



Thakral Corporation Ltd (THK.SP/AWI.SI)

12 August 2024

SECTOR: Specialty Retail / Real Estate

PRICE: SG\$0.64

EARNINGS (reported in SG\$m)						KEY DATA	
For the fiscal year ended	2021	2022	2023	2024E	2025E	Total number of outstanding shares (m)	127.9
Turnover	127.8	160.4	212.3	259.0	310.8	Market Cap (S\$'m)	81.9
Operating Profit	40.0	36.6	46.5	51.8	62.2	Avg 52 Weeks Turnover (S\$)	8,514.4
Net Profit	19.2	18.6	8.2	23.3	28.0	Avg. 52 Weeks Volume (m Shares)	0.1
EPS (SG\$)	0.15	0.14	0.06	0.18	0.22	52 Week High/Low (S\$)	0.66 / 0.56
% Change	1.90%	-6.67%	-54.29%	185.3%	20.0%	Net Gearing (%)	9.02
DPS (SG\$)	0.04	0.045	0.04	0.05	0.06	NAV per Share (S\$)	1.17
Payout Ratio (%)	30.4%	28.1%	62.5%	27.4%	27.4%	Free Float (%)	46.53
PE Ratio (x)	3.54	4.29	9.4	3.4	2.8	Major Shareholder(s)	Thakral Group Limited (as trustee of the S S Thakral Trust) (51.4%)

INTERIM RESULTS
(reported in SG\$m)

Period	1H23	1H24	% change
Turnover	104.2	128.4	23.2%
Operating Profit	15.3	15.0	(3.0%)
Net Profit	11.7	12.5	6.8%
EPS (SG\$)	0.06	0.08	45.2%

Source: Company annual reports, Bloomberg, Platinum Securities.

Key takeaways from recent results

1. Overall recovery in Greater China and growth in South Asian market
2. Restructuring of Australian business saves significant costs
3. Investment performance expected to improve further
4. Attractive valuation with strong growth
5. High dividend yield compared to Singapore market comparables

SECTION 1 COMPANY BACKGROUND

Thakral Corporation Ltd is a Singapore-listed investment holding company, which also markets and distributes beauty, fragrance and lifestyle products. The company was incorporated in 1993, is based in Singapore and operates through three segments:

- Investment: This segment includes real estate, over-50s living and other strategic investments in Australia, People's Republic of China, Japan and Singapore. It engages in the origination, execution, and management of investment opportunities; property development

activities; and development and management of over-50s lifestyle resorts under the GemLife brand.

- Lifestyle: This segment comprises management and marketing of beauty, fragrance and lifestyle brands and products in India, Japan, People’s Republic of China (including Hong Kong and Macau), Singapore and in various export markets and related investments. Brands it distributes includes hair care John Masters Organics; fragrance consisting of Maison Margiela, Ralph Lauren, Viktor & Rolf and Mugler; and drones and accessories by DJI. It also holds around 10% stake in the parent company of CurrentBody.com Limited in the UK, a beauty tech expert that distributes at-home beauty device brands including under their own brand CurrentBody Skin; and

- Others: Those other activities which do not fall into the above categories.

