

MITA No. 030/06/2006

16 January 2007

Qian Hu Corporation

Maintain

HOLD

Previous Rating: HOLD

S\$0.32

Fair Value: S\$0.30

Stock Code:

Reuters: QIAN.SI

Bloomberg: QIAN SP

Event:

Results

Steady growth expected in FY07

Sustained improvement through FY06. Qian Hu's (QH) sustained improvement through FY06 enabled the group to close the year on a strong note. Revenue was up 14.9% YoY to S\$76.1m compared to S\$66.2m a year ago. Operating profit increased 30.5% to S\$6m, aided by a lower 10% rise in operating expenses. At its bottomline, QH achieved a 29% improvement in net profit to S\$2.6m, marginally above our forecast of S\$2.4m for FY06. On the back of the good results achieved in FY06, QH has recommended a first and final dividend of 0.6 cents, payable on 11 April 2007.

Growth seen in key divisions. QH's Fish division was the dominant earnings contributor, accounting for 52% of group revenue in FY06, compared to 50% in FY05. On a YoY basis, Fish revenue improved 18.3% to S\$39.6m on the back of stronger flow of fish orders from export customers secured during the year. Within the Fish division, Dragon fish continued to dominate growth of ornamental fish sales. However, for 4Q06, operating profit for the fish division was down 8.2% YoY to S\$1.6m due to a less favourable fish mix during the year which affected overall fish margin. Revenue for the Accessories and Plastics divisions increased 3.7% and 38.5%, respectively. These smaller divisions also showed improved profitability YoY, with the Plastics division posting a 47.9% improvement in operating profit.

Recovery largely in place. Relative to the group's earnings trough in FY04 during which net margin was 2.5%, net margins of 3.1% in FY05 and 3.4% in FY06 affirmed the group's continuing recovery. Going forward, continuing growth is expected, driven by higher fish sales from its enlarged distribution network and improved order flow from new accounts secured in FY06. There is also room for margin improvement should customers' preferences favour a higher margin fish mix.

Upgrade fair value, but maintain HOLD. With the improved fundamentals seen in FY06, we have revised FY07 net profit up from S\$2.7m to S\$3.2m. Fair value has been revised upward from S\$0.27 to S\$0.30 based on 0.8x FY07 P/B multiple. Following the stock's recent run-up, it is currently trading close to our fair value estimate and we maintain our **HOLD** rating.

| General Data | |
|------------------------|---------------------|
| Issued Capital (m) | 129 |
| Mkt Cap (S\$m/US\$m) | 41 / 27 |
| Major Shareholder | Yap family (58%) |
| Free Float (%) | 38 |
| NTA per share (S\$) | 0.379 |
| Daily Vol 3-mth ('000) | 18 |
| 52Wk High (S\$) | 0.320 |
| 52Wk Low (S\$) | 0.230 |

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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 05 | 66.3 | 4.6 | 2.0 | 1.6 | 24.4 | - | 20.3 | 1.3 |
| FY 06 | 76.1 | 5.8 | 2.6 | 2.0 | 28.5 | - | 15.8 | 1.3 |
| FY 07F | 82.2 | 6.9 | 3.2 | 2.5 | 20.4 | 2.1 | 13.1 | 1.6 |
| FY 08F | 87.8 | 8.1 | 3.7 | 2.9 | 17.7 | 2.1 | 11.1 | 1.8 |

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) | FY05 (S\$m) | FY06 (S\$m) | % Chg (YoY) |
|---|-----------------------|-----------------------|-----------------------|
| Turnover | 66.3 | 76.1 | 14.9 |
| Cost of sales | -42.6 | -49.1 | 15.4 |
| Gross profit | 23.7 | 27.0 | 13.8 |
| Other operating income | 0.1 | 0.2 | 60.0 |
| Selling & distribution expenses | -2.1 | -2.5 | 18.0 |
| General & administration expenses | -17.1 | -18.7 | 9.1 |
| Interest expenses | -0.5 | -0.7 | 36.8 |
| Interest income | 0.0 | 0.0 | 166.7 |
| Share of associates results | 0.0 | 0.0 | - |
| Profit before taxation | 4.1 | 5.3 | 29.9 |
| Taxation | -1.2 | -1.4 | 22.7 |
| Minority interests | -0.9 | -1.3 | 41.6 |
| Net profit | 2.0 | 2.6 | 28.9 |

