

Qian Hu Corporation

Overweight

Current Price	S\$0.062
Fair Value	S\$0.115
Up / (downside)	60%

Stock Statistics

Market cap	S\$28.2m
52-low	S\$0.052
52-high	S\$0.090
Avg daily vol	101,820
No of share	454.1m
Free float	55%

Key Indicators

ROE 15F	2.3%
ROA 15F	1.5%
P/BK	0.55x
Net gearing	13%

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

Accessories business remains stable

- **Earnings below expectation.** Qian Hu's 2Q15 net profit of S\$12k came in 96% below our S\$0.3m estimate due mainly to S\$0.5m forex losses. Other variables include lower-than-expected sales and gross profit margins.
- **Cutting forecasts but maintain Overweight.** As a result, we lower our FY15-17 earnings estimates by 9%-48%. We still expect the group's margin to gradually improve when more of its own accessories products enter the market. Our fair value is lowered by 0.5 cents to S\$0.115 after factoring the lower earnings estimates, still pegged at 1x FY15 P/NAV. Given the 85% potential upside, maintain Overweight recommendation.
- **2Q15 revenue declined by 5% yoy to S\$20m** due mainly to the ornamental fish business. Ornamental fish revenue dropped by 15% yoy led by both domestic and oversea markets due to the persistent sluggish global economy. Accessories sales remains stable as a result of a difference in sales mix and emphasis on its proprietary brand of innovative products. Whereas, plastics sales jumped 13% yoy due to stabilisation in raw material and selling prices which spurred greater demand.
- **Gross profit margins declined by 1.2% pts to 28.7%** mainly due to weak performance from ornamental fish business. However, accessories profit margins remained stable with consistent improvement in revenue contribution from accessories export business registered in 2Q15. The higher revenue contribution from the plastic division with improved profit margins was due to the stabilisation of both the raw material prices as well as the selling prices.
- **Balance sheet remained healthy.** Qian Hu generated zero free cash flow in 2Q15 despite higher working capital requirement. Including approximately S\$0.5m dividend payout in 2Q14, its net gearing increased from 10.7% in the previous quarter to 12.8%.
- **Proposed 4 to 1 share consolidation.** On 5 May 2015, the company announced that it is proposing to undertake a share consolidation exercise to consolidate every four existing ordinary shares of the Company held by the shareholders into one new consolidated share, so as to comply with the Minimum Trading Price requirement as implemented by the SGX-ST as an additional continuing listing requirement. The Proposed Share Consolidation is subject to shareholders' approval at an Extraordinary General Meeting to be held on 21 July 2015.

Key Financial Data (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Sales	83.5	83.5	83.1	85.4	88.3
Gross Profit	24.2	23.2	24.1	26.5	27.4
Net Profit	0.3	0.4	1.1	2.5	2.5
EPS (cents)	0.1	0.1	0.3	0.6	0.6
EPS growth (%)	103.3	29.8	189.7	121.8	(0.5)
PER (x)	93.2	71.8	24.8	11.2	11.2
NAV/share (cents)	11.2	11.2	11.5	12.0	12.5
DPS (cents)	0.6	0.1	0.1	0.1	0.1
Div Yield (%)	9.7	1.6	1.6	1.6	1.6

Source: Company, NRA Capital forecasts

Qian Hu Corporation

Results comparison

FYE Dec (S\$ m)	2Q15	2Q14	yoy % chg	1Q15	QoQ % chg	Prev. 2Q15F	Comments
Revenue	20.0	21.1	(5)	20.8	(4)	21.6	7% below expectation
Operating costs	(19.1)	(20.4)	(7)	(20.4)	(6)	(20.5)	Below, lower-than-expected sales
EBITDA	1.0	0.7	46	0.4	151	1.0	In line
EBITDA margin (%)	4.8	3.1		1.8	160	4.8	In line
Deprn & amort.	(0.4)	(0.4)	(1)	(0.4)	(4)	(0.4)	In line
EBIT	0.6	0.3	117	(0.0)	2,038	0.6	In line
Interest expense	(0.1)	(0.1)	17	(0.1)	15	(0.1)	In line
Interest & invt inc	(0.4)	(0.0)	755	0.3	(225)	0.1	Below due to S\$0.5m forex loss
Associates' contrib	0.0	0.0	(42)	0.0	(8)	0.0	
Exceptionals	0.0	0.0	nm	0.0	nm	0.0	
Pretax profit	0.1	0.2	(52)	0.3	(69)	0.6	Below, due to forex loss
Tax	(0.0)	(0.1)	(42)	(0.1)	(17)	(0.2)	
Tax rate (%)	55.7	46.1		20.9	166	35.0	
Minority interests	(0.0)	(0.1)	(66)	(0.1)	(74)	(0.1)	
Net profit	0.0	0.0	(45)	0.1	(89)	0.3	96% below expectation
EPS (cts)	0.0	0.0	(46)	0.0	(89)	0.1	