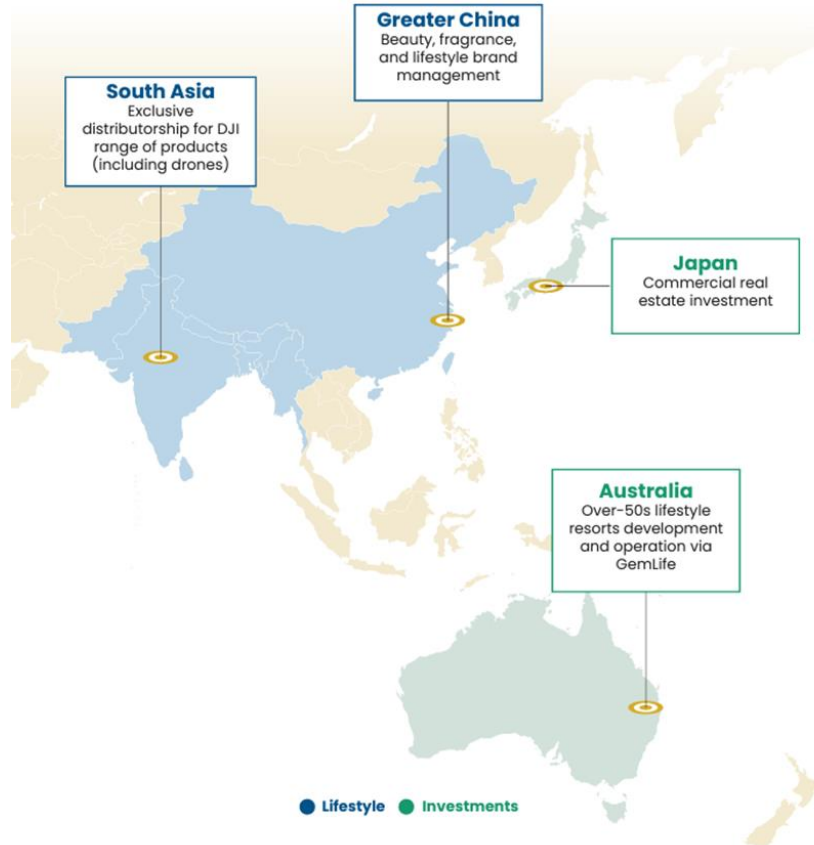


Exhibit 1: Thakral's geographical footprint

Source: Annual Report 2023

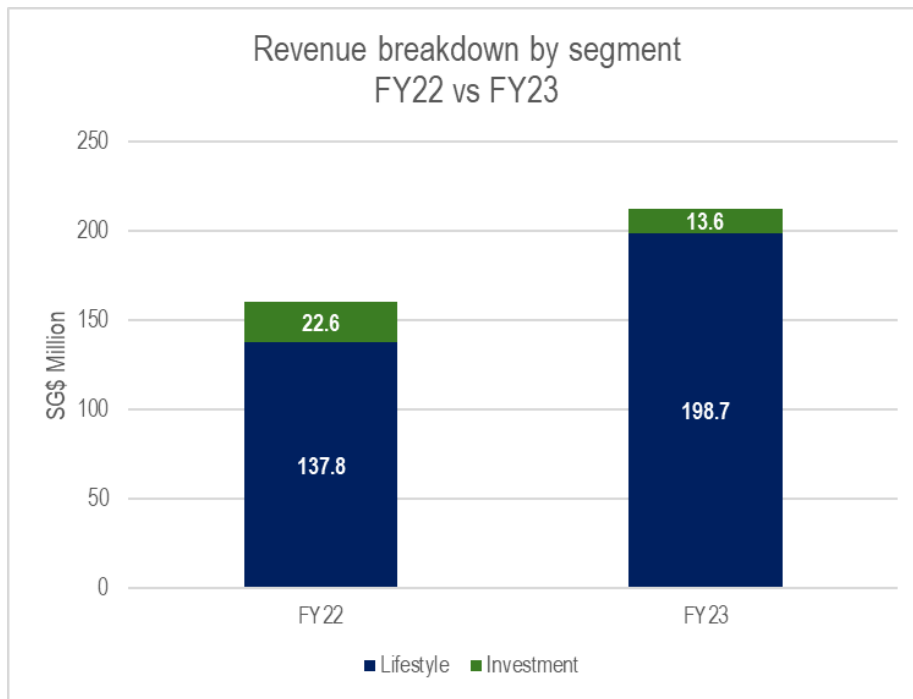


Exhibit 2a: Revenue breakdown by segment (FY22 vs FY23)

