



Qian Hu Corp

14 Sep 09

Company Update

Long Term Development Plan

Long Term Development Plan: We caught up with Mr Kenny Yap (Executive Chairman & Managing Director of Qian Hu) recently on his long term development plan for the group. Qian Hu is an integrated ornamental fish service provider. Main business segments include ornamental fish (farming, breeding, distribution and trading of ornamental fish), accessories (manufacturing and distribution of aquarium and pet accessories) and plastics (manufacturing of plastic bags).

Figure 1: Segmental Performance

Rev (S\$m)	1H09	1H08	Chg%
Ornamental Fish	23.86	23.41	2.0
Accessories	18.03	17.50	3.0
Plastics	4.97	5.68	(12.5)
Total	46.87	46.59	0.6

Source: Company, SIAS Research

Ornamental Fish Business: Management aims to double its global market share in ornamental fish to 10% and increase exports to 100 countries (up from the current 80 countries). Qian Hu will continue to expand the distribution network in the fast growing China market and seek more opportunities in India following an establishment of a joint venture there.

In addition, Indonesia, Vietnam and the Middle East are identified as potential growth drivers. Qian Hu may set up distribution networks or new JV in the next few years to propel future performance.

Expansion Plan for Accessories Business:

Management has set a long-term target to have equal revenue contribution from both the ornamental fish and the accessories businesses. Hence, it will grow its accessories business by leveraging on existing ornamental fish marketing and distribution networks to export into more countries. It will also develop more products and build up its own proprietary brand names of accessories products for fish, dogs, cats and small animals.

Buy (Maintained)

Target Price **S\$0.17**
 Current Price **S\$0.145**

Main Activities

Qian Hu Corporation Limited, listed on SGX Sesdaq in 2000 and upgraded to Mainboard in 2002, is an integrated "one-stop" ornamental fish service provider. It breeds dragon fish, as well as farms, imports, exports, and distributes ornamental fish. It also manufactures and distributes aquarium, pet accessories and plastics bags.

Financial Highlights

(Y/E Jun)	FY08	FY09F	FY10F
Sales (S\$m)	93.1	98.2	105.6
Gross Profit	33.1	34.5	37.7
Op Income	9.9	10.0	11.3
Earnings	6.0	6.1	6.8
EPS (Scts)	1.4	1.4	1.5

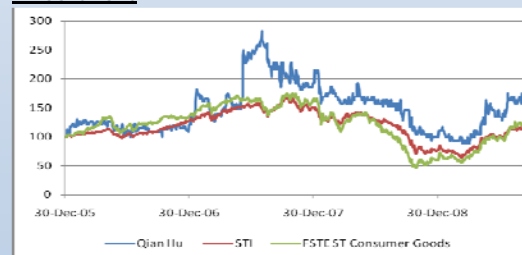
Source: Bloomberg, SIAS Research

Key ratios (FY09F)

PER	10.6
P/BV	0.9
ROE	8.7%
Net gearing	20.6%
Current ratio	1.7

Source: Bloomberg, SIAS Research

Price Chart



52wks High-Low(S cts) 16.5 - 7.5
 Number of Shares 421.13m
 Market Capitalization 61.08m

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To Reduce Inventory Turnover: Inventory turnover was around 145 days mainly due to inventory for accessories business and dragon fish. With the planned increase in accessories business, inventory turnover may increase further and tie down working capital. However, management believes inventory turnover will be improved through efficient management and distribution system.

To Reduce Debt: Through improvement in net cash generated from operating activities, gearing ratio at 1H09 improved slightly from 0.6 to 0.56 following the repayment of borrowings. Management expects its future operating cash flow to remain strong with stable profits and prudent management in working capital (inventory, trade receivables and payables). The group will gradually pay down its debts to achieve net cash position.

Knowledge and Technology: Breeding of dragon fish is influenced by environment and weather. Traditionally, dragon fishes are more productive during the rainy season. To improve yield, Qian Hu has collaborated with Temasek Life Sciences Laboratory to study various breeding biology (e.g. using 'in vitro' fertilization techniques for "tailor-made" dragon fish) and breeding behaviour (e.g. developing innovative and practical aquarium accessories such as filters and tanks for a more conducive breeding environment).

