

Qian Hu Corporation

Reuters: QIAN.SI
Bloomberg: QIAN SP

Sector: Commerce

Rating:

Price S\$0.32

Maintain **Market Perform**

Y/E 31-Dec	2003A	2004A	2005F	2006F
Net Profit (\$m)	7.0	1.6	2.0	3.8
EPS (S cent)	5.5	1.3	1.6	2.9
EPS Growth (%)	-	-77	+26	+85
Consensus EPS	-	-	2.3	3.4
PER (x) @ S\$0.32	5.8	25.2	20.1	10.9
NTA (\$)	0.31	0.32	0.34	0.37

Performance (%)	1mth	3mth	12mth	Market Capitalisation :	S\$	41m
Absolute	+2	-2	-49	Issued Shares :		128m
Relative against STI	+1	-6	-70	30-day avg daily vol ('000) :		7

Business on recovery mode

- Revenue grew a slight 0.5% YoY to S\$16.3m in 1Q05
- 1Q net profit of S\$471,000
- Awaiting improvement in its retail operations, and meanwhile maintaining **MARKET PERFORM** rating
- Our fair value estimate remains S\$0.32

Qian Hu Corp Year Ended 31 Dec	1Q04 (S\$m)	1Q05 (S\$m)	Chg (%)
Turnover	16.2	16.3	0.5
Cost of sales	-10.6	-10.4	-2.2
Gross Profit	5.6	5.9	5.6
Other operating income	0.0	0.0	-11.5
Operational expenses	-4.1	-5.2	27.0
Operating profit	1.6	0.8	-49.9
Non-operating expenses	-0.1	-0.1	11.9
Pretax	1.5	0.7	-52.6
Tax	-0.2	-0.1	-37.6
Minority Interest	-0.1	-0.1	21.0
Net profit	1.2	0.5	-60.6

Summary: Qian Hu continued its business recovery since 3Q04 with net profit of S\$471,000 in 1Q05. Even though 1Q05 net profit was down 61% YoY from the previous period, it was nonetheless an improvement from the net profit of S\$146,000 in 4Q04 and the 3Q04 loss of S\$682,000. This commendable set of results came on the back of Qian Hu's 0.5% YoY recovery in revenue to S\$16.3m, and the YoY improvement in gross profit margin by 1.7 ppt in 1Q05. However, operating expenses grew due to higher number of new retail outlets set-up in 2H04. As a result, Qian Hu suffered a 50% YoY decline in operating profit to S\$790,000 in 1Q05. Against 4Q04, EBIT only declined 5%. Going forward, the successful restructuring of Qian Hu's retail operations remains critical to an eventual business turnaround. Till we see more evidence of sustainable operational turnaround, our FY05 net profit projection remains at S\$2m. Qian Hu's share price is currently trading at our fair value estimate of S\$0.32. We maintain our **MARKET PERFORM** rating on Qian Hu.

Revenue returned to above S\$16m mark. Led by its Fish Division, Qian Hu managed to stem two consecutive quarterly revenue slides in 1Q05. Qian Hu delivered revenue of S\$16.3m in 1Q05, which represented a slight 0.5% YoY growth and a return to

above S\$16m revenue for the first time in nine months. The Fish Division grew its revenue by 16% YoY to S\$8.3m in 1Q05, as it benefited from increased export sales, new retail revenue, and stabilisation in ornamental fish distribution in the domestic market. The Plastics Division enjoyed steady revenue growth of 9% YoY to S\$1.8m in 1Q05. However, the Accessories Division saw its revenue dropped 17% YoY to S\$6.2m, as retail demand for accessories at Qian Hu's local and Malaysian stores continued to dwindle in 1Q05. Still, we may have seen early signs of stabilisation in 1Q05 from Qian Hu's restructuring efforts, as revenue from the Accessories Division only declined 2% QoQ.

Posted a second successive quarter of net profit.

Despite the competitive business environment, Qian Hu managed to improve its gross profit margin by 1.7 ppt YoY to above 36% in 1Q05. Gross profit grew 6% YoY to S\$5.9m in 1Q05. However, this was not enough to prevent a 5% QoQ or 50% YoY decline in EBIT to S\$790,000, mainly due to new retail outlets set-up in 2H04.

On a segmental basis, the Fish Division only saw 3% YoY growth in operating profit to S\$1.0m, as Qian Hu had higher sales of lower margin fish species in 1Q05. Qian Hu's Accessories Division suffered a massive 93% YoY decline in operating profit to S\$48,000 in 1Q05, as new retail outlets were added in 2H04.

Against 4Q04, the Accessories Division's operating profit was down 64%, mainly due to shorter working days and lower sales. The Plastics Division also suffered 31% YoY decline in 1Q05 operating profit to S\$72,000, as competition stiffened and raw material prices eroded profit margins.

Backed by lower interest and tax expenses, Qian Hu continued its business recovery with net profit of S\$471,000 in 1Q05. Even though 1Q05 net profit was down 61% YoY, it was nonetheless an improvement from the S\$146,000 net profit in 4Q04 and the S\$682,000 net loss in 3Q04. While heartened by this development, we are awaiting more evidence of sustainable operational turnaround before adjusting our earnings forecasts. As noted previously, the successful restructuring of Qian Hu's retail operations remains critical to an eventual business turnaround. For now, we maintain our FY05 net profit projection of S\$2m.

Maintain MARKET PERFORM. Following the recovery in 4Q04, Qian Hu continues to show signs of standing on its feet in 1Q05. However, the gestation period for its retail operations seems to be longer than expected, as its local and Malaysian operations continued to undergo restructuring and faced demanding business conditions in 1Q05. At the current price of S\$0.32, Qian Hu is trading at our fair value estimate of S\$0.32. We maintain our **MARKET PERFORM** rating on Qian Hu.