Source: Annual Report 2023

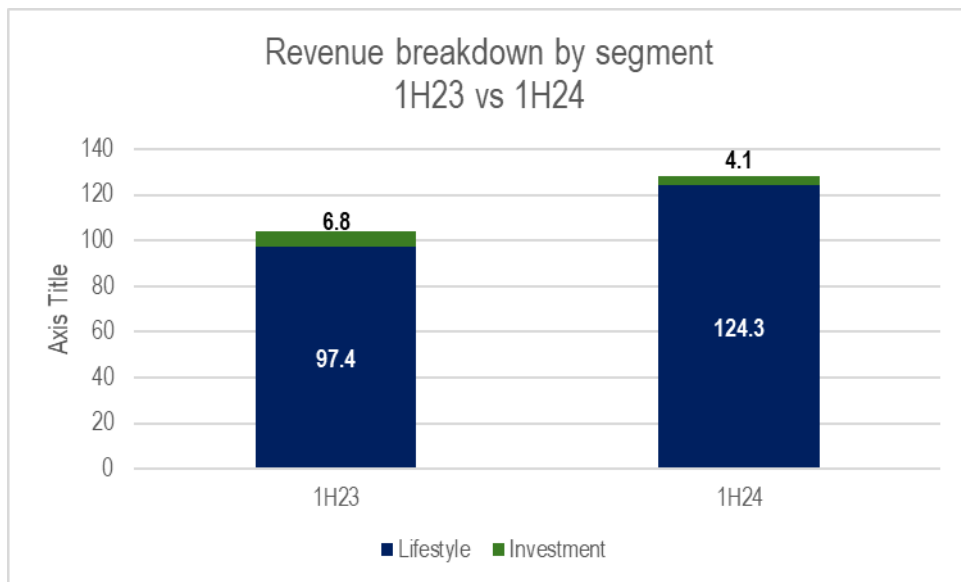


Exhibit 2b: Revenue breakdown by segment (1H23 vs 1H24)

Source: Interim Report 2024

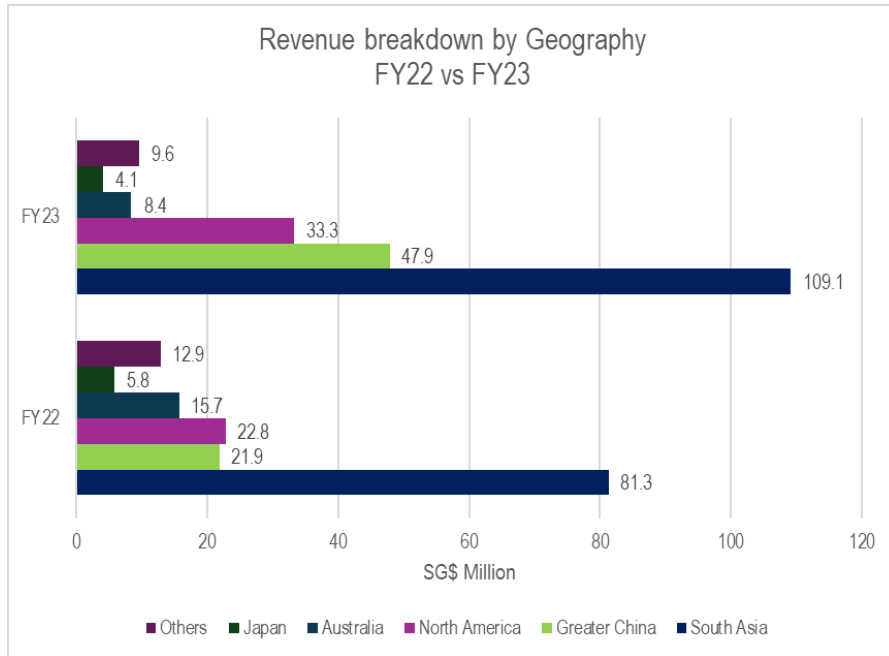


Exhibit 3a: Revenue breakdown by Geography (FY22 vs FY23)

