

**Recommendation:**

**BUY**

Previous call: Buy @ \$0.14 on 23<sup>rd</sup> April 2008

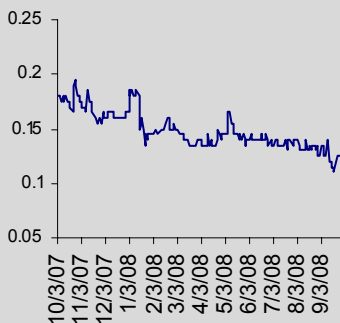
**Price**

Previous close **S\$0.095**  
Fair value **S\$0.150**  
Share price return **57.8%**

**Share Statistics**

Shares 415.22m  
Market Cap. \$39.45m  
Trailing PER 6.64x  
Forward PER 7.92x  
P/BV 0.76x  
52-week Price Range \$0.09-\$0.195  
52-week PER Range 6.3x-16.0x  
Listing Bourse SGX-Main Board  
Qianhu  
Major Shareholder Holdings 26.25%

**Price Chart**



**Company Profile**

Qian Hu Corporation Limited imports, exports and distributes ornamental fish and aquarium and pet accessories. The company also manufactures and distributes plastic bags for ornamental fish, food and electronics industries.

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## Qian Hu Corporation Limited Results Review

5 Nov 2008

**Qian Hu (QH) registered its third successive YoY quarterly rises for FY08. QH posted a 4.1% rise in revenue for 3QFY08. Gross profit increased 3.4% while net profit rose 20.9% for the quarter. QH achieved an EPS of 0.35 cents on a fully diluted basis.**

The CEO of QH Mr. Kenny Yap is a believer in the stability of the pet industry and has for the longest time extol the resiliency of QH business during times of economic downturn, citing the therapeutic effect of pets on the doom and gloom weighing on people's mind.

**Product segments analysis.** Contribution from ornamental fish sales was stable and accounted for approximately 50% of total revenue. From exhibit 1, seasonality was observed in the contribution of accessories sales in 4Q07 due to higher deliveries to meet the demands of the festive season. QH's aim is to achieve an equal contribution from both the ornamental fish and accessories business segments. Accessories production is expected to pick up in 4Q08. Plastics sales managed to register a YoY growth of 18.5%.

Exhibit 1. Revenue breakdown by S\$

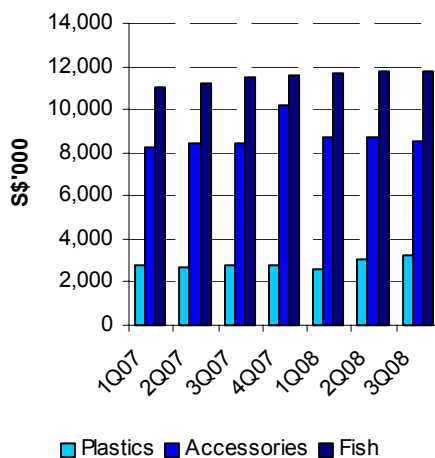
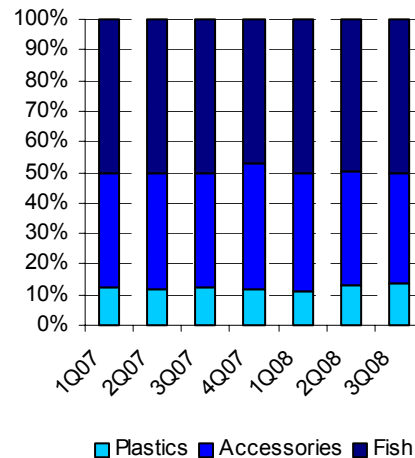


