

Qian Hu Corp

24 Sep 09

Company Update

Growing Business with Prudent Risk Management

An Integrated Ornamental Fish Services Provider:

Qian Hu was established in the nineteen eighties. After consecutive failures in breeding and farming guppies and high-fin loaches, the group learned from the mistakes of not having sufficient knowledge and insufficient diversification. Over the years, it has grown from farming to importing, exporting, retailing and distribution of ornamental fish, accessories and pet foods. It also manufactures aquariums, pet accessories and plastic bags for third parties and its own use. In 2004, it also established retail chain stores ("Qian Hu – The Pet Family") in Malaysia, Thailand and China for all its core products plus value-added services such as pet grooming in selected stores.

Diversified Risks: For its main *Ornamental Fish* business, Qian Hu focuses on the breeding of "high profit" dragon fish (in Singapore, Malaysia and Thailand) while importing, exporting and distributing more than 1,000 species of ornamental fish from countries in Asia, South America and Africa to over 80 countries. Broad supplier and customer bases reduce its exposure to political, geographical and environmental risks.

Similarly, *Accessories* business manufactures aquarium accessories such as tanks, lightings and filtration systems in its Chinese factory for Qian Hu and OEM customers. It outsources the manufacturing of pet foods to reliable companies in Australia and US. It also distributes more than 5,000 types of aquarium as well as pet accessories from over 20 major manufacturers and principals to Asia. Its strategy of focusing on key products, technologies and proprietary brand names while sourcing products and services from external parties helps to contain capital expenditure and operating costs.

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

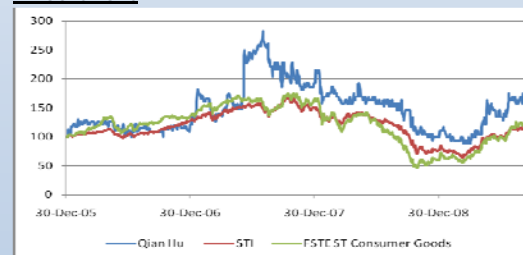
Source: Bloomberg, SIAS Research

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 61.04m

Analyst:

Koh Chin Lek
chinlek@siasresearch.com
Tel: 6227 2107

Diversification without Huge Investment:

Qian Hu invested an initial consideration of £264,000 (or about S\$0.8m) in 2007 for a 20% stake in Arcadia Products PLC, a manufacturer of aquarium lamps based in the United Kingdom. In 2009, Qian Hu also established a joint venture in India for Indian Rupees 26.4m (or about S\$0.8m) to manufacture and distribute fish food, aquarium tanks and its accessories. These relatively small investments enable Qian Hu to foray into the European and Indian aquarium and pet accessories market respectively. In addition, existing businesses of these JV and associates also help to reduce the start-up cost and break-even period.

Risk management in Fish Farming:

Fish farming requires substantial capital investment and duration to acquire/lease land, construct the farm and water recycling facilities. For instance, Qian Hu recently completed an S\$10m expansion in breeding and farming facilities in Malaysia and Singapore. Coupled with a rearing period of more than 6 months, it may take some time to recoup the investments. While its Malaysian 365,883 sq. m fish farms are situated on freehold land, Singapore's 61,119 sq. m and Thailand's 3,200 sq. m fish farms are under 20-year and 3-year leases respectively. Failure to extend leases will reduce capacity. However, management does not foresee difficulties to extend leases. To improve yield, Qian Hu has also collaborated with Temasek Life Sciences Laboratory to study various breeding biology and breeding behaviour.

Forecast & Recommendation

Qian Hu has grown and diversified through horizontal and vertical expansion. While focusing on key products and technologies, it collaborates with partners and suppliers to secure ornamental fish and accessories to reduce risks and capex. Broad supplier and customer bases also reduce exposure to political, geographical and environmental risks. It also works with research bodies to improve technologies and gain knowledge. With its prudent expansion plan and more stabilised economy, we maintain our target price of S\$0.17 and "BUY" recommendation for Qian Hu. (Koh Chin Lek)

Figure 1: Diversified Business



Source: Company

Figure 2: 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



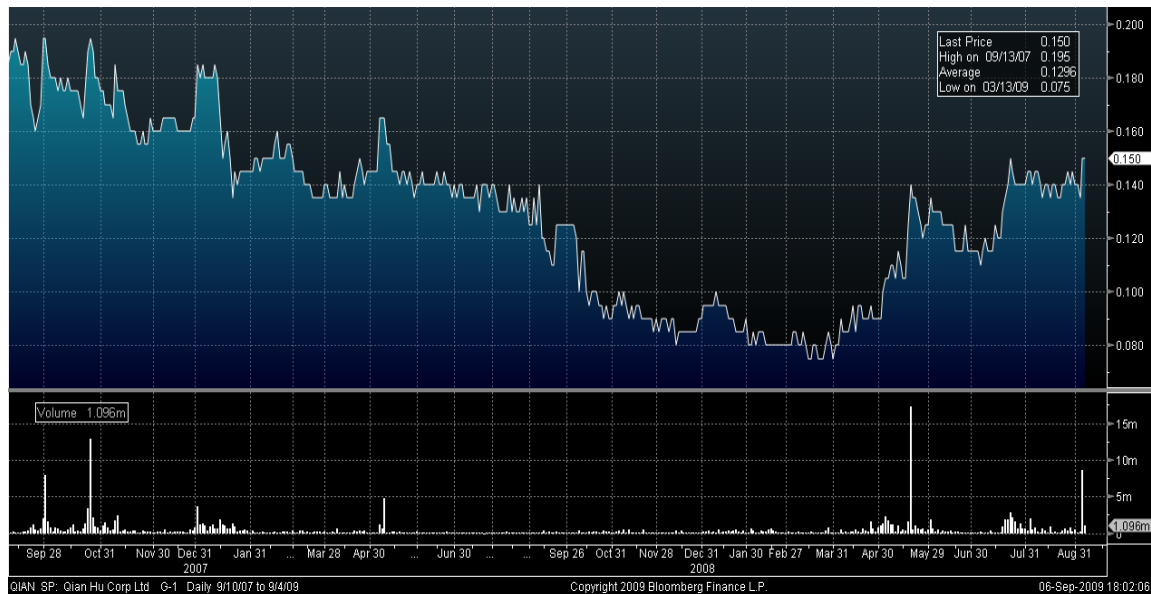
SIAS Research Pte Ltd
75 Neil Road
Singapore 088902
Tel: [65] 6227 2107 Fax: [65] 6227 2079
Email: admin@siasresearch.com

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About the Company

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Price and Volume Chart



Source: Bloomberg



SIAS Research Pte Ltd
75 Neil Road
Singapore 088902
Tel: [65] 6227 2107 Fax: [65] 6227 2079
Email: admin@siasresearch.com

Company Update

SGX Research Incentive Scheme

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