

Qian Hu Corporation Ltd – Full Year 2009 Results

Phillip Securities Research
Singapore
13 January 2010

Sector Livestock
Reuters QIAN SI
Bloomberg QIAN SP

Hold (Maintain)

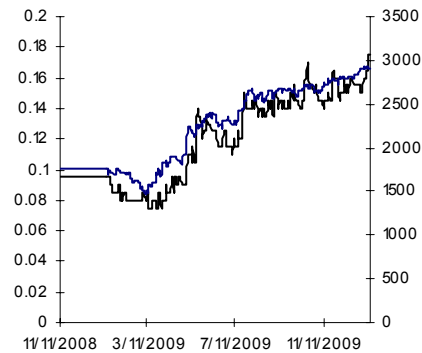
Closing Price
S\$0.175
12-month Target Price
S\$0.18 (+2.9%)

Price

Last Price	0.175
52w k High (11/24/2009)	0.18
52w k Low (3/12/2009)	0.08
Shares Outstanding (mil)	422.9823
Market Cap (S\$ mil)	74.02
Avg. Daily Turnover (mil)	0.50
Free float (%)	44.81
PE (X)	11.22
PB (X)	1.25

Price performance %

	1M	3M	6M
Absolute	12.9%	20.7%	52.2%
Relative	8.8%	11.4%	23.5%



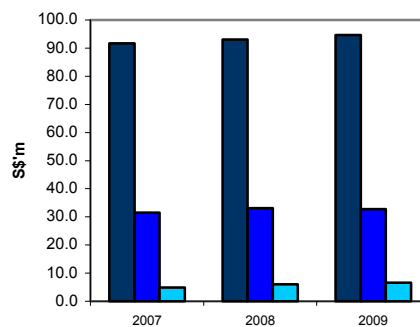
Major Shareholders (12 Jan 10)		%
1	Qian Hu Holdings	25.77

- FY2009 revenue grew 1.7% from \$93.1 million to \$94.6 million. Profit attributable to shareholders increased 8% from \$6.0 million to \$6.4 million. Full year basic earnings per share is 1.56 cents
- Proposed final dividend of 0.5 cents
- Jointly develop the Hydro-Pure technology with Clean World Environment and Renewable Pte Ltd
- Maintain Hold recommendation with target price of \$0.18

Commendable results in a recession year

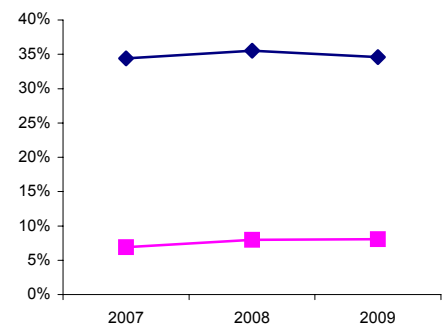
Qian Hu managed to maintain positive growth in a recession year. Although revenue grew marginally by 1.7%, bottom-line improvement of 8% demonstrates the company's efforts in streamlining cost during the year. Management recognized that resources would be better utilized during a downturn to manage cost efficiently rather than aggressively pursue expansion when the macro environment is under duress. Therefore there were conscious efforts to improve efficiency during the year. The results were apparent with the visibly improvement in the bottom-line. With the strong cash flow generated, Qian Hu is proposing a final dividend of 0.5 cents. There was not much variation in the profitability ratios. Both gross margin and net margin were relatively stable in the last three years.

Exhibit 1. Revenue, profit



■ Revenue ■ Gross Profit ■ Attribute to shareholders

Exhibit 2. Gross margin, net margin



◆ Gross profit margin ◆ net profit margin

Source: Company, Phillip Securities Research

Conso' Ending	Profits (SG\$m)	EPS SG cents	DPS SG cents	BV (SG\$)	ROE (%)	P/E (X)	Yield (%)	P/BV (x)
12/07 A	4.95	1.34	8.54	0.14	11.35	13.06	48.80	1.30
12/08 A	6.04	1.46	0.20	0.15	11.80	11.99	1.14	1.16
12/09 A	6.54	1.56	0.50	0.16	11.04	11.22	2.86	1.07
12/10 E	6.66	1.56	0.37	0.18	10.45	11.22	2.10	1.00
12/11 E	7.15	1.65	0.39	0.19	10.29	10.58	2.22	0.93

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Revenue breakdown

Revenue from the ornamental fish business segment was the major contributor to revenue at 50%, followed by accessories segment at 39% and 11% by plastic segment. On a geographical basis, Asia contributed 38%, Singapore 29%, Europe 22% and Others region 11%.