Source: Annual Report 2023

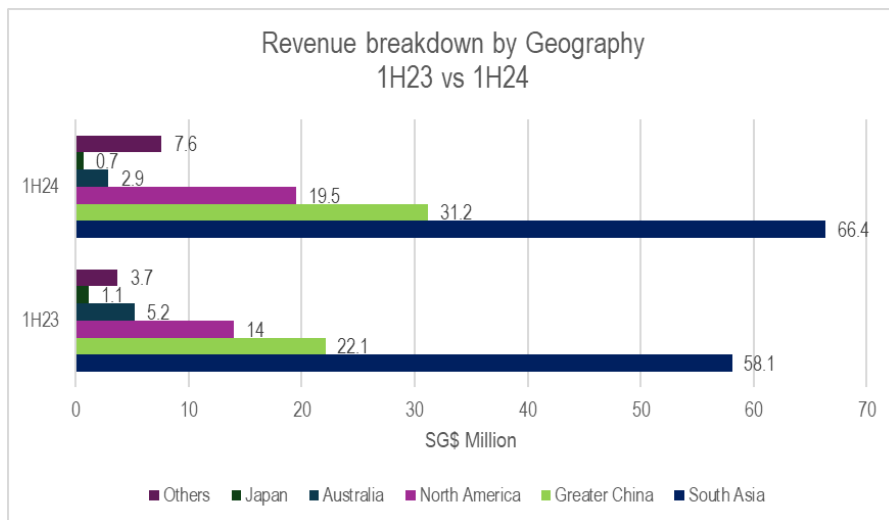


Exhibit 3b: Revenue breakdown by Geography (1H23 vs 1H24)

Source: Interim Report 2024

SECTION 2 BUSINESS OUTLOOK

2.1 Overall recovery in Greater China and growth in South Asian markets. In FY23, Thakral set up 4 more fragrance retail stores in the Greater China region in order to capture the rebound in consumer demand. We expect that the enhanced distribution channels will contribute further to Thakral's lifestyle retail businesses in the Greater China region. In the South Asian region, Thakral completed the acquisition of Thakral Innovations Pvt Ltd in December 2023. With exclusive distribution rights in 7 countries in South Asia and an extensive distribution network, we expect that Thakral's distribution of DJI drone products will grow strongly, especially in the Indian market. We also expect that these drone products can be put to enterprise or agricultural use, which could lead to significant incremental demand in the region.

2.2 Restructuring of the increasingly important Australian business. Thakral conducted an internal restructuring exercise of its Australian business, resulting in a one-off charge of S\$20.4 million arising principally relating to costs payable to the Australian executives. Administrative expenses for Thakral were down by 31.3% in 1H24. This restructuring will streamline Thakral's holdings in Australia and enable them to focus on GemLife, which is fast-growing and holds considerable potential. Thakral has a 31.7% stake in GemLife, which acquires land sites, develops and operates resorts for people who are typically over 50 years of age. GemLife sells the house but retains the land, so homeowners pay a weekly leasing fee of about A\$200. GemLife is aiming to sell 6,500 occupied homes within a decade and is actively exploring opportunities to accelerate development. The target, if achieved, represents an already accelerated growth rate, averaging 500 homes a year over the next 10 years (after accounting for the 1,449 already built). GemLife recorded higher development revenue from the delivery of 173 homes for 1H2024, 29% more than 1H2023. In addition, it also saw growth in recurring revenue due to the collection of site fees from a larger portfolio of homes. As of 30 June 2024, total occupied homes stood at 1,622, around 33% more than a year ago. Despite a slight decline in the share of profit of associates/JVs due to the lower shareholding in GemLife post restructuring, we expect the performance in this sector will continue to grow.

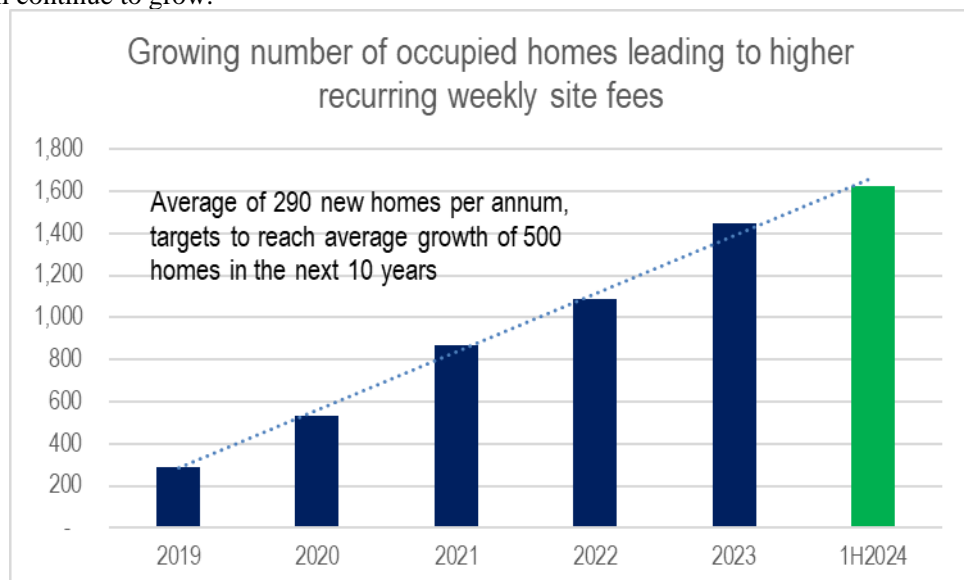


Exhibit 4: Number of GemLife occupied homes (2019-1H2024)

