

Qian Hu Corporation

Improvements in margins

Qian Hu reported 3Q05 results that were slightly below our expectations. 9M05 turnover fell 4% y-o-y to S\$48.0m with net profit rising 1.1% y-o-y to S\$1.5m. 3Q05 gross and operating margins have improved to 39.4% (+10.7ppt) and 9.7% (+14ppt) as a result of higher margin yields for its fish and plastics segment and a turnaround in the Group's accessories business. However, Qian Hu is still facing keen competition in its domestic and overseas markets. As a result, we have lowered our earnings estimates for FY05F and FY06F by 18% and 22% respectively. In light of the turnaround of the Group's operating conditions, we have upgraded our recommendation from a Fully Valued to a Hold with a raised target price of S\$0.26 based on a target multiple PE of 11x FY06 earnings estimates.

- **Turnaround in the Group's operations.** 3Q05 turnover grew by 1.8% y-o-y to S\$16.0m as the Group saw sales of its ornamental fish in the 3Q05 grow by 20% y-o-y to S\$8.7m while the Group saw lower sales from its accessories and plastics segment by 17% y-o-y and 3% y-o-y to S\$5.6m and S\$1.8m respectively.

- **Future growth prospects for the Qian Hu.** The Group hopes to increase the export of its ornamental fish in the region with continuous growth of its breeding and sales of Dragon Fish. The Group also hopes to expand on its distribution capabilities and increase its operating efficiency at its Guangzhou factory.

- **Upgrade to Hold.** In light of the turnaround in the Group's operating conditions, we have upgraded our recommendation from a Fully Valued to a Hold with a raised target price of S\$0.26 based on a target multiple PE of 11x FY06 earnings estimates. For the moment, we will be effectively dropping coverage of this counter.

Hold

(Upgrade from Fully Valued)

S\$0.25**At a Glance****Price Target:**1-year S\$0.26
(previously S\$0.25)**Stock Code:**Bloomberg QIAN SP
Reuters: QIAN.SI

Sector: Consumer

STI: 2,222.83

Reason for Report:

3Q05 results

Implications:

Negative

Earnings Revision:FY05 -18%
FY06 -22%**Consensus EPS:**FY05 1.7 S cts
FY06 2.7 S cts**DBSV vs Consensus EPS (% variance):**FY05 -5.9%
FY06 -29.6%**Principal Business:**

A distributor and breeder of ornamental fish. Also distributes and manufactures aquarium and pet accessories

Forecasts and Valuation

FYE Dec (\$m)	2003A	2004A	2005F	2006F
Sales (\$m)	68	65	66	70
EBITDA (\$m)	11.1	5.3	5.5	6.1
Net Profit (\$m)	7.0	1.6	2.0	2.4
EPS - FD (Sc)	5.6	1.3	1.6	1.9
EPS Gth (%)	2	-77	24	20
BVps (\$)	0.29	0.29	0.31	0.32
DPS (Sc)	0.5	0.2	0.2	0.2
P/Sales (x)	0.60	0.49	0.49	0.46
EV/EBITDA (x)	4.0	8.2	6.7	5.2
P/E (x)	5.8	19.8	16.0	13.4
P/BV (x)	1.13	0.86	0.82	0.77
P/CF (x)	32.5	8.4	7.6	6.8
Div Yield (%)	1.5	0.6	0.8	1.0
ROE (%)	21.8	5.9	7.9	8.2
Net Gearing (%)	1	17	Cash	Cash

General Data

Issued Capital (m shrs)	129
Mkt Cap (\$m/US\$m)	32 / 19
Major Shareholders	
Qian Hu Holdings (%)	29.6
Yap family (%)	45.1
Free Float (%)	25.3
Avg Daily Vol ('000 shrs)	21

Consensus Analyst Poll

	Avg Rating	Buy	Hold	Sell
3 Mth	-	-	-	-
6 Mth	3.00	-	1	-
12 Mth	3.00	-	1	-
Market	3.62			
Sector	4.07			

