

MITA No. 021/06/2007

3 September 2007

# Qian Hu Corporation

Resuming Coverage

## BUY

### S\$0.185

### Fair Value: S\$0.21

Stock Code:

Reuters:

Bloomberg:

QIAN.SI

QIAN.SP

Event:

Update

#### General Data

Issued Capital (m)	390
Mkt Cap (S\$m/US\$m)	72 / 47
Major Shareholder	Qian Hu Hldgs Pte Ltd (28.18%)
Free Float (%)	26.6
NAV per share (S cents)	11.3
Daily Vol 3-mth ('000)	1,579
52Wk High (S\$)	0.244
52Wk Low (S\$)	0.086

**Strong 2Q07 results.** Qian Hu Corporation Ltd (Qian Hu) recently turned in its 2Q07 results. It impressed with a 94.4% YoY increase in 2Q07 net profit to S\$1.2m. Revenue rose 22.6% YoY to S\$22.4m. Qian Hu looks set for strong growth in FY07, having reaped net profits of S\$2.1m in 1H07, 80% of FY06 net profit. We forecast a 20.8% YoY increase in revenue to S\$92m and a 62.8% YoY increase in net profit to S\$4.3m for FY07, and expect further double-digit growth in FY08 top-line and bottom-line.

**Boosting net profit margin.** Qian Hu recorded an overall increase in net profit margin from 3.2% in 2Q06 to 5.1% in 2Q07. As Qian Hu does not expect significant variable costs, every dollar increase in top-line will serve to boost net margins. Its strategy is starting to bear fruits, as evidenced by the increase in net profit margins across the board between 1H06 and 1H07. Net profit margins rose from 15.4% to 18.5% for its fish segment, from 4.1% to 4.2% for its accessories segment, and from 6.0% to 7.0% for its plastics segment.

**Building its accessories business.** Going forward, management's focus is to grow the accessories segment, currently the second largest revenue contributor at 38%. This segment has room for growth as Qian Hu currently exports its accessories to only 20 countries, as compared to 70 countries for its fish segment. Qian Hu's recent investment in Arcadia will allow it to access the higher-margin European pet accessories market while enjoying low cost production in Guangzhou, and thus boost overall margins.

**Upgrade to BUY.** Qian Hu's latest results suggest that the group may finally be reaping the rewards of its FY04 - FY05 restructuring exercise. We have raised our FY07 revenue projection to S\$92.0m (previously S\$82.2m) and net profit projection to S\$4.3m (previously S\$3.2m). Based on 17x FY08 PER, we derive a fair value of S\$0.21. We upgrade our rating from Hold to **BUY**.

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Year to 31 Dec	Turnover (S\$m)	Gross Profit (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Net Div Yield (%)
FY 05	66.3	23.7	2.0	0.4	-	41.4	-
FY 06	76.1	27.0	2.6	0.6	28.9	32.1	0.6
FY 07F	92.0	32.7	4.3	0.9	62.8	19.7	1.2
FY 08F	111.0	39.7	5.6	1.2	30.4	15.1	1.6

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

**Qian Hu Ltd's Key Financial Data**

<b>Qian Hu Results</b> Year Ended 31 Dec (S\$ m)	<b>2Q06</b> (S\$m)	<b>2Q07</b> (S\$m)	<b>% Chg</b> (YoY)	<b>1Q07</b> (S\$m)	<b>% Chg</b> (QoQ)
Revenue	18.3	22.4	22.6%	22.0	2.0%
Cost of sales	-11.4	-14.3	25.1%	-14.5	-1.7%
Gross Profit	6.9	8.2	18.5%	7.5	9.3%
Other operating income	0.1	0.1	36.2%	0.1	42.4%
Selling and distribution costs	-0.6	-0.8	30.8%	-0.7	13.8%
General & administrative expenses	-4.6	-5.1	10.9%	-5.0	2.0%
Profit from operations	1.8	2.4	34.6%	1.9	28.4%
Net financial expenses	-0.2	-0.2	21.1%	-0.2	11.6%
Share of results of associates	0.0	0.0	NM	0.0	NM
Profit before tax	1.6	2.2	36.1%	1.7	30.3%
Tax	-0.6	-0.6	-3.1%	-0.4	35.2%
Profit for the period	1.0	1.6	60.1%	1.2	28.5%
Minority interests	0.4	0.4	8.6%	0.3	50.3%
Net profit attributable to shareholders	0.6	1.2	94.4%	0.9	22.0%