Source: Annual Report 2023, Interim report 2024

2.3 Steady investment performance expected to improve further due to more favourable market conditions. Other businesses which contributed to the profit under the "investment segment" include contributions from 6 co-invested office properties in Japan. Occupancy rates of Thakral's commercial building portfolio in Japan were promising, with 5 out of 6 of the buildings recording 100% occupancy rate as of FY23, while the other one stood at 90% as of 1H24. With such high

occupancy rates, we believe the investment segment will continue to provide steady cashflow for Thakral. We also noted that the sale of 3 properties in Japan were on hold in 1H24 due to the weak Japanese Yen, although we expect that, with the gradual rebound of the Yen, the sale of the 3 properties in Japan may take place in 2H24 or 1H25. We expect Thakral's investment profits to improve further in FY24.

2.4 Attractive valuation with strong growth. Our relative valuation analysis based on PE ratio shows Thakral's shares to be undervalued compared to other Singapore-listed companies involved in product distribution. Adjusting for the restructuring cost, Thakral's adjusted PE ratio of 3.41x is significantly below the industry average.. If we add back one-off restructuring costs, Thakral's estimated net profit for FY23 is approximately S\$22.6 million, resulting in an ROE of 14.9%, which is showing an improving trend.

2.5 High dividend yield comparing to Singapore market stocks. Thakral has a stable dividend payout history. Even in FY23, although the EPS was down by 54% vs. FY22, Thakral maintained a S\$0.04 dividend payout, representing a dividend yield of 6.7% and a payout ratio of 63%. The 6.7% dividend yield is among the top quartile of dividend payers in the Singapore market. In 1H24, Thakral declared an interim dividend of 2 Singapore cents per share, representing a dividend payout of 23.7% on 1H2024's attributable profit. The dividend declared translates to an annualised dividend yield of 6.5% based on the closing share price of S\$0.615 on 7 August 2024. We expect this trend in dividend payout to continue, and, as the profit streams turn stronger, we see the stable dividend payout as an extra benefit.

SECTION 3 BUSINESS PERFORMANCE

FY23 Results Briefing

- 3.1.1 Thakral's FY23 earnings dropped despite higher revenue, as a result of booking a one-off restructuring cost of S\$20.4 million. For the 12 months to 31 December 2023, Thakral reported net profits of S\$8.2 million, down 56.1% compared with FY22. Revenue in the same period was S\$212.3 million, up 32.3%. The one-off charge of S\$20.4 million in FY23 was due to the internal restructuring of Thakral's investment in the Australian business under Thakral Capital Holdings Pte Ltd (the "TCH Restructuring"), with the costs principally relating to payments made to the Australian executives. These investments, along with the one-time TCH Restructuring costs, primarily contributed to a decline in the Group's cash balance to S\$11.3 million as at 31 December 2023 compared to S\$20.1 million as at 31 December 2022. Excluding the restructuring charge, Thakral would have reported a profit before tax of S\$46.5 million, up 27.2%.
- 3.1.2 Thakral's Lifestyle business contributed 93.6% of the revenue for FY23. The segment recorded a revenue growth of 44.2% YoY on the back of strong demand for its key products. Strong demand for consumer products, supported by additional fragrance points of sale and successful marketing campaigns, boosted contributions for the Lifestyle Segment. In June 2023, Thakral completed a share swap exercise where it exchanged a 50%-stake in the CurrentBody joint venture for a 10%-stake in the parent of CurrentBody.com Limited. As a result, Thakral also recognised a S\$3.1 million profit from the divestment of the CurrentBody JV, including the share of profit recognised on the joint venture. We also expect improved contributions from drone sales, supported by the wider applications and use of enterprise and agriculture solutions in South Asia.
- 3.1.3 In the Investment segment, Thakral's 31.7%-owned associate GemLife, which operates and develops over-50s lifestyle resorts in Australia, achieved settlement of 361 homes in FY23, representing a 66% increase compared to the 218 houses delivered in FY22. This brings the cumulative occupied homes across 9 resorts to 1,449 as of 31 December 2023. GemLife's profitability rose due to a higher number of home sales as well as a larger recurring income from the increased number of occupied homes. Occupancy rates for co-invested office properties in Japan were higher with 5 out of its 6 office properties reporting 100% occupancy as of 31 December 2023. Thakral also divested a hotel property in Japan, resulting in an after-tax net gain of S\$1.7 million. Thakral's 1H2024 attributable profit was 45.1% higher at S\$10.8 million, versus S\$7.4 million in the previous corresponding period.

