

Analyse This...

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Thakral Corporation

Better Margins.

 THK SP
BUY; TP S\$0.05

 Price @18/08/11: S\$0.027
52-week range (SGD): 0.025-0.035
Market cap: S\$70.5m

Key Highlights

- Maintain BUY; TP of S\$0.05.** 2Q11 net profit of S\$1.5m (-95.0% yoy) beat expectations, forming 50% of our full year estimates. The huge yoy decline was attributable to a one off gain in 2Q10 from the disposal of the Gateway Distriparks investment. 2Q11 core net profit rose 5.9% yoy to S\$1.2m, forming 40.0% of our full year estimates. The variance was due to the better than expected gross margins. Factoring the better than expected results and gross margins, we revise our FY11-FY13 estimates upwards by 34-160%. Maintain our BUY call and TP of S\$0.05, pegging it at 1x CY11 P/BV. We believe that a pick up in 2H11 results attributable to the normalization of supplies from Japan and the additional contribution from its property segment TCAP, will catalyze its share price.
- Lower turnover but higher margins.** 2Q11 revenue declined 28% yoy to S\$82.7m. The dip was attributable to the focus on a mix of higher margin products in the distribution business, temporary disruption of supply of inventory due to the earthquake in Japan and the strengthening of the Singapore dollar. Gross profit margin rose from 5.6% in 2Q10 to 9.1% in 2Q11, largely attributable the higher margins attained from the distribution business and real estate division.
- Potential risks for the distribution segment.** Though Thakral expects its inventory to stabilize in the second half of the year with the normalization of supplies from Japan, demand may slow down attributable to the recent debt woes across Europe and in the U.S..
- TCAP, the new JV.** Thakral has also established a joint venture with TCAP, in which it has a majority shareholding. With more deals in the pipeline and the enhanced access to capital, TCAP is expected to make significant contributions to Thakral's bottom line in the coming quarters.

The variance was attributable to better than expected gross margins.

- 2Q11 revenue declined 28% yoy to S\$82.7m. The dip was attributable to the focus on a mix of higher margin products in the distribution business, temporary disruption of supply of inventory due to the earthquake in Japan and the strengthening of the Singapore dollar. Healthy inventory mitigated the impact of the supply disruption in Japan and normal supply has resumed. Under the property division, the property development unit in Wujiang has sold some additional commercial property. Some of Thakral's Australian property projects had also made their maiden contribution.
- Gross profit margins rose from 5.6% to 9.1% largely attributable the higher margins attained from the distribution business though property development unit in Wujiang and its Australian investments also contributed to the rise. Operating expenses rose by 16.8% to S\$5.9m, attributable to the allowance for doubtful debts and the increase in staff costs.
- Balance sheet remains healthy with a net cash of S\$9.3m.

Results Summary

FYE Dec (\$\$ m)	2Q11	2Q10	yoy %	1Q11	qoq %	1H11	1H10	yoy %
			chg		chg			
Revenue	82.7	115.5	-28.4	108.4	-23.6	191.1	226.5	-15.6
Operating costs	-5.9	-5.1	16.8	-5.2	15.0	-11.1	-10.0	11.4
EBITDA	2.1	1.5	36.5	2.9	-27.2	5.0	3.3	54.2
EBITDA margin (%)	2.6	1.3		2.7		2.6	1.4	82.8
Depn & amort.	-0.1	-0.1	-13.3	-0.1	-1.9	-0.2	-0.2	-15.0
EBIT	2.0	1.4	40.7	2.8	-28.1	4.8	3.0	59.9
Interest expense	-0.3	0.0		-0.2	65.7	-0.6	0.0	
Interest & invt inc	0.2	0.4	-57.0	0.1	30.5	0.3	0.7	-62.9
Associates' contrib	0.0	0.0		0.0		0.0	0.0	
Exceptionals	0.0	28.7		0.0		0.0	28.7	
Pretax profit	2.1	30.2	-92.9	3.3	-35.6	5.5	32.5	-83.2
Tax	-0.4	-0.3	22.7	-0.8	-49.5	-1.2	-0.5	136.5
Tax rate (%)	18.2	1.0		23.2		21.2	1.5	
Minority interests	0.2	0.1	263.2	0.5	-52.3	0.8	0.2	403.3
Net profit	1.5	29.8	-95.0	2.0	-26.0	3.5	31.8	-88.9
Core net profit	1.2	1.1	5.9	1.4	-16.5	2.6	3.1	-16.5
EPS (cts)	0.06	1.14	-94.97	0.08	-26.01	0.14	1.22	-88.91

Source: Company, CIMB Research

2Q11 results exceeded expectations

- 2Q11 net profit of S\$1.5m (-95.0% yoy) beat expectations, forming 50% of our full year estimates. This huge decline was attributable to a one off gain from the disposal of the Gateway Distriparks investment in 2Q10. 2Q11 core net profit rose 5.9% to 1.2m, forming 40.0% of our full year estimates.

Financial Highlights

FYE Dec	2009	2010	2011F	2012F	2012F
Revenue (\$\$ m)	438.8	409.3	410.6	459.8	514.9
EBITDA (\$\$ m)	4.3	34.9	10.8	12.0	13.5
EBITDA margins (%)	1.0	8.5	2.6	2.6	2.6
Pretax profit (\$\$ m)	10.7	39.2	10.2	11.1	12.0
Net profit (\$ m)	11.5	37.5	7.8	8.5	9.1
EPS (S cts)	0.4	1.4	0.3	0.3	0.3
EPS growth (%)	+156%	+226%	-79%	+9%	+8%
P/E (x)	6.1	1.9	9.1	8.3	7.7
Core EPS (cts)	0.4	0.1	0.3	0.3	0.3
Core EPS growth (%)	+156%	-71%	+135%	+9%	+8%
Core P/E (x)	6.1	21.3	9.1	8.3	7.7
Gross DPS (S cts)	0.0	0.0	0.1	0.1	0.1
Dividend yield (%)	0.0	0.0	3.7	3.7	3.7
P/NTA (x)	0.3	0.7	0.6	0.6	0.5
ROE (%)	5.3	22.9	7.1	6.9	6.9
Net cash per share (\$\$)	4.5	0.4	1.5	1.6	1.7
P/CF (x)	6.5	1.9	8.5	7.8	7.3

Source: Company, CIMB Research

What to expect ahead

- Distribution segment.** Thakral expects its inventory to stabilize in the second half of the year with the normalization of supplies from Japanese manufacturers. Demand from China, India and other Asian economies may witness slower growth given the recent US and European debt woes.
- Property segment.** Thakral has established a joint venture with TCAP, in which it has majority shareholding. The launch of TCAP marks the new focus on real estate investment business via the capital partnership model. Three real estate financing deals have been inked in the past seven months. These projects are the Habor One project in Docklands Melbourne, Australia Towers (Stage 1), Olympic Park Sydney and Emerant Lane, Lane Cove Sydney. Currently, TCAP has a significant and growing pipeline of investments currently under negotiations. With more deals in the pipeline and enhanced access to capital, TCAP is expected to make significant contributions to Thakral's bottom line in the coming quarters.

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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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