**EARNINGS FORECAST**

<b>Year Ended 31 Dec (S\$ m)</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07F</b>	<b>FY08F</b>
Revenue	66.3	76.1	92.0	111.0
Cost of sales	-42.6	-49.1	-59.2	-71.3
Gross Profit	23.7	27.0	32.7	39.7
Other operating income	0.1	0.2	0.2	0.2
Selling and distribution costs	-2.1	-2.5	-2.9	-3.4
General & administrative expenses	-17.1	-18.7	-22.1	-26.5
Profit from operations	4.6	6.0	7.9	10.0
Net financial expenses	-0.5	-0.7	-0.8	-1.0
Share of results of associates	0.0	0.0	0.0	0.1
Profit before tax	4.1	5.3	7.1	9.1
Tax	-1.2	-1.4	-1.9	-2.5
Profit for the period	2.9	3.9	5.2	6.7
Minority interests	0.9	1.3	0.9	1.1
Net profit attributable to shareholders	2.0	2.6	4.3	5.6
Earnings per share (S cents)	0.4	0.6	0.9	1.2
<b>Profitability Ratios</b>				
Gross margin (%)	35.8	35.4	35.6	35.8
EBIT margin (%)	6.9	7.9	8.6	9.0
PBT margin (%)	6.2	7.0	7.7	8.2
Net profit margin (%)	3.1	3.4	4.6	5.0

**BALANCE SHEET**

<b>As at 31 Dec (S\$ m)</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07F</b>	<b>FY08F</b>
Cash and bank balances	4.8	5.6	7.3	8.4
Inventories	20.2	21.6	24.8	28.9
Breeder stocks	1.7	1.7	2.3	2.8
Receivables and other current assets	17.2	17.7	20.7	24.4
Property, plant, and equipment	12.7	11.5	10.2	9.1
Other non-current assets	11.9	17.2	20.1	22.1
<b>Total assets</b>	<b>68.4</b>	<b>75.4</b>	<b>85.4</b>	<b>95.7</b>
Debt	7.3	7.2	6.5	5.8
Trade payables	4.5	6.0	6.9	8.3
Other current liabilities	9.0	11.0	13.2	15.9
Finance lease obligations	0.2	0.1	0.1	0.1
Deferred taxation	1.8	2.1	2.5	3.0
<b>Total liabilities</b>	<b>22.7</b>	<b>26.5</b>	<b>29.2</b>	<b>33.2</b>
Share capital	12.9	19.0	21.3	21.3
Reserves	27.6	23.5	27.6	33.0
Minority interests	5.2	6.4	7.3	8.3
<b>Total equity</b>	<b>45.7</b>	<b>48.9</b>	<b>56.2</b>	<b>62.5</b>
<b>Total equity and liabilities</b>	<b>68.4</b>	<b>75.4</b>	<b>85.4</b>	<b>95.7</b>
NTA per share (S cents)	8.5	8.9	10.2	11.3

**CASH FLOW**

<b>Year Ended 31 Dec (S\$ m)</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07F</b>	<b>FY08F</b>
Operating profit before working cap. changes	7.6	8.8	10.1	12.2
Working capital changes	0.1	1.9	-4.1	-4.2
Taxes paid	-0.5	-1.3	-0.6	-1.5
Interests paid	-0.5	-0.7	-0.8	-1.0
<b>Net cash from operations</b>	<b>6.7</b>	<b>8.7</b>	<b>4.5</b>	<b>5.4</b>
Purchase of property, plant and equipment	-1.6	-0.9	-0.5	-0.5
Purchase of brooder stocks	-3.1	-5.7	-2.0	-2.0
Other investing flows	0.7	0.0	-0.8	0.0
<b>Investing cash flow</b>	<b>-4.0</b>	<b>-6.6</b>	<b>-3.3</b>	<b>-2.5</b>
Dividends paid	0.0	-0.5	-1.0	-1.3
Other financing flows	-2.5	-0.4	1.6	-0.4
<b>Financing cash flow</b>	<b>-2.5</b>	<b>-0.9</b>	<b>0.6</b>	<b>-1.8</b>
<b>Net cash flow</b>	<b>0.2</b>	<b>1.1</b>	<b>1.8</b>	<b>1.1</b>
Cash at beginning of year	4.2	4.3	5.5	7.3
Cash at end of year	4.3	5.5	7.3	8.4

**Key Ratios**

PER (x)	41.4	32.1	19.7	15.1
Price/NTA (x)	2.2	2.1	1.8	1.6
EV/EBIT (x)	18.8	14.3	10.5	8.2
Dividend yield (%)	0.0	0.6	1.2	1.6
ROE (%)	15.8	13.8	20.0	26.1
Net gearing (%)	6.2	3.8	-1.6	-4.7
PE to growth (x)	na	1.1	0.3	0.5

*Source: Company data, OIR estimates*

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