Forecast & Recommendation

Recommendation: Its long term development plan will be affected by the speed of economic recovery. Successful execution of the plans should improve financial performance and ensure a steady stream of dividend with its healthy cash flow and balance sheet. Meanwhile, the exercise of about 33.8m outstanding warrants (to be exercised at S\$0.035 by 19 Sep 10) as at 1H09 will reduce EPS and book value per share.

Based on price to earnings target methodology, we maintain our target price of S\$0.17 for Qian Hu. At the current price of S\$0.145, we maintain "BUY". (Koh Chin Lek)

Figure 2: Diversified Business



Source: Company

Figure 3: Revenue & Earnings Forecast		
	FY09F	FY10F
Revenue (S\$m)	98.2	105.6
Earnings (S\$m)	6.1	6.8
EPS(Scts)	1.4	1.5
BV (Scts)	15.7	17.2

Source: SIAS Research

Financial Table and Ratios

Year End Dec	FY06	FY07	FY08	FY09F	FY10F
Income Statement (\$m)					
Revenue	76.1	91.7	93.1	98.2	105.6
Gross Profit	27.0	31.5	33.1	34.5	37.7
Op Income	5.8	8.5	9.9	10.0	11.3
Pretax	5.3	7.9	9.2	9.3	10.6
Earnings	2.6	4.9	6.0	6.1	6.8
EPS (weighted average – S cts)	0.7	1.3	1.5	1.4	1.6
EPS (fully diluted – S cts)	0.6	1.2	1.4	1.4	1.5
Balance Sheet (\$m)					
Non-current Assets	28.9	36.8	44.4	51.0	52.2
Current Assets	46.7	52.0	56.1	56.3	63.4
Current Liabilities	23.6	28.4	31.8	32.3	33.5
Non-current Liabilities	3.2	4.8	6.0	5.6	5.6
Shareholders' Equity	42.5	48.0	53.6	59.1	64.6
Total Equity	48.8	55.6	62.7	69.4	76.6
Cash Flow (\$m)					
Operating Cash Flow	9.4	8.7	9.8	10.5	11.2
Investing Cash Flow	(6.6)	(9.6)	(10.8)	(9.9)	(4.4)
Financing Cash Flow	(1.7)	0.9	2.2	(1.5)	(1.5)
Net Cash Increase/(Decrease)	1.1	(0.0)	1.3	(0.9)	5.3
Cash & Equivalent	5.5	5.5	6.7	5.8	11.1
Financial Ratios					
Revenue Growth (%)	14.9	20.51	1.46	5.57	7.51
Earnings Growth (%)	28.9	89.07	22.13	0.47	12.47
Gross Margin (%)	35.44	34.39	35.54	35.12	35.67
Net Margin (%)	3.44	5.39	6.49	6.18	6.47
Current Ratio (x)	2.0	1.8	1.8	1.7	1.9
Book value per share (S cts)	38.0	13.8	14.1	15.7	17.2
Net Debt/ (Cash) per sh (S cts)	5.6	2.2	2.3	2.7	1.5
Net Debt / Equity (%)	16.9	18.7	19.2	20.6	10.4
Dividend per share (S cts)	0.60	8.54	0.20	0.20	0.20
Dividend payout ratio (%)	81.08%	635.27%	13.72%	14.33%	12.89%
Return on Equity (%)	5.37	8.89	9.63	8.74	8.92
Return on Asset (%)	3.46	5.57	6.01	5.66	5.91
Debtor Days	77.7	66.7	75.1	76.4	73.1
Creditor Days	38.9	40.5	50.3	50.5	47.5
Inventory Days	168.2	141.9	144.2	142.0	137.9
Cash Conversion Cycle	207.0	168.1	169.0	167.9	163.5
Valuations					
Price to sales (x)	0.24	0.64	0.69	0.65	0.61
PER (x)	22.66	11.79	10.64	10.56	9.45
Price to book (x)	0.4	1.0	1.0	0.9	0.8
Dividend Yield (%)	4.14%	58.90%	1.38%	1.38%	1.38%

Source: Company, SIAS Research



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About the Company

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Price and Volume Chart



Source: Bloomberg



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Company Update

SGX Research Incentive Scheme

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