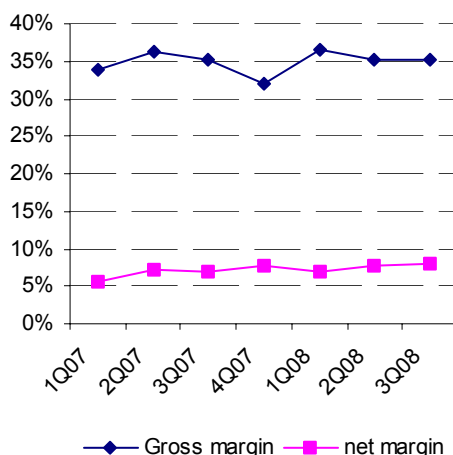
Exhibit 2. Revenue breakdown by %



Source: Company, Phillip Securities Research

**Improving margins YoY.** We can see QH gross profit margin hovering around the 35% level and this actually depends on the sales of the product mix. Ornamental fish has a relatively higher margin than both accessories and plastics. For 4Q07, gross margin fell to 32% because of the greater accessories sales compared to the preceding quarters. Net profit margin however has registered slow increases in the current FY. This demonstrates QH's effort in managing costs. However we expect gross margin to face some compression in the next quarter as accessories sale contribution increases.

Exhibit 3. Profit margins



Source: Company, Phillip Securities Research

**Geographical analysis.** Sales in the Europe region continued its third quarter of growth while Others and Singapore regions recovered from a negative growth in 2Q08. However Other Asian countries exhibited a decline. This was due to the delay in OEM manufacturing of the Guangzhou plant, which has been deferred to October. Thus we'd expect positive growth from this segment in the next quarter.

Exhibit 4. Geographical breakdown

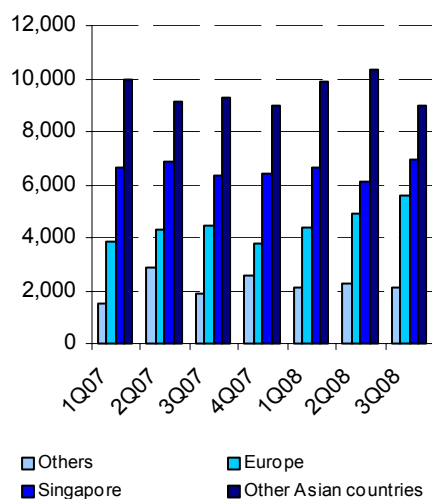
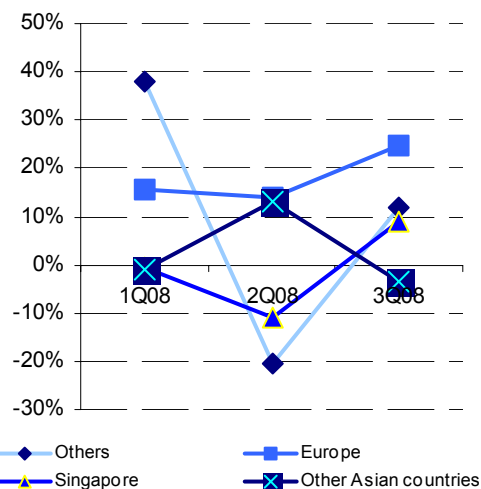


Exhibit 5. YoY growth



Source: Company, Phillip Securities Research

**Valuation and recommendation.** We believe QH would be able to continue on its growth path, however the broad economic factors may be a drag on its growth rate. We tweak our estimates and project a 3-year CAGR of 3.3% to factor in slower growth due to macro factors. The next phase of growth would be the catch-up of accessories sales to ornamental fish sales. The accessories market is potentially much bigger than the ornamental fish market given that management shared previously that every \$1 spent on fish, an equivalent of \$5 is spent on accessories. We switched our valuation method from a relative valuation method to a DCF based approach to better value a company based on its forecasted free cash flow. We applied conservative parameters to reflect a trying economic environment and arrived at a fair value of \$0.15. This translates to a P/E of 11x FY08 earnings.

