

Qian Hu Corporation

1Q14 results update
29 April 2014

Overweight

Current Price	S\$0.087
Fair Value	S\$0.12
Up / (downside)	+36%

Stock Statistics

Market cap	S\$40m
52-low	S\$0.076
52-high	S\$0.094
Avg daily vol	262,512
No of share	454.1m
Free float	55%

Key Indicators

ROE 14F	2.8%
ROA 14F	1.9%
P/BK	0.77x
Net gearing	11%

Major Shareholders

Qian Hu Holding	24.0%
Yap Family	21.4%

Historical Chart



Source: Bloomberg

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Continued focus on its innovation journey

- **Earnings below expectation.** Qian Hu's 1Q14 marginal profit of S\$142k came in below our S\$220k net profit estimate due to slightly lower-than-expected sales and higher-than-expected taxation.
- **Slowly improving sequentially.** While the group expects to continue improving sequentially, we lowered our FY14 and FY15 net profit forecast by 32% and 16%, respectively given its recovery is slower than we expected. However, we maintain our fair value at S\$0.12, still pegged at 1x FY14 P/NTA. Given the downside risk is limited and continued improvement of its operating profit and cash flow, maintain **Overweight** recommendation.
- **Doubling its Singapore fish farm capacity in two years.** Qian Hu is working further to transform its fish farm into a next-generation, high-technology operation. The new system will enable Qian Hu to stack its fish tank from current 2 layers to 4 layers and management expects this upgrade will take 2 years for completion. Furthermore, this fully automated system will also help the group to reduce its labour requirement.
- **1Q14 revenue up 2% yoy to S\$20.7m**, on the back of higher sales contributed from Dragon Fish in its Northeast Asian markets, particularly China. Together with improving sales from its subsidiaries in Indonesia, Malaysia and Thailand, Ornamental Fish sales have increased by 8% yoy to S\$9.1m. Accessories sales were flat in 1Q14, at S\$8.9m, due to different sales mix and focus on selling its own proprietary brand. Plastics division dropped 6% yoy to S\$2.7m as a result of a revision in selling prices implemented in January 2014. However, Qian Hu expects demand to recover in subsequent quarters.
- **EBITDA margins improved by 0.9% pts yoy to 3.7%** boosted by the stabilisation of Dragon Fish prices that yielded strong margins. However, this was partially offset by its plastics segment due to higher raw material price, resins use for its plastic division and gradual increase in overall operating expenses.
- **Balance sheet remained healthy.** Qian Hu generated S\$0.9m positive free cash flow in 1Q after improving its working capital requirement. As a result, its net gearing reduced from 12% in the previous quarter to 11%.

Key Financial Data

(S\$ m, FYE Dec)	2012	2013	2014F	2015F	2016F
Sales	84.4	83.5	89.3	91.5	93.4
Gross Profit	25.4	24.2	27.2	30.2	31.8
Net Profit	(9.1)	0.3	1.5	3.2	3.7
EPS (cents)	(2.0)	0.1	0.3	0.7	0.8
EPS growth (%)	(363.6)	103.3	384.5	120.4	13.7
PER (x)	nm	130.8	27.0	12.2	10.8
NAV/share (cents)	11.9	11.2	11.8	12.2	12.8
DPS (cents)	0.2	0.6	0.2	0.3	0.3
Div Yield (%)	2.3	6.9	2.3	3.4	3.4

Source: Company, NRA Capital forecasts

Qian Hu Corporation

Results comparison

FYE Dec (\$\$ m)	1Q14	1Q13	yoy % chg	4Q14	QoQ % chg	Prev. 1Q14F	Comments
Revenue	20.7	20.2	2	21.6	(4)	21.9	5% below expectation
Operating costs	(19.9)	(19.7)	1	(21.1)	(5)	(21.0)	Below, lower-than-expected sales
EBITDA	0.8	0.6	36	0.5	56	0.9	Below, lower-than-expected sales and margins
EBITDA margin (%)	3.7	2.8		2.3	63	4.1	0.4% pts below expectation
Depn & amort.	(0.4)	(0.6)	(27)	(0.5)	(21)	(0.5)	Below
EBIT	0.4	0.0	5,000	(0.0)	1,587	0.4	In line
Interest expense	(0.1)	(0.1)	(3)	(0.1)	0	(0.1)	In line
Interest & invt inc	0.1	0.2	(77)	0.4	(86)	0.1	In line
Associates' contrib	(0.0)	(0.0)	67	(0.0)	(38)	(0.0)	
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	0.3	0.2	109	0.3	22	0.4	Below, lower-than-expected sales and margins
Tax	(0.12)	(0.0)	155	(0.1)	(8)	(0.07)	Above, higher-than-expected taxation
Tax rate (%)	36.14	29.6		47.6	(24)	20.00	
Minority interests	(0.07)	(0.1)	40	(0.1)	(6)	(0.07)	
Net profit	0.14	0.1	129	0.1	106	0.22	36% below expectation
EPS (cts)	0.03	0.0	129	0.0	106	0.05	

