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Singapore

Consumer

Reuters QIAN.SI
Bloomberg QIAN SP

Market cap
S\$36.54m (US\$21.61m)

Shares in issue
128.2m

Estimated free float
31%

3M average daily volume
S\$5,080.44 (US\$3,051.97)

12M high/low
S\$0.60/0.26

Major shareholder (s)
Qian Hu Holdings 28.4%
Yap family 40.6%

Stock performance (%)

	1M	3M	12M
Absolute	1.8	(13.6)	(52.5)
Rel index	(1.9)	(19.8)	(61.0)
Absolute (US\$)	0.6	(15.6)	(52.2)



Source: Reuters

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Drought concerns

Qian Hu 2Q05 results came in weaker than expected: sales fell 13% YoY and net profit slumped 50% YoY to S\$0.5m.

In 2005, Southeast Asia's annual dry season was magnified by an intense drought. Such conditions directly affected Qian Hu's 2Q yield of Dragon Fish (high margin product), which caused a shortage in supply and sharp decline in fish sales (down 18%YoY) and profits (down 76%YoY).

Accessories divisions earnings dipped slightly by 3% YoY but profits jumped from 48k in 1Q to 398k in 2Q, driven by the turnaround of the Guangzhou factory and better contributions from Qian Hu's retail business. Management has clearly scaled down the aggressive and risky plan of opening some 100 Pet chain stores by 2008, which helped improve operating cash flows and overall profit margins.

Going forward, we expect the impact of drought will tail off towards 4Q05 and margins for accessories business to sustain at current levels. However, we downgrade our earnings forecast on the disappointing results and challenging outlook for its chain stores. Revised target price is now at S\$0.26 (based on 9x forward PE).

We also noticed some share price erosion for Xian Leng (XLH MK - Qian Hu's peer focusing on dragon fish), reflecting investors' concerns over the drought conditions in Malaysia.

Yr End	31 Dec(S\$m)	2005	2004	YoY(%)	Surprise?	Comments
Revenue	15.6	18.0	(13.1)	-	~4% lower than expected	
Selling & dist	(0.7)	(0.7)	7	-	~in line	
G&A expenses	(4.4)	(4.4)	0	-	~in line	
Taxation	(0.1)	(0.4)	(79)	-	~in line	
Net profit	0.5	1.0	(50)	Y	~32% lower than expected	
Revenue breakdown						
Ornamental fish	7.8	9.5	(18)	Y	supply shortage	
Accessories	6.1	6.8	(10)	-	~in line	
Plastics and others	1.8	1.7	2	-	~ in line	
Ops Profit breakdown						
Ornamental fish	0.5	2.0	(76)	Y	lower sales of dragon fish	
Accessories	0.4	0.4	(3)	-	~ slow recovery	
Plastics and others	0.1	0.0	96	-	~ in line	

Year to 31 December	2002A	2003A	2004A	2005CL	2006CL
Revenue (S\$m)	63	68	65	67	68
Revenue growth (%YoY)	52.0	8.0	(3.2)	1.6	2.5
Net profit (S\$m)	7	7	2	2	4
EPS (S)	5.51	5.59	1.32	1.69	2.88
EPS change (%)	69.0	1.5	(76.4)	28.0	70.4
PEx (@S\$0.29)	5.2	5.1	21.6	16.9	9.9
Dividend yield (%)	2.6	1.3	-	0.5	0.9
ROE (%)	29.1	21.8	4.6	5.6	8.9
PB (x)	1.23	0.99	0.96	0.91	0.84
Net gearing (%)	(13)	(0)	14	11	3
EV/Op Ebitda (x)	3.5	3.7	8.2	8.9	5.9

Note: This company is not under formal CLSA coverage. Source: Company, CLSA Asia-Pacific Markets