1H24 Results Briefing

- 3.2.1 Thakral's 1H24 revenue rose 23.2% yoy due to higher contributions from the Lifestyle business, mainly attributable to increased demand for beauty and fragrance products in PRC including Hong Kong and Macau, as well as the expanded range of drones and related accessories under Thakral's distributorship in South Asia. Gross profit came in 2.9% lower yoy at S\$22.5 million for 1H2024, due to volume sales and margin normalisation for the Lifestyle business' products, along with reduced income from the TCAP Australia operations which are no longer a focus for Thakral, which is reflected in the decline in gross margin from 22.2% to 17.5% over the same period.
- 3.2.2 Thakral's interest in GemLife in the previous corresponding period was 49.9% compared to the 31.7% currently, following the completion of the TCH restructuring exercise last year. This is primarily the reason for the Share of profit of associates and joint ventures declining by 15.5% to S\$8.5 million for 1H2024; this also includes contributions from the Japanese investments. GemLife recorded higher development revenue from the delivery of 173 homes for 1H2024, 29% more than 1H2023. In addition, it also saw growth in recurring revenue due to the collection of site fees from a larger portfolio of homes. As of 30 June 2024, total occupied homes stood at 1,622, around 33% more than a year ago. In addition, Thakral also reported greater contribution from its commercial properties in Japan due to a valuation uplift for a building in Osaka helped by the higher occupancy rate.

SECTION 4 Valuation

We derive a target price of S\$0.87 from a discounted cash flow (“DCF”) model. We used DCF to capture Thakral’s long-term value, with a conservative discount rate of 15%, and assume that, considering the growth trend in the last 5 years and with the absence of any further restructuring costs, Thakral’s revenue and net profit will both achieve growth in the coming 2 years.

Furthermore, we have assessed Thakral’s ROE by adding back the one-off restructuring cost in relation to the Australian business; on this basis the net profit of Thakral for FY23 would be approximately S\$22.6 million. Based on this assumption, we derived an ROE of 14.9% for Thakral in FY23, and believe there is further growth potential.

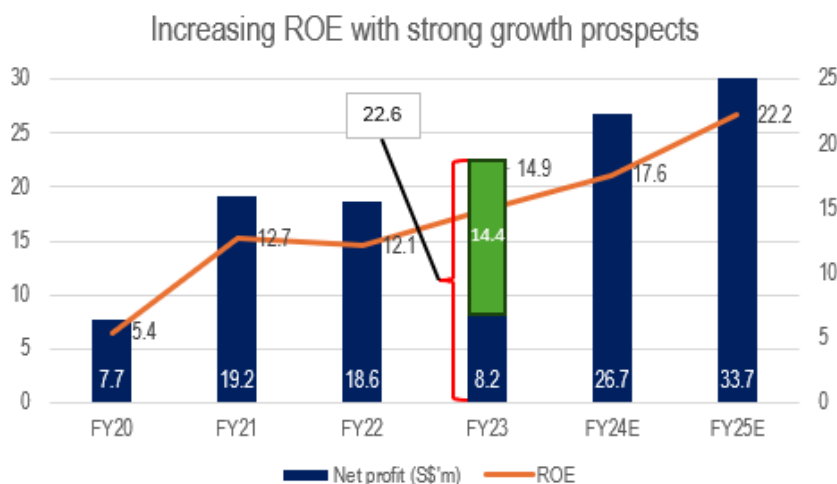


Exhibit 5: ROE of Thakral (2020-2025E)

Source: Annual Report 2023, Platinum Research

We also looked at Thakral’s relative valuation on a PE basis. Given that ~94% of Thakral’s revenue in FY23 was generated from its Lifestyle Segment (distributorship), we selected Singapore-listed companies engaging in the same type of business, although they operate in a range of different industries. The average PE ratio of the comparable group is 9.2x, and Thakral’s current PE ratio of 7.32x does not significantly deviate from the market comparables. However, if we add back the one-off restructuring cost to the earnings, we end up with an adjusted PE ratio of 3.6x for Thakral, significantly below the comparables average. We have applied a discount to reflect the potential risks from the uncertain geopolitical environment and the relatively slow recovery of both the Singapore and China markets from COVID-19.

