

MITA No. 139/06/2005

28 March 2006

Qian Hu Corporation

Maintain

HOLD

Previous Rating: HOLD

S\$0.28**Fair Value: S\$0.27**

Stock Code:

Reuters: QIAN.SI

Bloomberg: QIAN SP

Event:

Update

General Data

Issued Capital (m)	129
Mkt Cap (S\$m/US\$m)	36/22
Major Shareholder	Yap family (30%)
Free Float (%)	65
NTA per share (S\$)	0.32
Daily Vol 3-mth ('000)	23
52Wk High (S\$)	0.33
52Wk Low (S\$)	0.21

Back to basics?

Reassuring picture emerges at end FY2005. Qian Hu's 4Q05 performance was promising, with pretax profit up 103% to S\$1.37m compared to S\$0.67m in 4Q04, driven by improving margins from its Ornamental Fish division. After falling to a low of 6% in 2Q05, operating margins for the Ornamental Fish division have since recovered to 13% in 3Q05 and 20% in 4Q05. Within the Ornamental Fish division, operating profit for 4Q05 rose 147% YoY, largely due to improved margins from the sale of self-bred Dragon Fish.

Marginal contributions from Accessories and Plastics. Margins for the Accessories division average 2.2% compared the average of 13.2% achieved by the Ornamental Fish division in FY05. Accessories products have low barriers to entry and are vulnerable to intense price competition, leading to thin margins. Over the same period, margin for the Plastic division was 4.4%. We do not expect Plastic to be a meaningful contributor to group earnings due to its low margin and its low sales volume. The Accessories division will only be marginally profitable over the forecast horizon.

Downstream ownership of customers is a long shot. Following our recent meeting with management, it appears that while downstream move towards retail outlets will remain, the pace and the scale of this strategy will likely be moderated to avert a heavy drain on funds. Management is tentatively considering adding 1~2 new outlets in 2006.

Maintain HOLD. The stock currently trades on prospective 2006 PER of 15x and a P/B multiple of 0.82x relative to the broader market's PER of 16.5x and P/B multiple of 1.8x. Our fair value estimate of Qian Hu is S\$0.27 based on a P/B multiple of 0.8x. Qian Hu's initial attempt to build a regional network of retail outlets has yet to deliver significant results and this has been a concern for investors. The improving margin trend, as seen from its FY05 results, and a more restrained pace of new outlet installation is reassuring. Sustained high margins for its key Ornamental Fish division over the new few quarters will be needed to confirm improved profitability. Until then, we maintain our **HOLD** recommendation.

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Year to 31 Dec	Turnover (S\$m)	EBIT (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	Consensus EPS (cents)	PER (x)	Net Div Yield (%)
FY 04	65.5	6.0	1.6	1.3	-	-	22.0	-
FY 05	66.3	6.9	2.0	1.6	25.2	-	17.6	1.5
FY 06F	69.6	7.6	2.4	1.9	17.0	2.1	15.1	1.8
FY 07F	73.6	8.3	2.7	2.1	11.3	-	13.5	2.0

Please refer to the important disclosures at the back of this document.

Income Statement

Year Ended 31 Dec (\$m)	FY04	FY05	FY06F	FY07F
Revenue	65.5	66.3	69.6	73.6
Cost of sales	-42.5	-42.6	-44.7	-47.1
Distribution expenses	-2.5	-2.1	-2.4	-2.4
Administrative expenses				
Other operating expenses	-16.8	-16.6	-17.1	-18.0
EBIT	3.9	4.6	5.2	5.8
Exceptional items	0.0	0.0	0.0	0.0
Finance costs	-0.4	-0.5	-0.4	-0.4
Profit before tax	3.4	4.1	4.8	5.4
Tax credit/(expenses)	-1.2	-1.2	-1.4	-1.5
Profit after tax	1.6	2.0	2.4	2.7

Balance Sheet Statement

As at Dec	FY04	FY05	FY06F	FY07F
Cash	4.2	4.8	3.9	4.5
Other current assets	21.6	21.9	23.0	24.4
Fixed assets	16.3	17.2	18.1	19.1
Other non-current assets	14.1	12.7	12.4	12.1
Non-current assets	8.8	11.9	10.2	10.7
Total assets	64.9	68.4	67.6	70.7
Current liabilities (excl. debt)	8.1	8.8	9.3	9.8
Debt	11.8	11.0	9.5	10.1
Other long term liabilities	2.7	2.9	1.3	1.4
Total liabilities	22.5	22.7	20.1	21.3
Shareholders equity	37.6	40.5	42.3	44.3
Minority interest	4.8	5.2	5.2	5.2
Total equity and liabilities	64.9	68.4	67.6	70.7
NTA per share (\$)	0.29	0.32	0.33	0.35

Cash Flow Statement

As at Dec	FY04	FY05	FY06F	FY07F
Operating cash flow before working capital changes	6.4	7.7	7.7	8.3
Working capital changes	-8.0	0.1	-1.4	-1.7
Tax and net interest expenses	-1.5	-1.1	-1.2	-1.2
Exchange differences	0.0	0.0	0.0	0.0
Net cash from operations	-3.1	6.7	5.0	5.4
Investing cash flow	-2.9	-4.0	-2.0	-2.0
Net change in debt	6.5	-2.1	-3.9	-2.8
Proceeds from share issue	0.1	0.0	0.0	0.0
Payment of dividend to shareholders	-0.5	0.0	0.0	0.0
Interest paid/(received)	0.0	0.0	0.0	0.0
Financing cash flow	6.0	-2.1	-3.9	-2.8
Net cash increase in cash/cash equivalents	0.0	0.6	-0.9	0.7
Cash at beginning of year	4.1	4.2	4.8	3.9
Cash at end of year	4.2	4.8	3.9	4.5

Key Ratios

	FY04	FY05	FY06F	FY07F
PER(x)	21.3	17.0	14.5	13.0
Price/Book (x)	0.9	0.9	0.8	0.8
EV/EBITDA (x)	11.3	6.5	5.9	5.4
Dividend yield (%)	0.0%	1.5%	1.8%	2.0%
ROE (%)	4.3%	5.0%	5.6%	6.0%
Net gearing (%)	25%	23%	19%	19%

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