Exhibit 3. Breakdown by segments

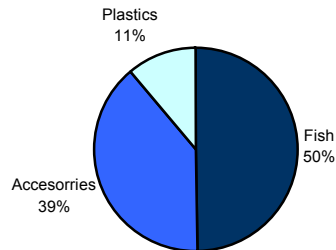
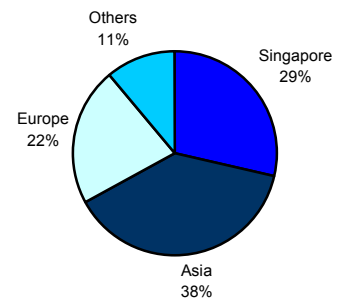


Exhibit 4. Breakdown by countries

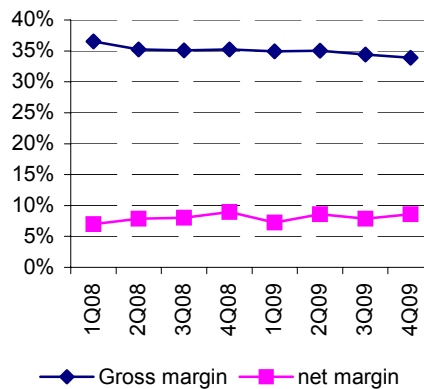


Source: Company, Phillip Securities Research

FY2009 quarterly results analysis

The quarterly gross margin registered slight decline from 1Q08 to 4Q09. On the contrary, net profit margin has shown improvement from 1Q08 to 4Q09. As we have mentioned earlier, this was the result of the conscious effort by management to control their cost structure.

Exhibit 5. Quarterly margins



Source: Company, Phillip Securities Research

We can observe a seasonal trend from exhibit 6 that revenue from ornamental fish segment usually registered a poorer performance in the fourth quarter whereas the accessories segment display a contrary trend. The profitability margin for ornamental fish continues to improve in 4Q09. This is due to Qian Hu self-breeding of the dragon fish which commands better margins.

Exhibit 6. Quarterly breakdown by segment

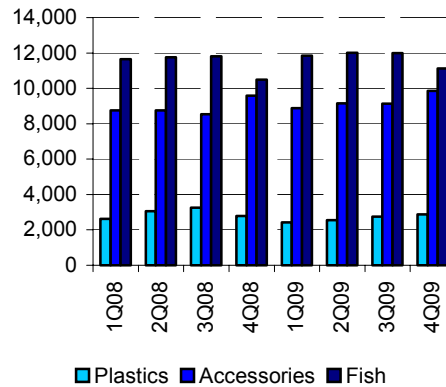
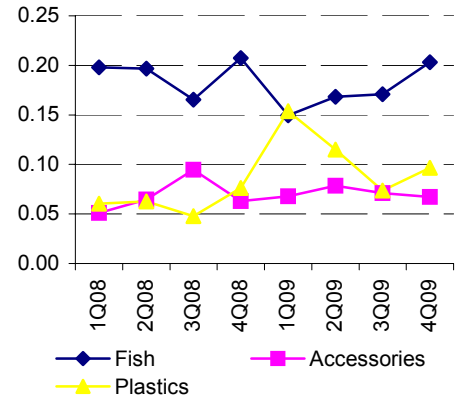


Exhibit 7. Quarterly profitability margins



Source: Company, Phillip Securities Research

In 4Q09, all regions registered double digit y-y growth, except the Asia (excluding Singapore). Asia (excluding Singapore decline 20%, while Singapore improved 22%, Europe improved 26% while Other region improved 11%.

Exhibit 8. Quarterly breakdown by countries

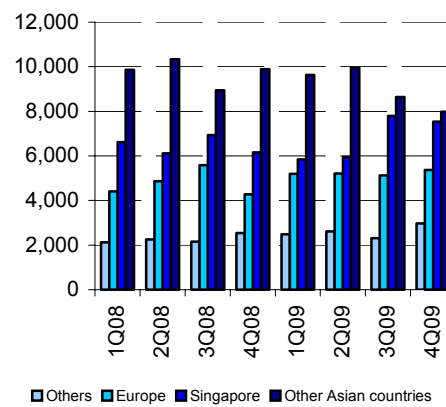
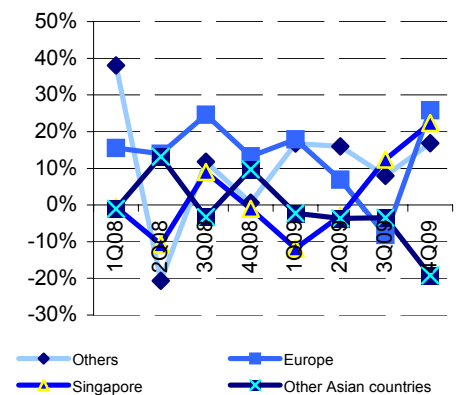