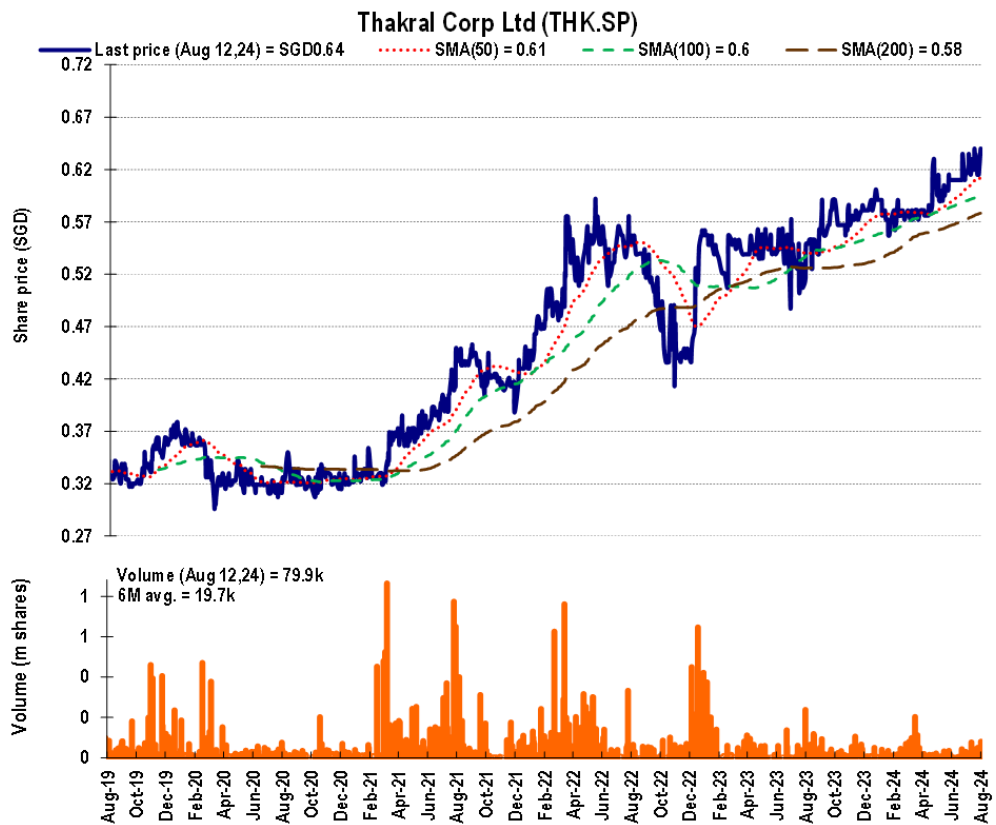
Name	Ticker	Closing price (SG\$)	Mkt cap (SG\$m)	Cur. P/E (x)
Thakral Corp Ltd	THK SP	0.64	82	7.32
Stamford Tyres Corp Ltd	STC SP	0.22	51	8.50
Ossia International Ltd	OSS SP	0.15	38	5.73
Tye Soon Ltd	TYE SP	0.30	26	6.06
Casa Holdings Ltd	CASA SP	0.11	22	17.21
Yhi International Ltd	YHI SP	0.47	136	10.36
Average:			59.12	9.20

Exhibit 6: Comparable table

Source: Bloomberg, time sensitive data as of 12 August 2024

Appendix

Thakral: 5-year Price Chart



Source: Bloomberg, as of 13 August 2024

IMPORTANT HONG KONG REGULATORY DISCLOSURES ON HONG KONG LISTED COMPANIES OF WHICH WE HAVE COMMENTED ON.

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