Source: NRA Capital estimates



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Profit & Loss (\$\$ m, FYE Dec)	2012	2013	2014F	2015F	2016F
Revenue	84.4	83.5	89.3	91.5	93.4
Operating expenses	(81.2)	(81.2)	(85.0)	(85.2)	(86.6)
EBITDA	3.3	2.2	4.3	6.3	6.9
Depreciation & amortisation	(2.7)	(2.1)	(2.1)	(2.1)	(2.0)
EBIT	0.5	0.1	2.2	4.2	4.8
Net interest & invt income	0.2	1.0	0.1	0.1	0.2
Associates' contribution	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
Exceptional items	(9.3)	0.0	0.0	0.0	0.0
Pretax profit	(8.7)	1.0	2.2	4.2	4.8
Tax	(0.5)	(0.4)	(0.5)	(0.7)	(0.8)
Minority interests	0.0	(0.3)	(0.3)	(0.3)	(0.3)
Net profit	(9.1)	0.3	1.5	3.2	3.7
Wt. shares (m)	454.1	454.1	454.1	454.1	454.1
Shares at year-end (m)	454.1	454.1	454.1	454.1	454.1
Balance Sheet (\$\$ m, as at Dec)	2012	2013	2014F	2015F	2016F
Fixed assets	16.1	15.8	17.0	17.3	18.2
Intangible assets	0.3	0.3	0.3	0.3	0.3
Other long-term assets	4.4	3.1	1.5	1.5	1.5
Total non-current assets	20.8	19.2	18.9	19.2	20.1
Cash and equivalents	8.3	6.7	9.6	9.9	11.1
Stocks	16.2	16.6	16.8	16.6	16.7
Trade debtors	32.1	32.8	31.2	32.0	32.7
Other current assets	0.5	0.5	0.1	0.1	0.1
Total current assets	57.1	56.6	57.7	58.5	60.5
Trade creditors	9.6	11.0	11.2	11.0	11.1
Short-term borrowings	13.0	12.8	10.7	10.1	10.3
Other current liabilities	0.5	0.4	0.5	0.7	0.8
Total current liabilities	23.2	24.3	22.4	21.8	22.2
Long-term borrowings	0.3	0.2	0.2	0.1	0.1
Other long-term liabilities	0.4	0.4	0.4	0.4	0.4
Total long-term liabilities	0.7	0.6	0.6	0.5	0.5
Shareholders' funds	52.5	49.5	51.9	53.3	55.6
Minority interests	1.6	1.5	1.8	2.1	2.3
NTA/share (\$\$)	0.11	0.11	0.11	0.12	0.12
Total Assets	77.9	75.9	76.6	77.7	80.6
Total Liabilities + S'holders' funds	77.9	75.9	76.6	77.7	80.6
Cash Flow (\$\$ m, FYE Dec)	2012	2013	2014F	2015F	2016F
Pretax profit	(8.7)	1.0	2.2	4.2	4.8
Depreciation & non-cash adjustments	13.0	3.3	5.7	0.1	0.4
Working capital changes	0.2	(0.1)	1.6	(0.7)	(0.7)
Cash tax paid	(0.9)	(0.5)	(0.4)	(0.5)	(0.7)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	3.6	3.7	9.1	3.1	3.7
Capex	(1.5)	(1.9)	(1.1)	(1.1)	(1.1)
Net investments & sale of FA	(0.1)	(0.0)	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	(1.6)	(1.9)	(1.1)	(1.1)	(1.1)
Debt raised/(repaid)	(2.7)	(0.3)	(2.2)	(0.7)	0.2
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(2.7)	(2.3)	(2.7)	(0.9)	(1.4)
Cash interest & others	3.0	(0.8)	(0.2)	(0.2)	(0.2)
Cash flow from financing	(2.4)	(3.4)	(5.1)	(1.8)	(1.4)
Change in cash	(0.4)	(1.6)	2.9	0.2	1.2
Change in net cash/(debt)	2.3	(1.3)	5.1	0.9	1.0
Ending net cash/(debt)	(5.1)	(6.4)	(1.3)	(0.5)	0.6
KEY RATIOS (FYE Dec)	2012	2013	2014F	2015F	2016F
Revenue growth (%)	(4.4)	(1.2)	7.0	2.5	2.1
EBITDA growth (%)	(43.7)	(31.4)	92.9	45.8	8.8
Pretax margins (%)	(10.3)	1.1	2.5	4.6	5.1
Net profit margins (%)	(10.8)	0.4	1.6	3.5	3.9
Interest cover (x)	(21.4)	4.9	11.3	21.8	24.0
Effective tax rates (%)	(5.5)	41.0	22.0	17.0	17.0
Net dividend payout (%)	(9.9)	902.2	62.1	42.2	37.1
Debtors turnover (days)	138.7	143.6	127.8	127.8	127.8
Stock turnover (days)	100.3	102.5	98.6	98.6	98.6
Creditors turnover (days)	59.3	67.9	65.7	65.7	65.7

Source: Company, NRA Capital forecasts

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