Qian Hu Corporation

Expanding geographical footprint

- During the recent inaugural Aquariya Expo ’09 held in the UAE, the organizer of the event said that despite the ongoing financial crisis, the demand for the exotic fishes is poised to grow in the coming years.
- It was also quoted in the press that the Middle East Ornament fish Industry is valued at US$11.4m, and the UAE is the largest importer of exotic fishes with a substantial potential to emerge as regions hub of export and re-export.
- About US$5m worth of ornamental fish species from about 60 countries including Singapore, were on display at Aquariya Expo 2009, the market looks ripe for major international ornamental fish exporter like Qian Hu to tap.
- This also coincides with the group’s ambition to capture 10% market share of the world’s export volume of ornamental fish, by exporting to more countries. We understand that Qian Hu has been actively exploring the Middle Eastern markets.
- We believe that the group is uniquely positioned as an integrated ornamental fish service provider, providing one-stop services to domestic and international wholesalers, retailers and consumers. Its four growth engines: 1) the export of ornamental fish and accessories; 2) distribution of ornamental fish and accessories; 3) manufacturing of aquariums and pet accessories; and 4) the breeding of dragon fish, will allow the group to position to expand its geographical footprint.

Strategies to sustain profit growth

- While building up to be the number one ornamental fish exporter, we observed that the group has strengthened itself through various restructuring that has stated to bear fruit. Results of cost reduction and careful planning from the team of experience management were evidenced in FY08 result, where profitability outpaced revenue through operating efficiency.
- We like the group’s strategy of (1) boosting export volume and product ranges; (2) beefing up R&D capabilities; (3) adopting new distribution channels. All these ensuring the group can cement its place as market leader and sustain profit growth going forward.
- Specifically, the emphasis on R&D to breed dragon fish will offers the group fatter margin. Qian Hu’s collaboration with Temasek Life Sciences Laboratory has yielded excellent results. As the group has invested S$3m on a new farm in Singapore, next to its current fish farm. This new farm will be 2-3x bigger than the existing one and is under construction. Earnings contributions are expected from FY09.

Recommendation – maintain BUY

- Qian Hu trades at 5.7x CY09 P/E and 3.3x EV/EBITDA, which are not lofty given its almost recessionary proof business model and strong brand equity, in our opinion. Maintained our target price of S$0.16, still pegged at 7x CY09 P/E.
- Given the more than 75% upside potential, we reiterate our Buy recommendation.
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<th>STOCK RECOMMENDATIONS</th>
<th>SECTOR RECOMMENDATIONS</th>
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<td>BUY: The stock's total return is expected to be +15% or better over the next three months.</td>
<td>OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next three months.</td>
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<td>HOLD: The stock's total return is expected to range between +15% and -15% over the next three months.</td>
<td>NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%, both over the next three months.</td>
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<td>SELL: The stock's total return is expected to be -15% or worse over the next three months.</td>
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