

Analyse This...

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Thakral Corp. Ltd.

An improved quarter marred by margin issues

 THK SP
 HOLD: TP: S\$0.032
 2Q13 Results Note

 Price @07/08/13: S\$0.030
 52-week range (S\$): 0.027 – 0.045
 Market cap: S\$78.5m

2Q13 CE distribution still a drag

• Key positives in 2Q13

1. Revenue from the investment division achieved S\$6.4 million for 1HFY2013, up from S\$1.8 million in 1HFY2012. This was driven by higher revenue contribution from the property investments in Australia and improved sale of property development in Wujiang
2. Earnings before tax and interest for the investment division were S\$4.2 million for 1HFY2013, a major improvement from S\$0.2 million in 1HFY2012.
3. Revenue from the distribution division increased to S\$174.4 million for 1HFY2013, up from S\$149.2 million in 1HFY2012. This was due to Thakral's increased efforts to market new brands and products in China.

Key Negatives:

1. Despite improving sales from the distribution division, overall margins earned by the distribution division continues to remain under pressure. This weighs down Thakral's consolidated gross margin to 6.6% for 1HFY2013 as compared to 7.5% in 1HFY2012.
2. Thakral's finance cost significantly increased to S\$2.8 million in 1HFY2013, up 148% yoy from S\$1.1 million in 1HFY2012. This is attributable to external loans to finance the GLNG 1 and 2 projects from the investment division.
3. 2Q13 earnings continue to be negative with accumulated losses representing 14% of our full-year loss forecast.

Geographical outlook:

- With the economy's GDP growth slowing down to 7.5% in 2Q2013, China's consumer electronics industry is likely to remain challenging.
- Lower yen only seeks to provide short term relief for distributors of Japanese electronic products in china prompting the need for continued efforts to introduce new brands and products to remain competitive.
- Declining interest rates and tight residential market is likely to support housing demand in Australia, providing Thakral with opportunities to add new projects into its property development pipeline.

Segmental outlook:

- Distribution formed 95% of 2Q13 revenue. This segment grew 9.4% yoy but tightening margins led to a loss of S\$0.9m. We expect this trend to continue until the China market improves or Thakral is able to revamp its product mix with those of higher margins.
- The investment division accounted for 5% of 2Q13 revenue. This segment grew 377% yoy due to higher contribution from the unit in Australia and Wujiang. We expect greater contribution from this segment in the future due to rental income from the completed GLNG projects as well as the completion of new real estate projects that were previously announced.

Unchanged at Hold

- We maintain our hold recommendation with a target price of **S\$0.032**. (using 5 year average 0.8x CY13 P/B)

1Q13 results at a glance

	2Q13	2Q12	yoy chg (%)
Sales (\$m)	91.8	81.1	13.3
Operating profit (\$m)	0.9	-1.1	nm
Net profit (\$m)	-0.2	-2.1	-92.4
EPS (S cts)	-0.01	-0.07	-86.5
			yoy chg (% pts)
Gross profit margin (%)	7.1	6.0	1.10
Operating profit margin (%)	1.0	-1.4	2.43
Net profit margin (%)	-0.2	-2.6	2.41
	2Q13	2Q12	
Net gearing (%)	48.7	37.0	
BVPS (Scts)	4.0	4.2	
Current ratio (x)	1.7	1.7	

Source: Company, CIMB

Financial summary

FYE Dec	2011	2012	2013F	2014F	2015F
Revenue (SGD m)	363.7	309.3	343.6	381.7	418.0
EBITDA (SGD m)	13.1	-1.3	2.0	4.9	3.6
EBITDA margins (%)	3.6	-0.4	0.6	1.3	0.9
Pretax profit (SGD m)	12.1	17.3	-2.9	-0.1	-1.6
Net profit (SGD m)	8.3	16.3	-2.6	-0.1	-1.4
EPS (SGD cts)	0.3	0.6	-0.1	0.0	-0.1
EPS growth (%)	-78.0	97.0	-116.0	-96.4	1414.5
P/E (x)	9.8	5.0	0.0	0.0	0.0
Core EPS (SGD cts)	0.3	-0.2	-0.1	0.0	-0.1
Core EPS growth (%)	73.4	-163.6	-44.7	-83.9	287.4
Core P/E (x)	9.6	0.0	0.0	0.0	0.0
FD EPS (SGD cts)	0.3	0.6	-0.1	0.0	-0.1
FD P/E (x)	9.9	5.0	0.0	0.0	0.0
Gross DPS (SGD cts)	0.2	0.2	0.0	0.0	0.0
Dividend yield (%)	6.5	6.5	0.0	0.0	0.0
P/NTA (x)	0.7	0.7	0.8	0.8	0.8
NTA/sh (SGD cts)	4.5	4.3	4.1	4.1	4.1
BVPS (SGD cts)	4.5	4.3	4.1	4.1	4.1
ROE (%)	7.8	14.8	-2.5	-0.1	-1.4
Net gearing (%)	Net Cash	37.0	46.0	52.9	62.1
P/CF (x)	9.3	4.8	-37.7	221.7	-83.6
EV/EBITDA (x)	6.0	0.0	39.7	15.9	21.9

Source: Company, CIMB

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