

Qian Hu Corporation

Overweight

Current Price	S\$0.073
Fair Value	S\$0.12
Up / (downside)	60%

Stock Statistics

Market cap	S\$33.1m
52-low	S\$0.070
52-high	S\$0.090
Avg daily vol	92,287
No of share	454.1m
Free float	55%

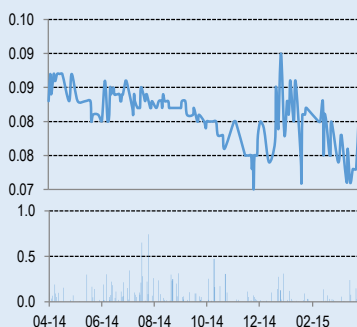
Key Indicators

ROE 15F	4%
ROA 15F	3%
P/BK	0.65
Net gearing	12%

Major Shareholders

Qian Hu Holding	24.0%
Yap Family	21.4%

Historical Chart



Source: Bloomberg

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Stabilising its strong foothold

- **Earnings below expectation.** Qian Hu's 1Q15 net profit of S\$112k came in 27% below our S\$153k estimate due mainly to lower-than-expected gross profit margins.
- **Maintain Overweight.** As a result, we lower our FY15 earnings estimates by 10% but keep FY16 and FY17 relatively unchanged. We still expect the group's margin to gradually improve when more of its own products enter the market. Our fair value remains at S\$0.12, still pegged at 1x FY15 P/NTA. Given the 60% potential upside and continued improvement of its operating profit and cash flow, maintain Overweight recommendation.
- **Game changing for its accessories business.** Qian Hu took years transforming itself from farmer and distributor to manufacturer and now product developer. We were initially concerned its products could conflict with its existing suppliers. However, Qian Hu targets its products at a different group of consumers. To differentiate from its normal supplier customer, Qian Hu's products target those who love fish but are lazy to maintain their aquariums. The group aims to change the perception that keeping fish is complicated and troublesome. We believe this group of consumer has been ignored in the past, but changing the perception requires time and the right marketing strategy to build. Currently, its strong foothold on the fish distribution business helps to stabilise earnings for all its segments.
- **1Q15 revenue flat yoy at S\$0.8m.** Ornamental fish and accessories activities continued to be its core business segments, which together accounted for 86.9% of total revenue. Accessories sales increased by 1% yoy as continued leverage on the group's existing overseas distribution bases & network enabled the group to explore more untapped markets with growth potential.
- **Gross profit margins declined by 2.1% pts to 27.8%** mainly due to the difference in sales mix for accessories business, as well as higher selling and distribution spending to capture more sales. However, this was partially offset by improving margin from plastics segment.
- **Balance sheet remained healthy.** Qian Hu generated S\$57k negative free cash flow in 1Q15 despite higher working capital requirement and capex spending. As a result, its net gearing inched up from 10.6% in the previous quarter to 10.7%.

Key Financial Data (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Sales	83.5	83.5	86.3	89.0	92.2
Gross Profit	24.2	23.2	25.9	27.8	29.0
Net Profit	0.3	0.4	2.2	2.8	3.0
EPS (cents)	0.1	0.1	0.5	0.6	0.7
EPS growth (%)	103.3	29.8	457.0	26.9	6.6
PER (x)	109.8	84.6	15.2	12.0	11.2
NAV/share (cents)	11.2	11.2	11.7	12.3	12.9
DPS (cents)	0.6	0.1	0.1	0.1	0.1
Div Yield (%)	8.2	1.4	1.4	1.4	1.4

Source: Company, NRA Capital forecasts

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Results comparison

FYE Dec (S\$ m)	1Q15	1Q14	yoy % chg	4Q14	QoQ % chg	Prev. 1Q15F	Comments
Revenue	20.8	20.7	0	21.3	(2)	20.0	In line
Operating costs	(20.4)	(19.9)	2	(20.8)	(2)	(19.2)	Slightly below due to lower-than-expected GPM
EBITDA	0.4	0.8	(50)	0.5	(23)	0.7	Below, lower-than-expected GP margins
EBITDA margin (%)	1.8	3.7		2.3	(21)	3.7	1.8% pts below expectation
Deprn & amort.	(0.4)	(0.4)	2	(0.4)	3	(0.4)	In line
EBIT	(0.0)	0.4	(108)	0.1	(130)	0.3	Below, lower-than-expected GP margins
Interest expense	(0.1)	(0.1)	5	(0.1)	3	(0.1)	In line
Interest & invt inc	0.3	0.1	544	0.5	(27)	0.1	Above due to S\$0.3m forex gain
Associates' contrib	0.0	(0.0)	180	(0.0)	400	0.0	
Exceptionals	0.0	0.0	nm	(0.1)	nm	0.0	
Pretax profit	0.3	0.3	(24)	0.4	(29)	0.4	Below, lower-than-expected GP margins
Tax	(0.1)	(0.1)	(56)	(0.1)	(55)	(0.1)	
Tax rate (%)	20.9	36.1		33.0	(36)	36.0	
Minority interests	(0.1)	(0.1)	(9)	(0.1)	38	(0.1)	
Net profit	0.1	0.1	(3)	0.2	(36)	0.2	27% below expectation
EPS (cts)	0.0	0.0	(3)	0.0	(36)	0.0	

