Qian Hu Corporation

3Q14 results update
17 October 2014

Overweight

Current Price	**S$0.081**
Fair Value	S$0.12
Up / (downside)	44%

Stock Statistics

Market cap	S$36.8m
52-low	S$0.079
52-high	S$0.094
Avg daily vol	240,824
No of share	454.1m
Free float	55%

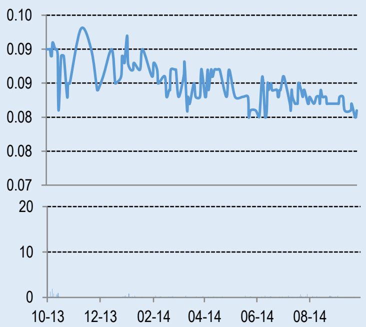
Key Indicators

ROE 14F	2%
ROA 14F	1%
P/BK	0.72
Net gearing	11%

Major Shareholders

Qian Hu Holding	24.0%
Yap Family	21.4%

Historical Chart



Source: Bloomberg

Jacky Lee

(+65) 6236-6887
jacky.lee@nracapital.com
www.nracapital.com

Be patient with its transformation

- **Earnings below expectation.** Qian Hu's 3Q14 net profit of S$79k came in 93% below our S$0.5m estimate due mainly to lower-than-expected sales and slightly weaker gross profit margins. As a result, we cut our FY14-16 earnings estimates by 19-40%. Nevertheless, we believe the worst is over and the group remains optimistic on the transformation of its business model and expects to continue improving sequentially. We maintain our fair value at S$0.12, still pegged at 1x FY14 P/NTA. Given the 44% potential upside and continued improvement of its operating profit and cash flow, maintain Overweight recommendation.
- **Oian Hu still the largest ornamental fish exporter.** According to Ornamental Fish International (OFI), the global live ornamental fish market trade value is around US$340m, with Qian Hu accounting for 6-7% market share. Since the 1980s, the value of international trade in exports of ornamentals has increased at an average growth rate of approximately 6% annually.
- **Asia remains the largest supplier.** Singapore remains the world's largest shipper of ornamental fish despite facing a prolong contraction since 2009. Qian Hu estimates that Singapore, Malaysia, Indonesia and Thailand together supply 60-70% of the world's ornamental fish. However, to set the group apart from its competitors, Qian Hu is transforming its business model like any other business in Singapore; "importing goods, adding value, and then exporting them again". The group has spent close to $10m on R&D into the Asian Arowana to develop a breeding method to efficiently produce more red, gold and silver fish with larger fins, traits that push up their value. Its R&D also covers aquarium equipment such as tanks, water purifiers and food pellets, all of which is aimed at making it easier to keep fish at home.
- **3Q14 revenue was flat yoy at S$20.5m** due to lower demand of Dragon Fish in China during the hot summer months despite sales of Accessories rising 3.3% yoy. Plastics revenue dipped 2.6% yoy but improved by 4.6% qoq as market demand resumed.
- **EBITDA margins declined by 1.4% pts yoy to 2.2%** due to the difference in sales mix for its Accessories as well as on-going efforts to capture more sales**.**
- **Balance sheet remained healthy.** Qian Hu generated S$1m positive free cash flow in 3Q after improving its working capital requirement. As a result, its net gearing decreased from 13.5% in the previous quarter to 11.4%.

Key Financial Data (S$ m, FYE Dec)	**2012**	**2013**	**2014F**	**2015F**	**2016F**
Sales	84.4	83.5	85.3	87.2	88.8
Gross Profit	25.4	24.2	25.6	28.8	30.2
Net Profit	(9.1)	0.3	0.9	2.7	3.2
EPS (cents)	(2.0)	0.1	0.2	0.6	0.7
EPS growth (%)	(363.6)	103.3	192.2	207.9	16.5
PER (x)	nm	121.8	41.7	13.5	11.6
NAV/share (cents)	11.9	11.2	11.7	11.9	12.4
DPS (cents)	0.2	0.6	0.2	0.3	0.3
Div Yield (%)	2.5	7.4	2.5	3.7	3.7

Source: Company, NRA Capital forecasts

Results comparison

FYE Dec (S$ m)	3Q14	3Q13	yoy % chg	2Q14	QoQ % chg	Prev. 3Q14F	Comments
Revenue	20.5	20.5	*(0)*	21.1	*(3)*	21.9	7% below expectation
Operating costs	(20.0)	(19.8)	*1*	(20.4)	*(2)*	(20.9)	In line
EBITDA	0.4	0.7	*(39)*	0.7	*(32)*	1.0	Below, lower-than-expected sales
EBITDA margin (%)	*2.2*	*3.6*		*3.1*	*(30)*	*4.8*	2.6% pts below expectation
Depn & amort.	(0.4)	(0.5)	*(25)*	(0.4)	*2*	(0.4)	In line
EBIT	0.0	0.2	*(77)*	0.3	*(83)*	0.6	Below, lower-than-expected sales
Interest expense	(0.1)	(0.1)	*10*	(0.1)	*3*	(0.1)	In line
Interest & invt inc	0.2	0.2	*43*	(0.0)	*606*	0.0	Below
Associates' contrib	0.0	(0.0)	*140*	0.0	*(16)*	0.1	
Exceptionals	0.0	0.0	*0*	0.0	*0*	0.0	
Pretax profit	**0.2**	**0.3**	*(11)*	**0.2**	*47*	**0.7**	Below, lower-than-expected sales
Tax	(0.1)	(0.1)	*(14)*	(0.1)	*20*	(0.1)	In line
Tax rate (%)	37.4	39.0		46.1	*(19)*	19.0	
Minority interests	(0.1)	(0.1)	*(6)*	(0.1)	*9*	(0.1)	
Net profit	**0.08**	**0.1**	*(10)*	**0.0**	*259*	**0.5**	83% below expectation
EPS (cts)	0.0	0.0	*(10)*	0.0	*259*	0.1	

