

MITA No. 030/06/2006

18 July 2006

Qian Hu Corporation

Maintain

HOLD

Previous Rating: HOLD

S\$0.25

Fair Value: S\$0.27

Stock Code:

Reuters:

QIAN.SI

Bloomberg:

QIAN SP

Event:

Results

General Data

Issued Capital (m)	129
Mkt Cap (S\$m/US\$m)	32 / 20
Major Shareholder	Yap family (58%)
Free Float (%)	38
NTA per share (S\$)	0.36
Daily Vol 3-mth ('000)	12
52Wk High (S\$)	0.300
52Wk Low (S\$)	0.210

Promising 1H06 results

Results were in line with expectations. Qian Hu's (QH) 1H06 results were in line with expectations. Turnover increased 13.9% YoY to S\$36.4m on the back of improved sales from the Fish operations as well as generally better performances from its Accessories and Plastics divisions. Net profit expanded 17.4% YoY to S\$1.1m.

Fish operation was key driver of 1H performance. The Fish Division led growth in 1H06. Fish margins showed significant improvement, with pretax margin up from 9% in 1H05 to 14.8% in 1H06. This was attributed to sales of QH's own-bred Dragon Fish. Its Plastics and Accessories divisions also saw improvement in profits.

2H06 to benefit from higher yields from Dragon Fish. As mentioned in our 12 June update, QH experienced yields in Dragon Fish fries that were 20%-25% higher YoY during 1H06. A combination of favourable weather and enhanced breeding expertise drawn from its research into Dragon Fish breeding behaviour contributed to higher yields. We expect the higher yields in Dragon Fish fries to contribute positively to QH's performance in 2H06.

Growth to be underpinned by export drive and expanded distribution network. Going forward, QH anticipates growth to be driven by the export of ornamental fish and the expansion of its distribution network in key markets. QH is also stepping up its drive to export its Ocean Free brand of aquarium accessories. Within the China market, QH is working on strengthening its presence by increasing its distribution points for Dragon Fish and accessories products.

Maintaining HOLD recommendation. QH's 1H06 results confirms our view that the group is now back on an even keel. Its retail outlet strategy is still intact, but scaled now to a more realistic level. With the YoY improvements seen in all three key divisions and particularly the Fish operation, we are anticipating a stronger 2H06. We are maintaining our net profit forecast of S\$2.4m for FY06, 17% higher than the level achieved in FY05. At current share price of 25 cents, it is trading close to our fair value of 27 cents. We maintain our **HOLD** rating on the stock.

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Year to 31 Dec	Turnover (S\$m)	EBIT (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	Consensus EPS (cents)	PER (x)	Net Div Yield (%)
FY 04	65.5	3.9	1.6	1.3	-	-	19.7	-
FY 05	66.3	4.6	2.0	1.6	24.4	-	15.8	1.6
FY 06F	69.6	5.2	2.4	1.9	17.1	2.1	13.5	1.5
FY 07F	73.6	5.8	2.7	2.1	11.4	2.1	12.1	1.7

Please refer to the important disclosures at the back of this document.

Qian Hu Ltd's Key Financial Data

Qian Hu Results Year Ended 31 Dec (S\$ m)	1H 05 (S\$m)	1H 06 (S\$m)	Change (%)
Turnover	32.0	36.4	13.9
Cost of sales	-20.3	-23.2	14.6
Gross profit	11.7	13.2	12.8
Other operating income	0.1	0.1	78.3
Selling & distribution expenses	-1.3	-1.3	-2.0
General & administration expenses	-8.9	-9.0	1.1
Profit from operations	1.5	3.0	96.1
Interest expenses	-0.2	-0.4	44.4
Interest income	0.0	0.0	120.0
Share of associates results	0.0	0.0	n.m.
Profit before taxation	1.3	2.7	105.8
Taxation	-0.2	-0.9	273.5
Minority interests	-0.1	-0.7	486.2
Net profit attributable to shareholders	1.0	1.1	17.4

EARNINGS FORECAST

Year Ended 31 Dec (S\$ m)	FY04	FY05	FY06F	FY07F
Revenue	65.5	66.3	69.6	73.6
Cost of sales	-42.5	-42.6	-44.7	-47.1
Other operating income	0.2	0.1	0.1	0.1
Operating expenses	-19.3	-19.2	-19.9	-20.8
Operating Profit	3.9	4.6	5.2	5.8
Finance costs	-0.4	-0.5	-0.4	-0.4
Associates	-0.1	0.0	0.0	0.0
Profit before tax	3.4	4.1	4.8	5.4
Tax credit/(expenses)	-1.2	-1.2	-1.4	-1.5
Minorities	-0.6	-0.9	-1.1	-1.2
Net Profit	1.6	2.0	2.4	2.7

BALANCE SHEET

As at 31 Dec (S\$ m)	FY04	FY05	FY06F	FY07F
Cash	4.2	4.8	3.9	4.5
Other current assets	21.6	21.9	23.0	24.4
Fixed assets	16.3	17.2	18.1	19.1
Other non-current assets	14.1	12.7	12.4	12.1
Non-current assets	8.8	11.9	10.2	10.7
Total assets	64.9	68.4	67.6	70.7
Current liabilities (excl. debt)	8.1	8.8	9.3	9.8
Debt	11.8	11.0	9.5	10.1
Other long term liabilities	2.7	2.9	1.3	1.4
Total liabilities	22.5	22.7	20.1	21.3
Shareholders equity	37.6	40.5	42.3	44.3
Minority interest	4.8	5.2	5.2	5.2
Total equity and liabilities	64.9	68.4	67.6	70.7

CASH FLOW

Year Ended 31 Dec (S\$ m)	FY04	FY05	FY06F	FY07F
Operating profit before working cap. Changes	6.4	8.1	7.8	8.7
Working capital changes	-8.0	0.1	-1.4	-1.7
Other operating cash flow	-1.5	-1.1	-1.2	-1.2
Net cash from operations	-3.1	7.1	5.2	5.8
Investing cash flow	-2.9	-4.0	-2.2	-1.7
Net change in debt	-1.3	-3.1	-1.7	-3.2
Other financing cashflow	7.3	0.6	-2.2	-0.2
Financing cash flow	6.0	-2.5	-3.9	-3.4
Net cash increase in cash/cash equivalents	0.0	0.6	-0.9	0.7
Cash at beginning of year	4.1	4.2	4.8	3.9
Cash at end of year	4.2	4.8	3.9	4.5

KEY RATIOS

PER(x)	19.7	15.8	13.5	12.1
Price/Book (x)	0.9	0.8	0.8	0.7
EV/EBITDA (x)	6.4	5.5	5.0	4.6
Dividend Yield (%)	0.0	1.6	1.5	1.7
ROE (%)	4.3	5.0	5.6	6.0
Net Gearing (%)	15.1	12.4	10.8	10.2

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