Source: NRA Capital estimates

Riding on the huge success of launch of AR-G1 pellet feed for Arowanas, Qian Hu's OF brand has developed more pellet feed products for other species and varieties such as bottom feeders, monster fish, Discus, Flowerhorn (Luohan) and even marine fish!



Source: Company

FH-G1 Pro Head for Flower Horn, BP-G1 for Blood Parrot, FH-G1 Pro RedSyn for Flower Horn, MF-G1 for Marine Fish, BF-G1 for Bottom Feeders, SA-G1 for Monster Fish, DS-G1 for Discus Fish, AR-G2 for Dragon Fish with natural colour enhancers.

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Profit & Loss (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue	83.5	83.5	86.3	89.0	92.2
Operating expenses	(81.2)	(81.2)	(81.9)	(83.7)	(86.7)
EBITDA	2.2	2.4	4.3	5.3	5.5
Depreciation & amortisation	(2.1)	(1.6)	(1.6)	(1.6)	(1.6)
EBIT	0.1	0.8	2.7	3.7	3.9
Net interest & invt income	1.0	0.5	0.4	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	3.1	3.9	4.1
Tax	(0.4)	(0.4)	(0.6)	(0.8)	(0.8)
Minority interests	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Net profit	0.3	0.4	2.2	2.8	3.0
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	7.8	8.7	11.0
Stocks	16.6	16.5	16.9	17.1	17.7
Trade debtors	32.8	32.7	32.8	33.8	35.0
Other current assets	0.5	0.7	0.0	0.0	0.0
Total current assets	56.6	58.5	57.6	59.7	63.7
Trade creditors	11.0	10.8	10.9	11.0	11.4
Short-term borrowings	12.8	13.8	11.2	11.6	12.0
Other current liabilities	0.4	0.4	0.6	0.8	0.8
Total current liabilities	24.3	25.1	22.7	23.3	24.2
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	51.3	53.6	56.1
Minority interests	1.5	1.5	1.8	2.1	2.5
NTA/share (S\$)	0.11	0.11	0.11	0.12	0.12
Total Assets	75.9	76.7	76.3	79.6	83.2
Total Liabilities + S'holders' funds	75.9	76.7	76.3	79.6	83.2
Cash Flow (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Pretax profit	1.0	1.1	3.1	3.9	4.1
Depreciation & non-cash adjustments	3.3	2.5	2.4	0.6	2.1
Working capital changes	(0.1)	0.8	(0.4)	(1.1)	(1.4)
Cash tax paid	(0.5)	(0.4)	(0.4)	(0.6)	(0.8)
Cash flow from operations	3.7	3.9	4.6	2.8	4.1
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	(2.7)	0.3	0.4
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)	(3.3)	(0.3)	(0.2)
Change in cash	(1.6)	1.8	(0.7)	0.9	2.2
Change in net cash/(debt)	(1.3)	0.9	1.9	0.5	1.8
Ending net cash/(debt)	(6.4)	(5.5)	(3.6)	(3.1)	(1.2)
KEY RATIOS (FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue growth (%)	(1.2)	0.1	3.3	3.1	3.6
EBITDA growth (%)	(31.4)	5.1	84.0	22.7	3.5
Pretax margins (%)	1.1	1.3	3.6	4.3	4.5
Net profit margins (%)	0.4	0.5	2.5	3.1	3.2
Effective tax rates (%)	41.0	36.9	20.0	20.0	20.0
Net dividend payout (%)	902.2	115.8	20.8	16.4	15.4
ROE (%)	0.6	0.8	4.3	5.2	5.3
Free cash flow yield (%)	5.5	6.0	7.6	3.5	7.4

Source: Company, NRA Capital forecasts

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