

Qian Hu Corporation

2Q12 results update
23 July 2012

Neutral

Current Price	S\$0.085
Fair Value Up / (downside)	S\$0.10 +11%

Stock Statistics

Market cap	S\$40.9m
52-low	S\$0.073
52-high	S\$0.12
Avg daily vol	142,435
No of share	454.1m
Free float	50%

Key Indicators

ROE 12F	-9.7%
ROA 12F	-6.8%
P/BK	0.56x
Net gearing	15%

Major Shareholders

Qian Hu Holding	24.0
Yap Family	20.2%

Historical Chart



Source: Bloomberg

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

Refocus of its value chain

- **Maintain Neutral.** Qian Hu's 2Q12 net profit of S\$0.5m came in 12% below our S\$0.6m estimate due to slightly lower-than-expected sales. After factoring in one-time exceptional loss due to its disposal of the loss making subsidiary in Malaysia, we have reversed our FY12 profit forecast of S\$2.7m to S\$6.4m net loss. However, we raised our FY13-14 forecast by 6-8% to factor lower depreciation cost. As a result, our fair value has risen from S\$0.094 to S\$0.10, still pegged at 10x FY13 PER.
- **A special dividend of 0.5 cents proposed for next year,** after receipt of second tranche of cash proceeds from the disposal. As we understand from management, the special dividend will not affect its normal dividend pattern over the past years, as we expect Qian Hu will continue paying dividend for its FY12 despite making its first net loss since IPO. Nevertheless, we lower our dividend estimates from 0.6 cents to 0.4 cents in FY12 but raise our FY13 dividend to 1 cent (including the special dividend).
- **Disposal of 65% stake in loss making Kim Kang,** a dragon fish farmer subsidiary in Malaysia. After three consecutive quarters of losses from this division due to intensive competition of mass market varieties of Dragon Fish in Malaysia, management now believes the value chain of the Dragon Fish business has shifted from breeders to distributors, therefore Qian Hu has decided to stop its breeder business in Malaysia but will continue its high premium Dragon Fish in Singapore. After the disposal, the group will put more efforts to expand its distribution network so as to increase the Dragon Fish sales to the Asian markets, especially China. As the selling price is below Kim Kang's book value, Qian Hu expects that the divestment in Kim Kang will give rise to a one-off loss of approximately S\$9.2m, which will be reflected in the next quarter.
- **2Q12 revenue dropped 4% yoy to S\$22.4m,** affected by a significant drop in the Dragon Fish selling prices. Ornamental fish revenue declined by 19% yoy as a result of intense price competition caused by the oversupply of Dragon Fish. However, this is larger offset by 16% yoy growth from its accessories business.
- **Net gearing remained healthy.** Despite Qian Hu generating S\$0.47m positive free cash flow in 2Q after improving its working capital requirement, including a S\$2.7m dividend payout, its net gearing has gone up from 10.5% in the previous quarter to 14.6%.

Key Financial Data

(S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Sales	91.2	88.3	85.4	89.1	91.7
Gross Profit	29.2	27.3	26.5	27.6	28.0
Net Profit	4.2	3.5	(6.4)	4.5	4.8
EPS (cents)	0.9	0.8	(1.4)	1.0	1.1
EPS growth (%)	(40.2)	(17.7)	(284.9)	170.4	6.7
PER (x)	9.4	11.4	nm	8.8	8.2
NAV/share (cents)	16.1	16.2	14.6	14.0	15.1
DPS (cents)	0.5	0.6	0.4	1.0	0.5
Div Yield (%)	5.7	6.9	4.6	11.5	5.7

Source: Company, NRA Capital estimates

Qian Hu Corporation

Results comparison

FYE Dec (\$\$ m)	2Q12	2Q11	yoY %	1Q12	QoQ %	Prev.	
			chg		chg	2Q12F	Comments
Revenue	22.4	23.3	(4)	20.6	9	23.4	4.5% below expectation
Operating costs	(21.0)	(21.1)	(0)	(19.2)	10	(21.7)	In line
EBITDA	1.3	2.2	(40)	1.4	(6)	1.7	Below, lower-than-expected sales
EBITDA margin (%)	5.9	9.4		6.8	(14)	7.1	1.3% pt below expectation
Depn & amort.	(0.7)	(0.7)	5	(0.7)	0	(0.7)	In line
EBIT	0.6	1.5	(61)	0.7	(13)	0.9	Below, lower-than-expected sales
Interest expense	(0.1)	(0.1)	7	(0.1)	(4)	(0.1)	In line
Interest & invt inc	0.1	(0.0)	nm	0.1	61	0.1	In line
Associates' contrib	0.0	(0.0)	nm	(0.0)	160	(0.0)	In line
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	0.6	1.4	(55)	0.6	4	0.9	Below, lower-than-expected sales
Tax	(0.1)	(0.3)	(60)	(0.1)	(19)	(0.2)	
Tax rate (%)	17.7	20.1		22.8	(23)	20.0	
Minority interests	0.0	(0.1)	126	0.1	(64)	(0.1)	
Net profit	0.5	1.0	(47)	0.5	2	0.6	12% below expectation
EPS (cts)	0.1	0.2	(47)	0.1	2	0.1	

