4% on lower than expected recognition of revenue from its property investments arm. Therefore, despite turning in higher than expected revenue, the much larger than expected contraction in gross margin resulted in gross profit missing our expectation by 30%.
- 2) A net loss of S\$1.9m was reported compared to a net profit of S\$1.5m a year ago. This was way below our expected net profit S\$0.3m, with key variations coming from the greater than expected fall in gross margin and higher than expected interest cost.

- **Outlook for 2H12.** China's growth continued to slow for the 6th straight quarter at the end of 2Q12. We expect the challenging conditions that TCL faced in 1H12 to persist and weigh on TCL's distribution business. However, we expect the TCL to do better relatively better in 2H12 on stronger seasonal demand for consumer electronics. In terms of its property investment, TCL is evaluating several opportunities as capital partner with developers in Australia. While we are impressed with this part of TCL's business, we believe the impact of the contribution to the overall group still remains relatively small.

- **Valuation and recommendation.** In light of the group's losses in 1H12 and the expected challenges for the group going forward, we cut our earnings forecast for FY12 by 57% but leave our FY13-14 estimates relatively unchanged on expectations of an improvement in the Chinese economy next year and higher contributions from its real estate investments. As such our target price for TCL remains at S\$0.023 (based on SOP valuation) and we maintain our Sell call on the stock. Downside catalyst could come from further data from China indicating slower growth and consumer spending.

Derivation of our target price

Price Target (P/E)

Blended P/E (x)		7.8
CY13 EPS (S\$)	x	<u>0.0020</u>
		0.016
+ 3.5% of Thakral Holdings (S\$)	+	<u>0.0074</u>
Target Price (S\$)	=	0.023

Source: Company

2Q12 result at a glance

	2Q12	2Q11	Chng (%)
Sales (\$m)	81.1	82.7	-2.0
Operating profit (\$m)	-1.1	2.0	nm
Net profit (\$m)	-1.9	1.5	nm
EPS (S cts)	-0.001	0.001	nm

Profit margin

	2Q12	2Q11	Chng (% pts)
Gross profit margin (%)	5.9	9.1	-3.11
Operating profit margin (%)	-1.4	2.4	-3.83
Net profit margin (%)	-2.4	1.8	-4.21

Balance sheet ratios

	2Q12	2Q11
Net gearing (%)	11.9	Net Cash
ROE (%)	-7.0	6.2
Current ratio (x)	1.7	2.3

Source: Company, CIMB

Financial summary

FYE Dec	2010	2011	2012F	2013F	2014F
Revenue (SGD m)	409.3	363.7	310.6	361.8	432.9
EBITDA (SGD m)	6.2	13.1	3.8	8.5	9.0
EBITDA margins (%)	1.5	3.6	1.2	2.4	2.1
Pretax profit (SGD m)	39.2	12.1	2.7	6.7	6.9
Net profit (SGD m)	37.5	8.3	1.9	5.1	5.3
EPS (SGD cts)	1.4	0.3	0.1	0.2	0.2
EPS growth (%)	225.9	-78.0	-76.5	164.6	2.7
P/E (x)	1.9	8.8	37.7	14.3	13.9
Core EPS (SGD cts)	0.2	0.3	0.1	0.2	0.2
Core EPS growth (%)	11.7	73.4	-80.4	212.1	2.7
Core P/E (x)	15.1	8.7	44.5	14.3	13.9
FD EPS (SGD cts)	1.4	0.3	0.1	0.2	0.2
FD P/E (x)	2.0	8.9	38.0	14.4	14.0
Gross DPS (SGD cts)	0.0	0.2	0.0	0.1	0.1
Dividend yield (%)	0.0	7.1	1.6	4.2	4.3
P/NTA (x)	0.7	0.6	0.7	0.6	0.6
NTA/sh (SGD cts)	4.0	4.5	4.3	4.4	4.5
BVPS (SGD cts)	4.0	4.5	4.3	4.4	4.5
ROE (%)	22.9	7.8	1.8	4.7	4.8
Net gearing (%)	Net Cash	Net Cash	6.2	8.3	17.4
Net Cash/(Debt) (SGD m)	11.4	8.0	-7.0	-9.6	-20.6
Net cash per share (SGD cts)	0.4	0.3	-0.3	-0.4	-0.8
P/CF (x)	1.9	8.4	30.7	12.8	12.4
EV/EBITDA (x)	11.4	5.4	18.8	8.3	7.9

Source: Company, CIMB

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