Source: NRA Capital estimates



Nano Space / Nano Filter Cartridge

- Dual colour mode LED lamp - 12V (Daylight & Moonlight mode)
- Durable glass with increased scratch resistance
- Suitable for freshwater & marine setup
- Low energy consumption
- Smart back filter system
- Extra bright compact LED creates stunning Ripple Effect

Source: Company

Qian Hu Corporation

Profit & Loss (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue	83.5	83.5	83.1	85.4	88.3
Operating expenses	(81.2)	(81.2)	(79.5)	(80.4)	(83.3)
EBITDA	2.2	2.4	3.6	5.0	5.0
Depreciation & amortisation	(2.1)	(1.6)	(1.6)	(1.6)	(1.6)
EBIT	0.1	0.8	1.9	3.4	3.3
Net interest & invt income	1.0	0.5	(0.1)	0.1	0.1
Associates' contribution	(0.1)	0.0	0.0	0.1	0.1
Exceptional items	0.0	(0.1)	0.0	0.0	0.0
Pretax profit	1.0	1.1	1.8	3.6	3.6
Tax	(0.4)	(0.4)	(0.4)	(0.7)	(0.7)
Minority interests	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)
Net profit	0.3	0.4	1.1	2.5	2.5
Shares at year-end (m)	454.1	454.1	454.1	454.1	454.1
Balance Sheet (S\$ m, as at Dec)	2013	2014	2015F	2016F	2017F
Fixed assets	15.8	16.3	16.8	18.0	17.6
Intangible assets	0.3	0.3	0.3	0.3	0.3
Other long-term assets	3.1	1.6	1.6	1.6	1.6
Total non-current assets	19.2	18.2	18.8	19.9	19.5
Cash and equivalents	6.7	8.6	7.5	8.5	10.4
Stocks	16.6	16.5	16.5	16.5	17.1
Trade debtors	32.8	32.7	31.6	32.5	33.5
Other current assets	0.5	0.7	0.0	0.0	0.0
Total current assets	56.6	58.5	55.6	57.5	61.0
Trade creditors	11.0	10.8	10.6	10.6	11.0
Short-term borrowings	12.8	13.8	10.8	11.1	11.5
Other current liabilities	0.4	0.4	0.4	0.7	0.7
Total current liabilities	24.3	25.1	21.8	22.4	23.2
Long-term borrowings	0.2	0.2	0.1	0.1	0.1
Other long-term liabilities	0.4	0.4	0.4	0.4	0.4
Total long-term liabilities	0.6	0.6	0.5	0.5	0.5
Shareholders' funds	49.5	49.5	50.2	52.3	54.3
Minority interests	1.5	1.5	1.8	2.2	2.5
NTA/share (S\$)	0.11	0.11	0.11	0.11	0.12
Total Assets	75.9	76.7	74.4	77.4	80.5
Total Liabilities + S'holders' funds	75.9	76.7	74.4	77.4	80.5
Cash Flow (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Pretax profit	1.0	1.1	1.8	3.6	3.6
Depreciation & non-cash adjustments	3.3	2.5	2.4	0.6	2.1
Working capital changes	(0.1)	0.8	0.9	(0.9)	(1.3)
Cash tax paid	(0.5)	(0.4)	(0.4)	(0.4)	(0.7)
Cash flow from operations	3.7	3.9	4.7	2.9	3.7
Capex	(1.9)	(2.0)	(2.1)	(1.6)	(1.6)
Net investments & sale of FA	(0.0)	0.2	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	(1.9)	(1.8)	(2.1)	(1.6)	(1.6)
Debt raised/(repaid)	(0.3)	1.0	(3.1)	0.3	0.3
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(3.4)	(0.8)	(0.5)	(0.5)	(0.5)
Cash interest & others	0.3	(0.5)	(0.2)	(0.2)	(0.2)
Cash flow from financing	(3.4)	(0.3)	(3.7)	(0.3)	(0.3)
Change in cash	(1.6)	1.8	(1.1)	1.0	1.9
Change in net cash/(debt)	(1.3)	0.9	2.0	0.7	1.5
Ending net cash/(debt)	(6.4)	(5.5)	(3.6)	(2.8)	(1.3)
KEY RATIOS (FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue growth (%)	(1.2)	0.1	(0.5)	2.8	3.3
EBITDA growth (%)	(31.4)	5.1	51.0	41.2	(1.2)
Pretax margins (%)	1.1	1.3	2.2	4.2	4.0
Net profit margins (%)	0.4	0.5	1.4	2.9	2.8
Effective tax rates (%)	41.0	36.9	20.0	20.0	20.0
Net dividend payout (%)	902.2	115.8	40.0	18.0	18.1
ROE (%)	0.6	0.8	2.3	4.8	4.6
Free cash flow yield (%)	6.4	7.1	9.3	4.7	7.5

Source: Company, NRA Capital forecasts

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