## Exhibit 6. Peer Comparison

	Ticker	Price	Market Cap	Current P/E	Forward P/E
Xian Leng Holdings Bhd	XLH MK	M\$0.435	M\$31.6m	N.A	N.A
Petsmart Inc	PETM US	US\$19.37	US\$2452.8m	13.189	12.80
Central Garden & Pet Co.	CENT US	US\$3.17	US\$218.1m	8.57	7.51
Qian Hu	QIAN SP	S\$0.095	S\$39.4m	6.64	7.92
<i>Global Avg</i>				<i>9.47</i>	<i>9.41</i>

Source: Bloomberg, Phillip Securities Research  
Price as at 4 Nov 2008

## Exhibit 7. DCF Parameters

Risk free rate	3.0%
Risk premium	11.0%
Beta	0.61
Cost of Equity	11.0%
Terminal growth	0%

Source: Bloomberg, Phillip Securities Research estimates

## Exhibit 8. Key Financial Data

(Financial Year Ended 31 Dec)	3QFY07	3QFY08	%ch	FY07	FY08F	FY09F
Revenue (S\$m)	22.7	23.6	4.08%	91.7	95.5	98.2
EBITDA (S\$m)	2.7	3.2	20.81%	11.0	12.4	12.0
EBIT (S\$m)	2.1	2.6	23.54%	8.7	9.8	9.2
Net profit attributable to shareholder (S\$m)	1.3	1.5	20.90%	4.9	5.7	5.3
Gross profit margin (%)	35.31%	35.09%	(0.22)ppt	34.39%	35.05%	34.09%
Net profit margin (%)	6.82%	8.01%	1.19ppt	6.89%	7.49%	6.89%
Basic EPS (cents)	0.36	0.37	2.78%	3.84	1.36	1.28
Diluted EPS (cents)	0.30	0.35	16.67%	1.34	1.26	1.19
NTA per share (cents)	13.65	14.64	7.25%	13.51	15.21	16.79

Source: Bloomberg, Phillip Securities Research estimates

# Financials

Profit model (\$mil)	2007	2008F	2009F	2010F
Revenue	91.7	95.5	98.2	101.2
COGS	(60.2)	(62.0)	(64.8)	(66.4)
Gross Profit	31.5	33.5	33.5	34.8
Other operating income	0.2	0.2	0.2	0.2
Selling & Distribution expenses	(2.8)	(3.0)	(3.1)	(3.2)
General & administrative	(20.2)	(21.0)	(21.4)	(22.2)
Financial income	0.0	0.0	0.0	0.0
Financial expenses	(0.8)	(0.9)	(0.9)	(0.8)
Profit before tax	7.9	8.9	8.3	8.8
share of profit/(loss) from associates	0.0	0.1	0.1	0.1
tax expenses	(1.6)	(1.8)	(1.7)	(1.8)
net profit	6.3	7.1	6.7	7.1
Attributable to shareholders	4.9	5.6	5.3	5.6
Attributable to minority interest	1.4	1.5	1.4	1.5

EPS basic (Cents)	3.84	1.36	1.28	1.34
EPS diluted (Cents)	1.34	1.26	1.19	1.25

Growth & margins (%)	2007	2008F	2009F	2010F
Revenue growth	20.5%	4.1%	2.9%	3.0%
Gross profit growth	20.5%	4.1%	2.9%	3.0%
Net profit growth	89.1%	13.8%	-5.8%	5.4%
Gross profit margin	34.4%	35.0%	34.0%	34.4%
Net Profit margins	5.4%	5.9%	5.4%	5.5%
ROA	8.1%	8.3%	7.4%	7.2%
ROE	8.9%	9.0%	7.6%	7.3%