Exhibit 9. Y-Y growth



Source: Company, Phillip Securities Research

New product development

Qian Hu today announced that it will be jointly developing the revolutionary Hydro-Pure technology with Singapore based Clean World Environment and Renewable Pte Ltd. The technology is capable of enhancing the natural filtration processes in aquariums by as much as 50% when compared to conventional filtration systems. Clean World is responsible for developing the internal design of the filtration system while Qian Hu will undertake the responsibility of the external design and commercialisation of the product.

Valuation

We feel that the management has done a commendable job in achieving bottom-line growth amidst the tough environment. With the cost control measures implemented in FY2009 in place, coupled with the economic recovery, we are projecting Qian Hu to continue registering growth in FY2010E. We peg our fair value to 1x FY2010E book value and arrive at a target price of \$0.18. We maintain our Hold recommendation.

Financials

P profit model (\$ mil)						Balance sheet (\$ mil)					
	2007	2008	2009	2010E	2011E		2007	2008	2009	2010E	2011E
Revenue	917	93.1	94.6	97.7	100.8	PPE	12.4	14.6	15.9	14.5	13.7
COGS	(60.2)	(60.0)	(61.9)	(64.2)	(65.9)	Brooder stocks	214	26.7	30.3	34.5	39.3
Gross Profit	315	33.1	32.7	33.5	34.9	investment in associate	0.8	0.8	12	12	13
Other operating income	0.2	0.2	0.1	0.2	0.1	Intangibles assets	2.1	2.2	2.3	2.3	2.3
Selling & Distribution expenses	(2.8)	(2.7)	(1.8)	(2.7)	(2.8)	total non current assets	36.8	44.4	49.7	52.5	56.6
General & administrative	(20.2)	(20.4)	(20.9)	(20.8)	(21.4)	Current assets					
Financial income	0.0	0.0	0.0	0.0	0.0	Inventories	22.0	22.4	210	22.2	22.9
Financial expenses	(0.8)	(0.9)	(0.7)	(0.6)	(0.6)	Breeder stocks	14	16	15	15	15
Profit before tax	7.9	9.2	9.5	9.6	10.3	Trade and other receivables	19.4	23.3	20.4	21.4	22.1
share of profit/(loss) from associates	0.0	(0.0)	(0.0)	0.1	0.1	Due from fixed deposits	0.0	0.0	0.0	0.0	0.0
tax expenses	(1.6)	(1.8)	(1.8)	(1.8)	(2.0)	Due from associate	1.7	1.4	1.3	1.3	1.3
net profit	6.3	7.4	7.6	7.8	8.4	Cash and bank balances	7.5	8.3	9.8	10.1	11.4
Attributable to shareholders	4.9	6.0	6.5	6.7	7.2	total current assets	52.0	57.1	54.0	56.5	59.3
Attributable to minority interest	1.4	1.4	1.1	1.2	1.3						
						Total assets	88.8	100.5	103.8	109.0	115.9
EPS basic (Cents)	134	146	156	156	165	Trade and other payables	17.1	18.5	16.7	17.1	17.5
EPS diluted (Cents)	123	136	148	158	170	Due to minority shareholders	0.9	0.1	0.0	0.0	0.0
Dividend (cents)	8.5	0.2	0.5	0.4	0.4	Finance lease obligations	0.2	0.2	0.2	0.0	0.0
						Bank term loans	7.4	10.3	10.3	10.3	10.2
						Provision for taxation	0.8	1.1	1.3	1.2	1.3
						Bank overdraft	2.1	1.6	0.0	0.0	0.0
						total current liabilities	28.4	31.8	28.4	28.6	29.0
						Finance lease obligations	0.3	0.4	0.3	0.0	0.0
						Bank term loan	1.5	2.1	1.7	1.4	1.0
						Deferred tax	2.9	3.6	4.1	4.1	4.1
						total non current liabilities	4.8	6.0	6.1	5.5	5.1
						Total liabilities	33.2	37.8	34.5	34.1	34.1
						Total equity	55.6	62.7	69.2	74.9	81.8
