

# SGX Research Incentive Scheme

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## Qian Hu Corporation

**QIAN SP**  
**BUY: TP: S\$0.16**

 Price @06/04/09: S\$0.09  
 52-week range (SGD): 0.075 – 0.175  
 Market cap – S\$37.8m

### 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 started 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.

### Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (S\$ m)	92.1	93.1	100.0	107.5	115.7
EBITDA (S\$ m)	10.1	11.5	12.8	14.0	15.2
EBITDA margins (%)	11.0	12.3	12.8	13.0	13.1
Pretax profit (S\$ m)	4.3	9.2	10.3	11.4	12.3
Net profit (S\$ m)	4.8	6.0	6.5	7.1	7.8
EPS (S cts)	1.3	1.5	1.6	1.7	1.9
EPS growth (%)	+78%	+11%	+7%	+10%	+9%
P/E (x)	6.9	6.2	5.7	5.2	4.8
Core EPS (cts)	1.3	1.5	1.6	1.7	1.9
Core EPS growth (%)	+78%	+11%	+7%	+10%	+9%
Core P/E (x)	6.9	6.2	5.7	5.2	4.8
FD EPS (cts)	1.2	1.4	1.5	1.6	1.7
FD P/E (x)	7.3	6.6	6.1	5.6	5.1
Gross DPS (S cts)	0.2	0.0	0.3	0.3	0.4
Dividend yield (%)	2.2	0.5	3.5	3.8	4.2
P/NTA (x)	0.7	0.7	0.7	0.6	0.6
ROE (%)	13.7	11.9	11.6	11.6	11.6
Net gearing (%)	3.4	7.2	4.6	3.2	1.9
P/CF (x)	4.7	4.4	4.1	3.8	3.4
EV/EBITDA (x)	4.2	3.7	3.3	3.0	2.8

### Technical Chart



- **Technical BUY**
- The stock is still in its long term downtrend. The only positive is that it is trading very near the downtrend channel support.
- MACD is also showing some signs of a potential rebound taking place soon. There is a bullish divergence on its MACD while its RSI is also slowly turning positive.
- Aggressive buyers may want to accumulate near the S\$0.08-0.085 support. Resistance is seen at S\$0.10 and S\$0.12. A breakout above the S\$0.12 resistance could see the stock kick on higher.

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