

Overweight

Current Price	S\$0.172
Fair Value	S\$0.45
Up / (downside)	161%

Stock Statistics

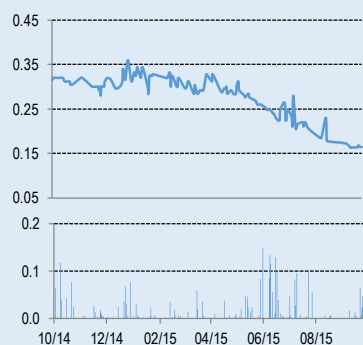
Market cap	S\$19.8m
52-low	S\$0.161
52-high	S\$0.36
Avg daily vol	22,196
No of share	113.5m
Free float	40.6%

Key Indicators

ROE 15F	0.7%
ROA 15F	0.5%
P/BK	0.36x
Net gearing	11.6%

Major Shareholders

Qian Hu Holding	24.0%
Yap Family	20.1%

Historical Chart

Source: Bloomberg

Research Team

(+65) 6236-6887
research@nrcapital.com
www.nrcapital.com

Improving efficiency in challenging environment

- **Earnings below expectation.** Qian Hu's 3Q15 net profit of S\$93k came in 84% below our S\$0.6m estimate due to lower revenue recognition of S\$17.8m on 3Q15. Other variables include higher administrative expenses and higher cost of goods sold. This was partially offset by forex gain of S\$0.7m as well as lower selling and distribution expenses.
- **Cutting forecasts but maintain Overweight.** As a result, we lower our FY15-17 earnings estimates by 59%-69%. We still expect the group to claw back its revenue after market conditions improve. Our fair value is still pegged at 1x FY15 P/BV at S\$0.449 after factoring lower earnings estimates. Given the 161% potential upside, maintain Overweight recommendation.
- **3Q15 revenue declined by 12% yoy to S\$17.8m** mainly due to the ornamental fish and accessories business. Persistent sluggish global demand in both domestic and foreign markets led ornamental fish revenue to drop by 17.6% yoy. Accessories sales has also declined by 13.7% yoy as retailers are reluctant to stock up new products due to political uncertainty and weakening foreign exchange rates in Malaysia. Plastics sales grew by 5.4% yoy due to increased demand after some stabilisation in raw material and selling prices.
- **Gross profit margin declined by 1.2% pts to 27.7%** mainly due to weaker performance from the accessories segment in Malaysia as retailers are citing weak consumer demand and due to the depreciation of the Malaysian ringgit. Ornamental fish segment gross profit improved by 21.8% due to difference in sales mix as well as better profit margins yielded.
- **Completed 4 to 1 share consolidation.** The group has completed the share consolidation on 3 August 2015 and the total number of shares outstanding is 113.5m.
- **Balance sheet remained healthy.** Qian Hu generated positive free cash flow of S\$0.4m in 3Q15 despite higher working capital requirement and lower revenue recognition. Net gearing reduced from 12.8% in 2Q15 to 11.6% in 3Q15.
- **Market outlook remains challenging.** Due to the bearish and challenging environment, the group is looking to control overheads as well as operating expenses while continuing to build a pipeline of innovative high-margin products as well as diversifying into other regions.

Key Financial Data (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Sales	83.5	83.5	79.7	81.9	84.6
Gross Profit	24.2	23.2	22.6	24.2	25.4
Net Profit	0.3	0.4	0.4	0.8	1.0
EPS (cents)	0.1	0.1	0.4	0.7	0.9
EPS growth (%)	103.3	29.8	318.6	87.5	33.1
PER (x)	261.6	201.6	48.2	25.7	19.3
NAV/share (cents)	11.2	11.2	44.9	45.4	46.2
DPS (cents)	0.6	0.1	0.4	0.4	0.4
Div Yield (%)	3.4	0.6	2.3	2.3	2.3