EARNINGS FORECAST

| Year Ended 31 Dec (S\$ m) | FY05 | FY06 | FY07F | FY08F |
|----------------------------------|-------------|-------------|--------------|--------------|
| Revenue | 66.3 | 76.1 | 82.2 | 87.8 |
| Cost of sales | -42.6 | -49.1 | -53.1 | -56.4 |
| Other operating income | 0.1 | 0.2 | 0.2 | 0.2 |
| Operating expenses | -19.2 | -21.1 | -22.2 | -23.3 |
| Finance costs | -0.5 | -0.7 | -0.7 | -0.7 |
| Associates | 0.0 | 0.0 | 0.0 | 0.0 |
| Profit before tax | 4.1 | 5.3 | 6.4 | 7.5 |
| Tax credit/(expenses) | -1.2 | -1.4 | -1.7 | -2.0 |
| Minorities | -0.9 | -1.3 | -1.5 | -1.8 |
| Profit after tax | 2.0 | 2.6 | 3.2 | 3.7 |

BALANCE SHEET

| As at 31 Dec (S\$ m) | FY05 | FY06 | FY07F | FY08F |
|----------------------------------|-------------|-------------|--------------|--------------|
| Cash | 4.8 | 6.1 | 6.5 | 9.0 |
| Other current assets | 21.9 | 23.4 | 25.2 | 26.7 |
| Fixed assets | 17.2 | 17.7 | 19.4 | 20.6 |
| Other non-current assets | 12.7 | 11.5 | 12.1 | 11.6 |
| Non-current assets | 11.9 | 17.2 | 16.7 | 17.2 |
| Total assets | 68.4 | 75.4 | 79.5 | 85.2 |
| Current liabilities (excl. debt) | 8.8 | 10.4 | 13.0 | 13.3 |
| Debt | 11.0 | 13.2 | 10.4 | 11.1 |
| Other long term liabilities | 2.9 | 2.9 | 3.4 | 3.5 |
| Total liabilities | 22.7 | 26.5 | 26.7 | 27.9 |
| Shareholders equity | 40.5 | 42.5 | 44.8 | 47.6 |
| Minority interest | 5.2 | 6.4 | 7.9 | 9.7 |
| Total equity and liabilities | 68.4 | 75.4 | 79.5 | 85.2 |

CASH FLOW

| Year Ended 31 Dec (S\$ m) | FY05 | FY06 | FY07F | FY08F |
|--|-------------|-------------|--------------|--------------|
| Operating profit before working cap. Changes | 8.1 | 8.8 | 9.8 | 10.0 |
| Working capital changes | 0.1 | 2.3 | -3.3 | -2.3 |
| Other operating cash flow | -1.1 | -1.3 | -1.4 | -2.0 |
| Net cash from operations | 7.1 | 9.8 | 5.0 | 5.6 |
| Investing cash flow | -4.0 | -6.6 | -3.8 | -2.2 |
| Net change in debt | -3.1 | -0.7 | 0.0 | 0.0 |
| Other financing cashflow | 0.6 | -1.2 | -0.8 | -0.9 |
| Financing cash flow | -2.5 | -1.9 | -0.8 | -0.9 |
| Net cash increase in cash/cash equivalents | 0.6 | 1.3 | 0.4 | 2.5 |
| Cash at beginning of year | 4.2 | 4.8 | 6.1 | 6.5 |
| Cash at end of year | 4.8 | 6.1 | 6.5 | 9.0 |

Key Ratios

| | | | | |
|--------------------|------|------|------|------|
| PER(x) | 20.3 | 15.8 | 13.1 | 11.1 |
| Price/Book (x) | 1.0 | 1.0 | 0.9 | 0.9 |
| EV/EBITDA (x) | 7.2 | 5.9 | 5.1 | 4.5 |
| Dividend Yield (%) | 1.3 | 1.3 | 1.6 | 1.8 |
| ROE (%) | 5.0 | 6.2 | 7.0 | 7.8 |
| Net Gearing (%) | 12.4 | 14.4 | 7.1 | 2.7 |

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