Source: NRA Capital estimates

Qian Hu Corporation

Profit & Loss (S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Revenue	91.2	88.3	85.4	89.1	91.7
Operating expenses	(83.1)	(82.5)	(80.4)	(81.7)	(84.6)
EBITDA	8.0	5.8	5.0	7.4	7.1
Depreciation & amortisation	(2.8)	(2.9)	(2.0)	(2.0)	(2.0)
EBIT	5.3	2.9	3.0	5.4	5.1
Net interest & invt income	0.1	1.3	(0.1)	(0.1)	(0.0)
Associates' contribution	(0.1)	(0.1)	0.0	0.2	0.8
Exceptional items	0.0	0.0	(9.2)	0.0	0.0
Pretax profit	5.3	4.2	(6.3)	5.5	5.9
Tax	(0.8)	(0.6)	(0.1)	(0.9)	(1.0)
Minority interests	(0.3)	(0.1)	(0.1)	(0.1)	(0.1)
Net profit	4.2	3.5	(6.4)	4.5	4.8
Wt. shares (m)	454.1	454.1	454.1	454.1	454.1
Shares at year-end (m)	454.1	454.1	454.1	454.1	454.1
Balance Sheet (S\$ m, as at Dec)	2010	2011	2012F	2013F	2014F
Fixed assets	44.0	42.0	39.5	37.1	39.7
Intangible assets	2.3	2.3	2.3	2.3	2.3
Other long-term assets	1.1	1.0	1.0	1.0	1.0
Total non-current assets	47.4	45.2	42.8	40.4	42.9
Cash and equivalents	11.7	8.6	8.1	7.3	8.6
Stocks	24.1	19.6	17.7	18.5	19.1
Trade debtors	21.5	31.5	24.8	25.8	26.6
Other current assets	2.7	1.1	1.1	1.1	1.1
Total current assets	60.0	60.7	51.6	52.7	55.4
Trade creditors	12.9	11.6	10.6	11.1	11.5
Short-term borrowings	16.0	15.7	12.8	12.9	12.8
Other current liabilities	0.7	0.6	0.1	0.9	1.0
Total current liabilities	29.7	27.8	23.5	24.9	25.3
Long-term borrowings	0.4	0.3	0.2	0.2	0.2
Other long-term liabilities	4.3	4.2	4.2	4.2	4.2
Total long-term liabilities	4.7	4.5	4.4	4.4	4.4
Shareholders' funds	62.7	63.4	56.1	53.4	58.2
Minority interests	10.3	10.2	10.3	10.4	10.5
NTA/share (S\$)	0.13	0.13	0.12	0.11	0.12
Total Assets	107.4	105.9	94.3	93.1	98.3
Total Liabilities + S'holders' funds	107.4	105.9	94.3	93.1	98.3
Cash Flow (S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Pretax profit	5.3	4.2	(6.3)	5.5	5.9
Depreciation & non-cash adjustments	3.6	0.1	(0.7)	(1.5)	3.5
Working capital changes	(3.7)	(2.1)	7.6	(1.4)	(1.0)
Cash tax paid	(1.1)	(0.5)	(0.5)	(0.1)	(0.9)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	4.1	1.7	0.1	2.5	7.5
Capex	(1.3)	(2.0)	5.4	(1.1)	(1.1)
Net investments & sale of FA	1.7	0.3	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	0.4	(1.7)	5.4	(1.1)	(1.1)
Debt raised/(repaid)	(0.5)	(0.4)	(2.9)	0.1	(0.1)
Equity raised/(repaid)	1.1	0.0	0.0	0.0	0.0
Dividends paid	(2.2)	(2.3)	(2.7)	(1.8)	(4.5)
Cash interest & others	(1.1)	(0.4)	(0.4)	(0.4)	(0.4)
Cash flow from financing	(2.7)	(3.1)	(6.1)	(2.2)	(5.1)
Change in cash	1.8	(3.1)	(0.6)	(0.8)	1.3
Change in net cash/(debt)	2.3	(2.7)	2.4	(0.8)	1.4
Ending net cash/(debt)	(4.7)	(7.4)	(5.1)	(5.9)	(4.5)
KEY RATIOS (FYE Dec)	2010	2011	2012F	2013F	2014F
Revenue growth (%)	(3.6)	(3.1)	(3.3)	4.4	2.9
EBITDA growth (%)	(34.2)	(28.0)	(13.4)	48.4	(4.3)
Pretax margins (%)	5.8	4.7	(7.3)	6.2	6.4
Net profit margins (%)	4.6	3.9	(7.5)	5.1	5.2
Interest cover (x)	11.6	11.1	(15.0)	15.1	16.2
Effective tax rates (%)	14.8	13.2	(1.0)	17.0	17.0
Net dividend payout (%)	54.0	78.6	(28.3)	100.6	47.2
Debtors turnover (days)	86.0	130.0	105.9	105.9	105.9
Stock turnover (days)	142.0	117.1	109.5	109.5	109.5
Creditors turnover (days)	76.3	69.3	65.7	65.7	65.7

Source: Company, NRA Capital estimates

Qian Hu Corporation

NRA Capital Pte. Ltd ("NRA Capital") has received compensation for this valuation report. This publication is confidential and general in nature. It was prepared from data which NRA Capital believes 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, special or consequential damages or economic loss that may arise from the use of information or opinions in this publication. Opinions expressed are subject to change without notice.

NRA Capital 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 be materially interested in any such securities. NRA Capital 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. You acknowledge that the price of securities traded on the Singapore Exchange Securities Trading Limited ("SGX-ST") are subject to investment risks, can and does fluctuate, and any individual security may experience upwards or downwards movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities traded on the SGX-ST. You are aware of the risk of exchange rate fluctuations which can cause a loss of the principal invested. You also acknowledge that these are risks that you are prepared to accept.

You understand that you should make the decision to invest only after due and careful consideration. You agree that you will not make any orders in reliance on any representation/advice, view, opinion or other statement made by NRA Capital, and you will not hold NRA Capital either directly or indirectly liable for any loss suffered by you in the event you do so rely on them.

You understand that you should seek independent professional advice if you are uncertain of or have not understood any aspect of this risk disclosure statement or the nature and risks involved in trading of securities on the SGX-ST.