Qian Hu Corporation Ltd's Key Financial Data
Income Statement

Year to 31 Dec (In S\$ m)	FY03	FY04	FY05F	FY06F
Revenue	67.7	65.5	61.0	64.0
Cost of sales	(42.3)	(42.5)	(36.9)	(38.5)
Gross profit	25.4	23.0	24.1	25.5
Other operating income	0.2	0.2	0.2	0.2
Selling & distribution expenses	(1.8)	(2.5)	(3.0)	(2.9)
Administrative expenses	(14.0)	(16.8)	(16.9)	(16.5)
EBIT	9.8	3.9	4.3	6.3
Net interest	(0.2)	(0.4)	(0.6)	(0.7)
Share of associates' income	-	(0.1)	-	-
Pre-tax profit	9.6	3.4	3.7	5.6
Tax	(1.8)	(1.2)	(1.1)	(1.2)
Minority Interest	(0.8)	(0.6)	(0.5)	(0.6)
Net profit	7.0	1.6	2.0	3.8
Earnings per share (cents)	5.5	1.3	1.6	2.9
Profitability Ratios				
EBIT margin (%)	14.4	5.9	7.1	9.8
PBT margin (%)	14.1	5.2	6.0	8.8
EAT margin (%)	10.4	2.5	3.3	5.9

Balance Sheet

As at 31 Dec (In S\$ m)	FY03	FY04	FY05F	FY06F
Cash	4.2	4.2	2.7	7.1
Other current assets	31.8	37.9	37.8	38.4
Non-current assets	20.2	21.0	20.4	19.2
Total assets	57.2	64.9	62.8	66.6
Current liabilities less debt	13.4	12.4	13.9	13.9
Debt	1.5	8.5	2.3	1.6
Other long term liabilities	1.6	1.6	1.7	1.7
Total liabilities	16.5	22.5	17.9	17.3
Shareholders equity	36.6	37.6	39.7	43.4
Total equity and liabilities	57.2	64.9	62.8	66.6
NTA per share (cents)	31.1	31.6	33.6	37.0

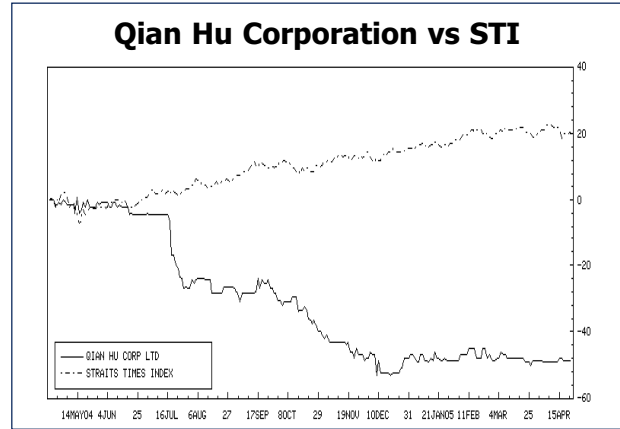
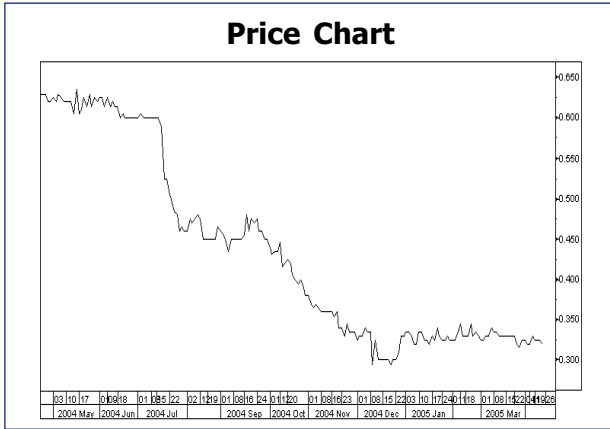
Cash Flow Statement

Year to 31 Dec (In S\$ m)	FY03	FY04	FY05F	FY06F
Operating profit before working cap. changes	10.0	6.0	5.7	7.5
Working capital changes	(7.1)	(8.0)	1.4	(0.6)
Taxes Paid	(1.9)	(1.1)	(1.0)	(1.1)
Net cash from operations	1.0	-3.1	6.1	5.9
Capex	(1.5)	(2.9)	(1.5)	(1.5)
Other investing flows	(2.2)	(0.0)	0.0	0.8
Investing cash flow	(3.7)	(2.9)	(1.5)	(0.7)
Net change in debt	1.5	6.8	(5.9)	(0.8)
Proceeds from share issuance	(1.0)	0.1	-	-
Dividends paid	(1.0)	(0.5)	-	-
Financing cash flow	(1.0)	6.0	(6.1)	(0.7)
Net cash flow	(3.7)	0.0	(1.5)	4.5
Cash at beginning of year	7.8	4.1	4.2	2.7
Cash at end of year	4.1	4.2	2.7	7.1

Key Ratios

	FY03	FY04	FY05F	FY06F
PER (x)	5.8	25.2	20.1	10.9
Price/Book (x)	1.0	1.0	1.0	0.9
EV/EBITDA (x)	3.4	7.8	6.4	4.3
Dividend yield (%)	1.2	0.0	0.0	0.0
ROIC (%)	18.4	3.5	4.9	8.4
ROE (%)	19.2	4.3	5.2	8.7
Gross Gearing (x)	0.0	0.2	0.1	0.0
PE to growth (x)	0.5	nm	0.8	0.1

Source: Company data, OIR estimates



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