

Qian Hu

Stiff competition slows earnings growth

Growth in ornamental fish exports was insufficient to offset poorer than expected performance of the Group's accessories segment. Lower gross margins driven by increasing competition and lower demand for fish accessories drove 1Q04 earnings lower. In the light of the stiff competition, we have revised our sales and earnings projections downwards and hence downgraded the stock to a HOLD.

- 1Q04 results were below expectations.** A traditionally slow season due to the Chinese New Year holidays, 1Q04 for Qian Hu was worsened by lower than expected demand for fish accessories. A more robust competitive environment in this segment also slashed net margins for the accessories segment by about 50% relative to 1Q03 levels.
- Lowered our forward earnings estimates.** Going forward, we expect export volumes of ornamental fish to remain healthy. In addition, increased sales of Qian Hu's own-bred Arowana will likely see margins of the ornamental fish segment sustained at current levels. In light of the stiff competition, we have lowered our sales and margin estimates for the Group's accessories segment for FY04 and FY05. Our previous price target of \$1.00 (cum-bonus) has been reduced to S\$0.77 (ex-bonus) based on 12X PE on FY04 earnings.
- Growth drivers are still intact.** Qian Hu's expansion into the pet accessories retail chain business is set to continue in FY04. Despite the poor performance of the accessories segment in 1Q04, we believe that a 15% growth in this segment is achievable for full-year FY04. This, coupled with steady growth from the ornamental fish segment should see Qian Hu's management deliver on its target of achieving turnover and profit increase for FY04.

HOLD
(Downgrade from Buy)

S\$0.655

At a Glance

Price Target:
1-year S\$0.77

Stock Code:
Bloomberg: QIAN SP
Reuters: QIAN.SI

Sector: Consumer

STI: 1,844.71

Reason for Report:
1Q04 result

Implications:
Negative

Earnings Revision:
FY04 -8%
FY05 -11%

Consensus EPS:
FY04 6.9 S cts
FY05 8.8 S cts

DBSV vs Consensus EPS (% variance):
FY03 -7.2%
FY04 -11.4%

Principal Business:
Distributor and breeder of ornamental fish. Distributes and manufactures aquarium and pet accessories

Forecasts and Valuation

FY Dec (\$m)	2002A	2003A	2004F	2005F
Turnover	62.7	67.7	77.6	86.8
EBITDA	9.9	11.4	13.3	14.6
Pretax Profit	8.6	9.6	11.1	13.3
Net Profit	6.5	7.0	8.2	10.0
EPS (S cts)	5.1	5.5	6.4	7.8
EPS Gth (%)	90.3%	7.2%	17.0%	21.4%
PE (x)	12.8	11.9	10.2	8.4
P/cashflow	10.7	9.7	8.1	6.9
EV/EBITDA	8.0	7.3	6.0	5.1
DPS (\$ cts)	1.2	0.6	1.0	1.2
Div Yield (%)	1.8	0.9	1.5	1.8
Net Gearing (%)	cash	cash	cash	cash
ROE (%)	29.0%	21.8%	19.9%	19.4%
NTA (\$ cts)	21.9	28.6	35.8	44.5
P/Book Value (x)	3.0	2.3	1.8	1.5

General Data

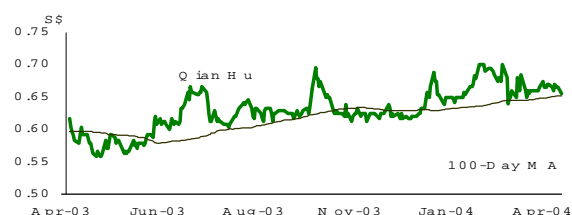
Issued Capital (m shrs)	128
Mkt Cap (\$m/US\$m)	105 / 62
Major Shareholders	
Qian Hu Holdings (%)	29.6
Yap family (%)	45.1
Free Float (%)	25.3
Avg Daily Vol ('000 shrs)	240

Consensus Analyst Poll

	Avg Rating	Buy	Hold	Sell
3 Mth	na	-	-	-
6 Mth	5.00	2	-	-
12 Mth	5.00	2	-	-
Market	3.66			
Sector	3.60			

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	11%	4%	2%
Past 3 mths	377%	-2%	-4%
Past 6 mths	4%	-15%	-19%
Past 12 mths	4%	-32%	-47%