Source: NRA Capital estimates

Source: Company

Qian Hu Corporation

Profit & Loss (S$ m, FYE Dec)	**2012**	**2013**	**2014F**	**2015F**	**2016F**
Revenue	84.4	83.5	85.3	87.2	88.8
Operating expenses	(81.2)	(81.2)	(81.7)	(81.8)	(82.9)
EBITDA	3.3	2.2	3.6	5.5	5.9
Depreciation & amortisation	(2.7)	(2.1)	(2.1)	(2.1)	(2.1)
EBIT	0.5	0.1	1.5	3.3	3.8
Net interest & invt income	0.2	1.0	0.1	0.2	0.2
Associates' contribution	(0.1)	(0.1)	0.1	0.1	0.2
Exceptional items	(9.3)	0.0	0.0	0.0	0.0
Pretax profit	**(8.7)**	**1.0**	**1.6**	**3.6**	**4.1**
Tax	(0.5)	(0.4)	(0.5)	(0.6)	(0.7)
Minority interests	0.0	(0.3)	(0.3)	(0.3)	(0.3)
Net profit	**(9.1)**	**0.3**	**0.9**	**2.7**	**3.2**
Shares at year-end (m)	454.1	454.1	454.1	454.1	454.1

Balance Sheet (S$ m, as at Dec)	**2012**	**2013**	**2014F**	**2015F**	**2016F**
Fixed assets	16.1	15.8	17.0	17.2	18.0
Intangible assets	0.3	0.3	0.3	0.3	0.3
Other long-term assets	4.4	3.1	1.5	1.5	1.5
Total non-current assets	**20.8**	**19.2**	**18.8**	**19.1**	**19.9**
Cash and equivalents	8.3	6.7	11.4	10.6	11.5
Stocks	16.2	16.6	16.1	16.4	16.4
Trade debtors	32.1	32.8	29.9	30.5	31.1
Other current assets	0.5	0.5	0.1	0.1	0.1
Total current assets	**57.1**	**56.6**	**57.5**	**57.6**	**59.1**
Trade creditors	9.6	11.0	11.9	11.7	11.7
Short-term borrowings	13.0	12.8	10.2	9.6	9.8
Other current liabilities	0.5	0.4	0.5	0.6	0.7
Total current liabilities	**23.2**	**24.3**	**22.7**	**21.9**	**22.2**
Long-term borrowings	0.3	0.2	0.2	0.1	0.1
Other long-term liabilities	0.4	0.4	0.4	0.4	0.4
Total long-term liabilities	**0.7**	**0.6**	**0.6**	**0.5**	**0.5**
Shareholders' funds	**52.5**	**49.5**	**51.3**	**52.2**	**54.0**
Minority interests	1.6	1.5	1.8	2.0	2.3
NTA/share (S$)	0.11	0.11	0.11	0.11	0.12
Total Assets	**77.9**	**75.9**	**76.3**	**76.7**	**79.0**
Total Liabilities + S'holders' funds	**77.9**	**75.9**	**76.3**	**76.7**	**79.0**

Cash Flow (S$ m, FYE Dec)	**2012**	**2013**	**2014F**	**2015F**	**2016F**
Pretax profit	(8.7)	1.0	1.6	3.6	4.1
Depreciation & non-cash adjustments	13.0	3.3	6.7	0.6	0.9
Working capital changes	0.2	(0.1)	4.4	(1.2)	(0.6)
Cash tax paid	(0.9)	(0.5)	(0.4)	(0.5)	(0.6)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	**3.6**	**3.7**	**12.3**	**2.6**	**3.9**
Capex	(1.5)	(1.9)	(2.0)	(1.6)	(1.6)
Net investments & sale of FA	(0.1)	(0.0)	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	**(1.6)**	**(1.9)**	**(2.0)**	**(1.6)**	**(1.6)**
Debt raised/(repaid)	(2.7)	(0.3)	(2.6)	(0.7)	0.1
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(2.7)	(2.3)	(2.7)	(0.9)	(1.4)
Cash interest & others	3.0	(0.8)	(0.3)	(0.2)	(0.2)
Cash flow from financing	**(2.4)**	**(3.4)**	**(5.6)**	**(1.8)**	**(1.4)**
Change in cash	**(0.4)**	**(1.6)**	**4.7**	**(0.8)**	**0.9**
Change in net cash/(debt)	**2.3**	**(1.3)**	**7.3**	**(0.1)**	**0.8**
Ending net cash/(debt)	**(5.1)**	**(6.4)**	**0.9**	**0.8**	**1.5**

KEY RATIOS (FYE Dec)	**2012**	**2013**	**2014F**	**2015F**	**2016F**
Revenue growth (%)	(4.4)	(1.2)	2.2	2.2	1.8
EBITDA growth (%)	(43.7)	(31.4)	62.7	50.1	8.3
Pretax margins (%)	(10.3)	1.1	1.9	4.1	4.7
Net profit margins (%)	(10.8)	0.4	1.0	3.1	3.6
Effective tax rates (%)	(5.5)	41.0	30.0	17.0	17.0
Net dividend payout (%)	(9.9)	902.2	102.9	50.1	43.0
ROE (%)	(17.4)	0.6	1.7	5.2	5.9
Free cash flow yield (%)	5.7	4.9	28.0	2.7	6.3

Source: Company, NRA Capital forecasts