

# Analyse This...

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## Thakral Corporation Ltd

*Much weaker than expected 1Q12*

 THK SP  
 SELL; TP: S\$0.023  
 1Q12 Results Note

 Price @03/05/12: S\$0.032  
 52-week range (S\$): 0.023 – 0.051  
 Market cap: S\$83.6m

### Recommendation

- Downgrade to SELL with new target price of S\$0.023 (down from S\$0.033). Our target price is still based on the same multiple of 7.8x CY13 P/E after factoring our 40-53% cut in FY12-14 forecast (from lower sales expected). Our target price also includes its 3.5% stake in Thakral Holdings Ltd (a separate company listed on the ASX), based on A\$0.75. Although TCL trades at 0.7x P/BV, we see little near-term catalysts for re-rating due to a lack of earnings visibility. Downgrade from Buy to Sell, and we will review our call when we see a pick up in sales from its consumer electronics distribution business.

### Results below our expectation

- Revenue for 1Q12 of S\$70m (-35% yoy) came in 41% below our forecast. The reason for the decline in revenue was due to: (1) Slow sales in China for the months of January and February impacted by the timing of Chinese New Year this year; (2) The slowdown in the Chinese economy. We believe that we were a little too optimistic about the prospects for TCL's consumer distribution business when we made our forecasts earlier on, and have revised down our sales estimates for FY12-14 by 21-30%.
- Gross profit of S\$6.5m (-19% yoy) in 1Q12 was 44% below our projection. Gross profit margin was 9.3% (+1.9% pts yoy, -3.5% pts qoq). The qoq decline in gross profit margin was due to higher rebates that were initially held back by suppliers during the aftermath of the earthquake/tsunami, and given back in the prior 2 quarters before 1Q12 and bigger revenue contribution from its real estate investments.
- Operating expenses remained mostly flat yoy except for an increase in administrative expenses, which saw a 23% increase. This was largely due to TCL expanding its workforce, leading to an increase in staff costs. Salaries for existing staff also rose approximately 7%.
- 1Q12 net profit of S\$1.5m (-42% yoy) was 58% below what we expected. The key variance came from the drastic yoy decline in sales.

### Outlook – Management expects a slowdown in its distribution business

- Going forward, management expects its consumer electronic distribution business to be affected by the slowdown in the Chinese economy. According to management, the slowdown was much more visible in the month of April. They are now less optimistic about its prospects for the rest of the year; and would be very happy if revenue for FY12 could hit the same level as FY11.
- Management will continue to implement its strategy, highlighted in its 4Q11 results briefing, of penetrating more cities in China, opening up more shops and increasing its product offerings for distribution. Management also stressed that they would only consider distributing products that can yield a higher margin.
- The bright spot for TCL comes from its real estate investments, where most of its revenue goes straight to its bottom line; however, this segment is still at its infancy, hence its impact should still be limited.
- With regard to the recent announcement of the potential acquisition of Thakral Holdings Ltd by Brookfield Asset Management, and its recent spike and retracement in stock price, we believe that the increase in value of TCL's stake, based on the increase in Thakral Holding's market price from approximately A\$0.57 to A\$0.75, should theoretically translate to an approximately 0.1 S cts increase in TCL's stock price.

### 1QFY12 result at a glance

	1Q12	1Q11	Chng (%)
Sales (\$m)	70.0	108.4	-35.4
Operating profit (\$m)	0.9	2.8	-67.6
Net profit (\$m)	1.5	2.5	-42.3
EPS (S cts)	0.06	0.08	-25.0

Profit margin	1Q12	1Q11	Chng (% pts)
Gross profit margin (%)	9.2	7.4	1.89
Operating profit margin (%)	1.3	2.6	-1.29
Net profit margin (%)	2.1	2.4	-0.25

Balance sheet ratios	1Q12	1Q11
Net gearing (%)	6.2	Net Cash
ROE (%)	5.5	9.1
Current ratio (x)	1.9	1.8

Source: Company, CIMB

### Derivation of our target price

#### Price Target (P/E)

Blended P/E (x)	7.8
CY13 EPS (S\$)	0.002
+ 3.5% of Thakral Holdings (S\$)	0.0074
Target Price (S\$)	0.023

Source: Company, CIMB

### Financial summary

FYE Dec	2010	2011	2012F	2013F	2014F	
Revenue (SGD m)	409.3	363.7	288.2	335.2	401.0	
EBITDA (SGD m)	6.2	13.1	6.3	9.2	9.7	
EBITDA margins (%)	1.5	3.6	2.2	2.7	2.4	
Pretax profit (SGD m)	39.2	12.1	5.9	7.7	8.1	
Net profit (SGD m)	37.5	8.3	4.4	5.3	5.6	
EPS (SGD cts)	1.4	0.3	0.2	0.2	0.2	
EPS growth (%)	225.9	-78.0	-46.7	19.7	5.3	
P/E (x)	2.2	10.1	18.9	15.8	15.0	
Core EPS (SGD cts)	0.2	0.3	0.1	0.2	0.2	
Core EPS growth (%)	11.7	73.4	-57.2	46.9	5.3	
Core P/E (x)	17.3	10.0	23.2	15.8	15.0	
FD EPS (SGD cts)	1.4	0.3	0.2	0.2	0.2	
FD P/E (x)	2.2	10.2	19.1	16.0	15.2	
Gross DPS (SGD cts)	0.0	0.2	0.1	0.1	0.1	
Dividend yield (%)	0.0	6.3	3.2	3.8	4.0	
P/NTA (x)	0.8	0.7	0.7	0.7	0.7	
NTA/sh (SGD cts)	4.0	4.5	4.3	4.4	4.6	
BVPS (SGD cts)	4.0	4.5	4.3	4.4	4.6	
ROE (%)	22.9	7.8	4.0	4.9	5.0	
Net gearing (%)		Net Cash	Net Cash	6.2	7.7	15.1
Net Cash/(Debt) (SGD m)	11.4	8.0	-7.0	-8.9	-18.0	
Net cash per share (SGD cts)	0.4	0.3	-0.3	-0.3	-0.7	
P/CF (x)	2.2	9.6	17.2	14.6	13.9	
EV/EBITDA (x)	13.0	6.2	12.8	8.8	8.4	

Source: Company, CIMB

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**SELL:** The stock's total return is expected to be -15% or worse over the next three months.

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