Results Summary & Comments

FY Dec (\$m)	4Q 03	1Q04	% chg	1Q 03	1Q 04	% chg	Comments
Segmental sales	16.7	16.2	(2.6)	15.9	16.2	1.9	Net sales increase was driven by increased exports of ornamental fish...
Ornamental fish	6.8	7.2	5.6	6.3	7.2	13.7	...and sales contribution from Kim Kang
Accessories	8.2	7.5	(9.3)	8.0	7.5	(6.8)	Low demand in domestic market resulted in lower accessories sales
Others	1.7	1.6	(2.4)	1.6	1.6	(0.9)	Flat growth in plastics turnover due to competitive local market
Segmental PBIT	2.9	1.5	(47.2)	1.7	1.5	(11.2)	Dip in overall profitability...
Ornamental fish	1.9	1.0	(48.3)	0.6	1.0	59.6	...due to lower sales and margins from accessories ...
Accessories	1.2	0.7	(46.0)	1.4	0.7	(53.4)	... overshadowing the increase in turnover and margins from ornamental fish.
Others	-0.3	-0.1	(49.2)	(0.3)	(0.1)	(59.1)	
Profit & Loss							
Turnover	16.7	16.2	(2.6)	15.9	16.2	1.9	Sales growth driven by increased exports of ornamental fish
Gross profit	6.6	5.6	(15.0)	5.9	5.6	(4.3)	Higher gross margins from self-bred Dragon fish softened impact of lower margins from accessories
S, G & A	3.3	4.1	23.5	4.1	4.1	(1.9)	Minor savings in SG&A expenses
EBITDA	3.3	2.0	-38.3	1.4	2.0	48.1	
Depreciation	0.4	0.5	11.1	0.3	0.5	36.1	Higher depreciation expenses proportional to level of fixed assets and brooder stocks
Interest expense	0.0	(0.1)	76.3	-	(0.1)	63.0	
Investment inc	0.0	0.0	nm	-	-	nm	
Associates	0.0	0.0	nm	-	-	nm	
Pretax profit	2.9	1.5	(47.2)	1.7	1.5	(11.2)	
Tax	(0.8)	(0.2)	(69.0)	(0.4)	(0.2)	(37.6)	Lower tax rate due to EDB IHQ Award and tax exempted PRC subsidiaries
Minority interest	(0.4)	(0.1)	(80.2)	-	(0.1)	nm	
Net profit	1.7	1.2	(29.6)	1.3	1.2	(8.8)	
Gross margin (%)	39.6	34.5		36.7	34.5		Lower Gross Margins due to competition in accessories market
EBITDA margin (%)	19.9	12.6		8.7	12.6		Lower EBITDA margins from previous quarter due to one-off S\$1 mil gain in 4Q03...
Tax rate (%)	26.4	15.5		22.1	15.5		
Key Balance Sheet & Cash Flow Items							
DOS Inventory	125	129.0		85	129.0		
DOS Acct Receivables	69	66.0		59	66.0		
Cash fr Operations	0.8	0.5		na	0.5		
Capex	-0.3	-0.3		na	-0.3		
Free Cash Flows	0.5	0.2		na	0.2		

Source: Company, DBS Vickers

Summary Earnings Model (FY02-05)

FY Dec (\$m)	2001A	2002A	2003A	2004F	2005F	Comments
Sales						
Ornamental fish	18.3	24.0	27.5	32.2	35.6	Led by increased export volumes
Accessories	16.6	31.9	33.6	38.7	44.5	Demand from overseas market coupled with Qian Hu's retail outlet driving growth.
Plastic & other	6.3	6.7	6.6	6.7	6.7	
Total sales	41.2	62.7	67.7	77.6	86.8	
Gross profit	14.7	22.2	25.4	29.1	32.5	Margins to remain high led by backward integration for the breeding of Arowana fish.
SGA	(10.9)	(13.7)	(15.8)	(18.2)	(20.7)	Expenses to be driven by the new retail business.
Operating Profit	4.3	8.6	9.8	11.1	12.3	
Intr/Invsmt Inc	(0.1)	(0.2)	(0.2)	(0.2)	0.8	
Pretax Profit	4.3	8.6	9.6	11.1	13.3	
Tax	(0.9)	(2.1)	(1.8)	(2.1)	(2.5)	
MI	-	-	(0.8)	(0.8)	(0.8)	
Net Profit	3.4	6.5	7.0	8.2	10.0	

Source: Company, DBS Vickers

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