Source: Bloomberg

Avg Rating: 1 = Sell, 3 = Hold, 5 = Buy

Share Price Chart**Share Price Performance**

	Share Price	Rel STI	Rel Sector
Past 1 mth	-4%	-1%	-3%
Past 3 mths	-7%	-3%	-4%
Past 6 mths	-23%	-27%	-29%
Past 12 mths	-38%	-51%	-57%

Results Summary & Comments

FYE Dec (\$\$m)	9M05	9M04	% chg y-o-y	3Q05	3Q04	% chg y-o-y	Comments
Profit & Loss							
Turnover	48.0	50.0	-4.0	16.0	15.7	1.8	Higher sales of ornamental fish while the Group saw lower sales contribution from its accessories and plastics segment.
Gross Profit	18.0	17.2	4.6	6.3	4.5	39.8	Improvement in gross margins.
Less: S,G&A Expenses	15.0	14.3	5.1	4.8	5.2	-8.1	Lower selling expenses as a result of a reduction in advertising and promotions of its retail stores.
Other Income	0.1	0.1	1.0	0.0	0.0	33.3	
Operating Profit	3.1	3.0	2.3	1.6	-0.7	nm	Increase in operating margins.
Net Interest Expense	-0.4	-0.2	75.2	-0.1	-0.1	92.2	
Share of Associates	0.0	-0.1	nm	0.0	0.0	nm	
Pre-tax Profit	2.7	2.7	nm	1.4	-0.7	nm	
Less: Tax	0.4	0.8	nm	0.1	0.1	nm	Lower tax rate going forward as a result of IHQ status.
Minority Interest	-0.8	-0.5	nm	-0.7	0.2	nm	
Net Profit	1.5	1.5	1.1	0.5	-0.7	-179.6	9M05 net profit below our expectations.
			Chg ppt			Chg ppt	
Gross Margin (%)	37.6	34.5	3.1	39.4	28.7	10.7	
Operating Margin (%)	6.5	6.1	0.4	9.7	-4.2	14.0	
Net Profit Margin (%)	3.1	3.0	0.2	3.4	-4.3	7.7	
Tax Rate (%)	14.0	28.4		10.2	13.7		
	9M05	9M04	% chg	3Q05	3Q04	% chg	
Segmental Revenue							
Fish	24.8	23.8	4.0	8.6	7.1	20.8	Increase in dragon fish sales.
Accessories	17.9	20.9	-14.7	5.6	6.7	-17.0	Increase in turnover contributions from retail chain stores however there was a lower demand from the Malaysian market.
Plastics	5.3	5.2	2.2	1.8	1.9	-3.1	
Total	48.0	50.0	-4.0	16.0	15.7	1.8	
Segmental PBT							
Fish	2.7	3.6	-25.8	1.2	0.6	98.5	
Accessories	0.9	0.2	nm	0.4	-0.9	nm	
Plastics	0.3	0.2	38.5	0.2	0.1	92.9	
Unallocated Corporate Expenses	-1.1	-1.2	nm	-0.3	-0.5	nm	
Total	2.7	2.8	-3.4	1.4	-0.7	-291.2	

Source: Company, DBS Vickers

Summary Earnings Model (FY03-06)

FYE Dec (\$m)	2003A	2004A	2005F	2006F
Ornamental Fish	27.5	31.2	30.8	32.8
Accessories	33.6	27.3	27.9	29.3
Other	6.6	7.0	7.1	7.4
Total Sales	67.7	65.5	65.8	69.5
Gross Profit	25.4	23.0	24.3	25.7
Less: S,G&A plus other income	15.6	19.1	19.8	20.9
Operating Profit	9.8	3.9	4.6	4.9
Less: Net Interest Expense	0.2	0.4	0.6	0.5
Add: Share of Associates	0.0	-0.1	-0.1	-0.1
Pretax Profit	9.5	3.4	3.9	4.3
Less: Tax	1.8	1.2	0.8	0.9
Minority Interest	-0.8	-0.6	-1.1	-1.0
Net Profit	7.0	1.6	2.0	2.4

Source: Company, DBS Vickers

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