

THAKRAL CORPORATION LTD

(AMENDED VERSION)

PRICE S\$0.08
HOLD
Key Stock Statistics

NRA EPS Est. 2006 (cts)	-1.6
P/E on NRA Est. 2006	-5.1
NRA EPS Est. 2007 (cts)	0.5
P/E on NRA Est. 2007	15.9
Dividend/Share (cts) Mar 05	0.6
Dividend yield (%)	7.5%
Shs. Outstg. (m)	1761.2
Market capitalisation (\$m)	140.9
Avg. daily vol (m)	0.742
Book Value/Share (\$)	0.13
Shareholders:	
Avenue Capital Asia Mgt	24.5%
Thakral family	16.3%
China Yuchai Int'l	15.0%

Per share data

Year ended Mar	2003	2004	2005	2006F	2007F
Book Value (S\$)	0.10	0.10	0.12	0.11	0.12
Cash Flow (cts)	-1.21	2.06	1.06	-1.44	0.80
Earnings (cts)	0.98	1.51	1.05	-1.55	0.50
Dividend (cts)	0.00	0.94	0.60	0.20	0.20
Payout Ratio	0.0%	62.4%	38.0%	nm	39.7%
PER (x)	8.1	5.3	7.6	-5.1	15.9
P/CF (x)	n.a	3.9	7.6	-0.1	0.1
P/BV (x)	0.8	0.8	0.7	0.8	0.7
Dividend yield %	0.0%	11.8%	7.5%	3.8%	3.8%
ROE (%)	10.6%	14.3%	11.2%	-15.6%	5.0%

P&L analysis (\$m)

Year ended Mar	2003	2004	2005	2006F	2007F
Revenue	562.5	530.9	535.3	466.5	465.0
Operating Profit	20.1	24.3	20.4	-26.0	9.8
Depreciation	7.4	4.1	2.3	2.9	3.2
Interest Expense	-4.2	-1.6	-1.0	-2.0	-1.6
Pretax Profit	16.7	23.4	19.6	-26.5	9.2
Effective tax rate	-17.0%	-0.3%	-6.1%	-6.0%	-6.0%
Net Profit	14.7	22.6	18.5	-27.4	8.9

Margins

Gross	11.8%	12.0%	10.7%	8.5%	11.0%
Operating	3.6%	4.6%	3.8%	-5.6%	2.1%
Pre tax	3.0%	4.4%	3.7%	-5.7%	2.0%
Net	2.6%	4.3%	3.5%	-5.9%	1.9%

Losses more than expected. Proposing rights issue to fund war chest for new core business.

- Thakral Corp's loss of \$25.9m for the 6 months ended Sept 30 was substantially more than what we were expecting. This included some \$24.3m provision for doubtful debts, plant & equipment, obsolete inventory and closure of the VCD business.
- The group had earlier warned of coming losses but the size of the write-offs shows a total clean-up as it prepares to look for a new core business. To finance this, it has proposed both a rights and a convertible bond issue, to raise up to \$67m. Together with net cash of \$31.2m, the near \$100m will help the group find a new core business. One possibility is property-related activities in Asia, especially in China, on the coattails of substantial shareholder, China Yuchai, a part of the Hong Leong group.
- Core business of sales and marketing still under pressure from parallel imports, which are priced up to 15% lower. We don't see this situation improving in the near term, as it would be hard to trace where the parallels are coming from. Thakral is also unlikely to have any meaningful compensation from its principals to alleviate this.
- In the best-case scenario, full year losses may marginally reduce but it's the weak earnings visibility that we're more concerned about. Entering a new business is not necessarily a bad idea, but China property at this point in the cycle would need careful scrutiny as some areas are said to be peaking.
- We maintain Hold for now. The provisions were drastic though the clean-up was thorough. The new business(es) would need to be evaluated on their own merit but there is limited downside from current level.

Interim results

S\$m	1H:FY05	1H:FY06	
Revenue	261.2	232.0	-11%
Cost of Sales	(232.4)	(217.7)	-6%
Gross Profit	28.8	14.2	-51%
Other Operating Income	0.3	0.5	112%
Distribution costs	(5.6)	(6.9)	22%
Admin costs *	(13.1)	(32.5)	149%
Depreciation	(1.1)	(1.5)	29%
Operating Profit	9.2	(26.1)	-382%
Finance income	0.1	0.7	411%
Finance Costs	(0.5)	(1.3)	172%
Forex gain	0.8	1.3	71%
Associates contribution	(0.1)	0.0	-153%
Profit Before Income Tax	9.6	(25.3)	-363%
Income tax	(0.4)	(0.6)	64%
Minority Interest	(0.1)	(0.1)	-24%
Net Profit	9.2	(26.0)	-383%

Thakral announced a loss of \$25.9m for the six months ended Sept 30, together with an 11% fall in turnover to \$231.9m. This lower turnover reflects the challenging market conditions in China, despite the increased number of new brands represented. China is a key market for the group and together with Hong Kong, now account for 70% of group sales.