						Total liabilities and equity	88.8	100.5	103.8	109.0	115.9
						NAV/shr	0.14	0.15	0.16	0.18	0.19
Growth & margins (%)						Key Ratios					
	2007	2008	2009	2010E	2011E		2007	2008	2009	2010E	2011E
Revenue growth	20.5%	15%	17%	3.3%	3.2%	Gross Gearing	0.18	0.18	0.16	0.15	0.13
Gross profit growth	20.5%	15%	17%	3.3%	3.2%	Net Gearing	0.10	0.10	0.06	0.05	0.04
Net profit growth	89.1%	22.1%	8.3%	17%	7.5%	Interest Coverage	10.39	11.52	14.74	16.82	19.16
Gross profit margin	34.4%	35.5%	34.6%	34.3%	34.6%	Debt-equity ratio	0.60	0.60	0.50	0.46	0.42
Net Profit margins	5.4%	6.5%	6.9%	6.8%	7.1%	Current ratio	183	177	190	198	2.05
ROA	8.1%	8.2%	8.0%	7.7%	7.8%	Cash ratio	0.26	0.26	0.35	0.35	0.39
ROE	114%	118%	110%	10.5%	10.3%	Receivables turnover	137	121	122	133	133
						Inventory turnover	2.73	2.68	2.95	2.89	2.88
						Payables turnover	2.25	181	184	2.06	2.05
Cash flow statement (\$ mil)						Valuation					
	2007	2008	2009	2010E	2011E		2007	2008	2009	2010E	2011E
Profit before tax	7.9	9.2	9.4	9.7	10.4	P/E basic (X)	13.06	11.99	11.22	11.22	10.58
adj for						P/B (X)	1.30	1.16	1.07	1.00	0.93
Depreciation and amortisation	2.2	2.4	2.6	3.2	2.9	Dividend yield (%)	48.80	1.14	2.86	2.10	2.22
Others	0.8	0.4	0.5	0.0	0.0						
Share of profit of associates	(0.0)	0.0	0.0	(0.1)	(0.1)						
Interest income	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)						
Finance expenses	0.8	0.9	0.7	0.6	0.6						
Operating cash flow before WC changes	11.8	12.9	13.3	13.4	13.8						
WC changes	(3.1)	(3.1)	(1.1)	(3.7)	(3.0)						
Net cash flow from operating activities	8.7	9.8	12.2	9.7	10.8						
Capex	(9.7)	(10.9)	(7.2)	(5.9)	(6.9)						
Interest received	0.0	0.0	0.0	0.0	0.0						
Others	0.1	0.1	0.1	0.0	0.0						
Net cash flow from investing activities	(9.6)	(10.8)	(7.2)	(5.9)	(6.9)						
Net increase/(decrease) in bank term loans	1.7	3.5	(0.2)	(0.3)	(0.4)						
Net increase/(decrease) in finance lease	(0.2)	(0.3)	(0.2)	(0.5)	0.0						
payment of dividends	(0.6)	0.0	(0.8)	(2.1)	(1.6)						
Interest paid	(0.8)	(0.9)	(0.7)	(0.6)	(0.6)						
Others	0.9	(0.1)	0.0	0.0	0.0						
Net cash flow from financing activities	0.9	2.2	(1.9)	(3.5)	(2.5)						
Net Increase/decrease in cash	(0.0)	1.2	3.1	0.2	1.4						
cash at beginning	7.5	7.0	6.7	9.8	10.1						
effects of exchange rate changes	0.0	0.0	0.0	0.0	0.0						
cash at end	7.5	8.3	9.8	10.1	11.4						

Source: Company, Phillip Securities Research

Ratings History

Qian Hu Corporation Ltd

Rating	Date	Closing price (S\$)	Fair value (S\$)	Remarks
HOLD	13 January 2010	0.175	0.18	FY2009 results
HOLD	20 October 2009	0.170	0.17	3QFY09 results
BUY	22 July 2009	0.135	0.17	1HFY09 results
BUY	14 January 2009	0.095	0.15	FY08 results
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

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	BUY	>15% upside from the current price
	HOLD	-10% to 15% from the current price
	SELL	>10% downside from the current price
	TRADING SELL	Share price may exceed 10% on the downside over the next 3 months, however longer-term outlook remains uncertain
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