Source: Company, NRA Capital forecasts

Qian Hu Corporation

Results comparison

FYE Dec (S\$ m)	3Q15	3Q14	yoy % chg	2Q15	QoQ % chg	Prev. 3Q15F	Comments
Revenue	17.8	20.5	-13	20.0	-11	20.3	12% lower-than-expected sales
Operating costs	(17.9)	(20.0)	-10	(19.1)	-6	(19.1)	Below, lower-than-expected sales
EBITDA	(0.1)	0.4	-118	1.0	-109	1.2	Below due to increase in SG&A expenses
EBITDA margin (%)	(0.5)	2.2		4.8	-110	5.7	Below due to increase in SG&A expenses
Deprn & amort.	(0.4)	(0.4)	1	(0.4)	4	(0.4)	In line
EBIT	(0.5)	0.0	-1,187	0.6	-187	0.8	Below due to increase in SG&A expenses
Interest expense	(0.1)	(0.1)	21	(0.1)	7	(0.1)	
Interest & invt inc	0.8	0.2	212	(0.4)	285	0.1	Above due to S\$0.7m in forex gain
Associates' contrib	0.0	0.0	-75	0.0	-64	0.0	
Exceptionals	0.0	0.0	nm	0.0	nm	0.0	
Pretax profit	0.2	0.2	-14	0.1	165	0.8	Below, lower-than-expected sales and higher SG&A expenses
Tax	(0.1)	(0.1)	-44	(0.0)	16	(0.2)	lower taxes due to lower sales
Tax rate (%)	24.4	37.4		55.7	-56	20.0	Higher tax rate
Minority interests	(0.1)	(0.1)	-11	(0.0)	183	(0.0)	
Net profit	0.1	0.1	18	0.0	675	0.6	84% below expectation due to lower sales
EPS (cts)	0.1	0.0	371	0.0	3,024	0.1	84% below expectation due to lower sales

Source: NRA Capital estimates

Qian Hu Corporation

Profit & Loss (\$\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue	83.5	83.5	79.7	81.9	84.6
Operating expenses	(81.2)	(81.2)	(77.9)	(79.1)	(81.5)
EBITDA	2.2	2.4	1.9	2.8	3.1
Depreciation & amortisation	(2.1)	(1.6)	(1.6)	(1.6)	(1.6)
EBIT	0.1	0.8	0.2	1.2	1.4
Net interest & invt income	1.0	0.5	0.6	0.1	0.2
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	0.9	1.4	1.7
Tax	(0.4)	(0.4)	(0.2)	(0.3)	(0.3)
Minority interests	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Net profit	0.3	0.4	0.4	0.8	1.0
Shares at year-end (m)	454.1	454.1	113.5	113.5	113.5
Balance Sheet (\$\$ 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	7.9	6.8	7.4
Stocks	16.6	16.5	16.0	16.2	16.6
Trade debtors	32.8	32.7	30.3	31.1	32.1
Other current assets	0.5	0.7	0.0	0.0	0.0
Total current assets	56.6	58.5	54.2	54.2	56.1
Trade creditors	11.0	10.8	10.3	10.4	10.7
Short-term borrowings	12.8	13.8	10.4	10.6	11.0
Other current liabilities	0.4	0.4	0.2	0.3	0.3
Total current liabilities	24.3	25.1	20.8	21.3	22.0
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	49.1	49.4	50.0
Minority interests	1.5	1.5	1.8	2.2	2.5
NTA/share (\$\$)	0.11	0.11	0.43	0.43	0.44
Total Assets	75.9	76.7	73.0	74.1	75.6
Total Liabilities + S'holders' funds	75.9	76.7	72.3	73.4	75.0
Cash Flow (\$\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Pretax profit	1.0	1.1	0.9	1.4	1.7
Depreciation & non-cash adjustments	3.3	2.5	2.7	0.6	2.1
Working capital changes	(0.1)	0.8	2.4	(0.9)	(1.2)
Cash tax paid	(0.5)	(0.4)	(0.4)	(0.2)	(0.3)
Cash flow from operations	3.7	3.9	5.5	0.9	2.4
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	(3.5)	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)	(0.1)	(0.2)
Cash flow from financing	(3.4)	(0.3)	(4.1)	(0.3)	(0.3)
Change in cash	(1.6)	1.8	(0.7)	(1.0)	0.5
Change in net cash/(debt)	(1.3)	0.9	2.8	(1.3)	0.2
Ending net cash/(debt)	(6.4)	(5.5)	(2.7)	(4.0)	(3.8)
KEY RATIOS (FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue growth (%)	(1.2)	0.1	(4.5)	2.7	3.2
EBITDA growth (%)	(31.4)	5.1	(20.1)	49.0	9.7
Pretax margins (%)	1.1	1.3	1.1	1.7	2.0
Net profit margins (%)	0.4	0.5	0.5	0.9	1.2
Effective tax rates (%)	41.0	36.9	20.0	20.0	20.0
Net dividend payout (%)	902.2	115.8	110.7	59.0	44.3
ROE (%)	0.6	0.8	0.8	1.6	2.0
Free cash flow yield (%)	9.2	10.1	17.3	(3.5)	4.1

Source: Company, NRA Capital forecasts

Qian Hu Corporation

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