Part of the reason for the slowdown in sales in the last quarter was due to parallel imports into the market, which were priced more competitively. This led to a 2.6% drop in gross margin to 8.4% for the period. Including a \$5.3m provision for slow moving inventory, gross margins eased further to 6.1%.

Other items adding to the loss was a \$6.4m provision for doubtful debts, \$2.4m provision for provision in impairment in value for plant & equipment and another \$10.1m for the closure of the loss-making VCD business of its Home Entertainment Division.

Its electronic manufacturing arm managed to cut losses to \$0.8m from \$1.4m in the previous corresponding period. This was achieved on sales of \$7.2m. We expect improvement to continue in the 2H though it will likely breakeven only next year. The division recently added two lines and will continue to add two more in the current or next quarter.

Proposed rights / bonds

Following the release of its interim results, Thakral also proposed a renounceable rights issue comprising of (a) up to 151m new ordinary shares of S\$0.05 each (Rights Shares) at an issue price of S\$0.08 for each Rights Share, on the basis of one (1) Rights Share for every twelve (12) existing ordinary shares; and (b) up to approximately \$58m unsecured 2 per cent. 3-year convertible bonds in the denomination of S\$0.80 each, capable of being converted into new Shares at a conversion price of S\$0.08 for each Conversion Share, on the basis of 40 Convertible Bonds for every 1,000 existing shares held by Shareholders as at the books closure date.

Both the offer price of S\$0.08 for each Rights Share and the conversion price of the Convertible Bond were a 6% discount to the last transacted price on 9 November 2005, though the share price has since fallen to that level. Assuming full subscription, the net proceeds from the two issues will be about \$67m, and is earmarked for new growth opportunities, including property related activities in Asia.

We believe its majority shareholders would at least fully subscribe the rights issue. Note too that China Yuchai's entry level into the company was about 12 cents.

Earning Forecast

Earnings Forecast (\$'000)

Year ended Mar	2003	2004	2005	2006F	2007F
Revenue	562,530	530,926	535,322	466,542	464,968
Cost of sales	(495,968)	(467,121)	(478,066)	(426,886)	(413,821)
Gross Profit	66,562	63,805	57,256	39,656	51,146
Other income	2,335	4,474	3,593	673	582
Distribution costs	(10,126)	(8,682)	(12,556)	(13,937)	(15,052)
Admin exp	(27,109)	(29,975)	(26,722)	(51,022)	(25,386)
Other op (expenses)/income	(11,571)	(5,328)	(1,180)	(1,392)	(1,516)
Operating profit	20,091	24,294	20,391	(26,023)	9,774
Finance income	906	421	296	1,312	615
Finance costs	(4,227)	(1,608)	(991)	(2,033)	(1,626)
Op profit before assocs	16,770	23,107	19,696	(26,744)	8,763
Share of assoc	(54)	299	(141)	202	455
Profit before tax & exceptionals	16,716	23,406	19,555	(26,542)	9,218
Exceptional items	0	0	0	0	0
Profit before tax	16,716	23,406	19,555	(26,542)	9,218
Taxation	(2,849)	(81)	(1,197)	(1,024)	(553)
Tax rate (%)	0	0	0	0	0
Profit after taxation bef MI	13,867	23,325	18,358	(27,566)	8,665
Minority interests	827	(743)	157	181	208
Profit attributable to shareholders	14,694	22,582	18,515	(27,385)	8,872

Balance Sheet

Balance Sheet & Other Fin. Data(\$m)

Year ended Mar	2004	2005	1H: 2006
Plant and equipment	20.7	26.0	27.9
Long term assets	23.9	21.4	82.4
Current assets	194.7	222.4	216.7
Current liabilities	66.1	41.2	80.0
Long term liabilities	1.3	20.8	11.7
Total net assets	171.9	207.8	235.3
Shareholders funds	168.0	201.8	229.1
Net debt / (Cash)	2.7	-29.0	-31.2
Gearing (%)	1.6%	nil	nil

NRA Capital Pte. Ltd is a participant in the SGX-MAS Research Incentive Scheme and receives a compensation of S\$4,000 per annum for each stock covered under the Scheme. This publication is confidential and general in nature. It was prepared from data believed to be reliable, and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. No representation, express or implied, is made with respect to the accuracy, completeness or reliability of the information or opinions in this publication. Accordingly, neither we nor any of our affiliates nor persons related to us accept any liability whatsoever for any direct, indirect or consequential losses (including loss and profit) or damages that may arise from the use of information or opinions in this publication. Opinions expressed are subject to change without notice.

NRA Capital Pte. Ltd. and its related companies, their associates, directors, connected parties and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may materially interested in any such securities. NRA Capital Pte. Ltd. and its related companies may from time to time perform advisory, investment or other services for, or solicit such advisory, investment or other services from any entity mentioned in this report. The research professionals who were involved in the preparing of this material may participate in the solicitation of such business. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.