Cash flow statement (\$mil)	2007	2008F	2009F	2010F
Profit before tax	7.9	9.0	8.4	8.9
adj for				
Depreciation and amortisation	2.2	2.6	2.8	3.2
Others	0.8	0.0	0.0	0.0
Share of profit of associates	(0.0)	(0.1)	(0.1)	(0.1)
Interest income	(0.0)	(0.0)	(0.0)	(0.0)
Finance expenses	0.8	0.9	0.9	0.8
Operating cash flow before WC changes	11.8	12.4	12.0	12.8
WC changes	(3.1)	(3.1)	(2.4)	(2.8)
Net cash flow from operating activities	8.7	9.3	9.5	10.0
Capex	(9.7)	(7.9)	(6.4)	(4.2)
Interest received	0.0	0.0	0.0	0.0
Others	0.1	0.0	0.0	0.0
Net cash flow from investing activities	(9.6)	(7.8)	(6.4)	(4.1)
Net increase/(decrease) in bank term loans	1.7	(0.3)	(0.3)	(0.3)
Net increase/(decrease) in finance lease	(0.2)	(0.2)	(0.2)	(0.2)
payment of dividends	(0.6)	0.0	0.0	0.0
Interest paid	(0.8)	(0.9)	(0.9)	(0.8)
Others	0.9	0.0	0.0	0.0
Net cash flow from financing activities	0.9	(1.3)	(1.3)	(1.3)
Net Increase/decrease in cash	(0.0)	0.2	1.8	4.6

Balance sheet (\$mil)	2007	2008F	2009F	2010F
PPE	12.4	13.6	12.4	10.8
Brooder stocks	21.4	25.4	30.3	32.9
investment in associate	0.8	0.9	1.0	1.1
Intangibles assets	2.1	2.1	2.1	2.1
total non current assets	36.8	42.1	45.8	46.8
Current assets				
Inventories	22.0	22.9	23.6	24.3
Breeder stocks	1.4	1.4	1.4	1.4
Trade and other receivables	19.4	20.2	20.8	21.5
Due from fixed deposits	0.0	0.0	0.0	0.0
Due from associate	1.7	1.7	1.7	1.7
Cash and bank balances	7.5	7.7	9.5	14.0
total current assets	52.0	53.9	57.0	62.9
Trade and other payables	17.1	17.5	18.1	18.4
Due to minority shareholders	0.9	0.9	0.9	0.9
Finance lease obligations	0.2	0.2	0.2	0.0
Bank term loans	7.4	7.4	7.4	7.4
Provision for taxation	0.8	0.9	0.8	0.9
Bank overdraft	2.1	2.1	2.1	2.1
total current liabilities	28.4	28.8	29.3	29.6
Finance lease obligations	0.3	0.2	0.0	0.0
Bank term loan	1.5	1.2	0.9	0.6
Deferred tax	2.9	2.9	2.9	2.9
total non current liabilities	4.8	4.3	3.8	3.5
Total equity	55.6	62.8	69.5	76.6

Key Ratios	2007	2008F	2009F	2010F
Gross Gearing	0.18	0.16	0.15	0.14
Net Gearing	0.10	0.08	0.06	0.01
Interest Coverage	10.39	11.30	10.70	11.55
Debt-equity ratio	0.60	0.53	0.48	0.43
Current ratio	1.83	1.87	1.94	2.13
Cash ratio	0.26	0.27	0.32	0.48
Receivables turnover	1.37	1.33	1.32	1.32
Inventory turnover	2.73	2.71	2.75	2.74
Payables turnover	2.25	2.08	2.09	2.07

Valuation	2007	2008F	2009F	2010F
P/E basic (X)	7.09	6.97	7.42	7.07
P/B (X)	0.70	0.62	0.57	0.52

Source: Company, Phillip Securities Research

## Ratings History

Qian Hu Corporation Limited

Rating	Date	Closing price (S\$)	Fair value (S\$)	Remarks
BUY	5 November 2008	0.095	0.15	3QFY08 results
BUY	23 April 2008	0.140	0.20	1QFY08 results
BUY	16 January 2008	0.165	0.20	FY07 results
BUY	23 October 2007	0.165	0.25	Update
BUY	25 July 2007	0.590	0.71	Resume coverage

<b>Phillip Research Stock Selection Systems</b>	BUY	>15% upside from the current price
	HOLD	Trade within $\pm$ 15% from the current price
	SELL	>15% downside from the current price
	We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation	

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