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QIAN HU CORPORATION LIMITED

23 Oct 2007

Recommendation:

Buy

Previous call : Buy @ \$0.59

Price

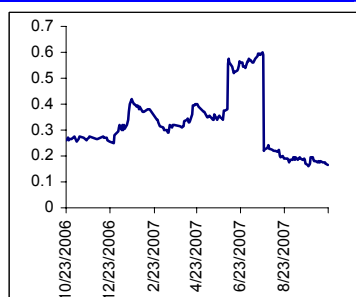
Previous close **\$0.165**
Fair value **\$0.25**

Share Statistics

Shares	396.494m
Market Cap.	\$365.42m
Trailing PE	16.7x
Forward PE	10.8X
P/NTA	1.26x
52-week Price Range	\$0.165 - \$0.65
52-week PE Range	16.7x - 22.2x
Listing Bourse	SGX-Mainboard Qian Hu Holdings Pte Ltd (27.48%) Yap family (26.52%)
Major Shareholders	

Source: Bloomberg, Phillip Securities Research

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.

Qian Hu reported 3QFY07 revenue growth of 19.6% from \$18.9 million to \$22.7 million. The growth was backed by strong performance from Qian Hu's ornamental fish and accessories sales, which saw improvement of 14.5% and 35.2% growths respectively. As a result, net profit attributable to shareholders doubles from \$0.6 million in the same period a year ago to \$1.2 million in the current period. Contributions from ornamental fish and accessories account for 88% of total revenue while the plastic business accounts for the other 12%.

Higher ornamental fish sale is achieved on the back of strong export sales to the new Middle-eastern, Russian and Australian market. Dragon fish sales continued to perform well in China, where the fish is regarded as a highly auspicious symbol of wealth. Qian Hu's conscientiousness to expand its accessories business is starting to bear fruit as the accessories business recorded an astounding 873.1% growth in operating profit of \$506K.

Future plans. Currently, Qian Hu ships its fish to over 70 countries while its accessories have a smaller geographical reach of over 20 countries. Qian Hu will continue to work on expanding its accessories business by tapping on its strategic alliance of the Arcadia acquisition. Capacity utilisation of the Guangzhou factory is also expected to ramp up following the transfer of Arcadia manufacturing demand from UK as well as increased demand from new and existing customers.

Recap of rights and warrants issue.

- Every existing share will be entitled to 2 rights shares and every 4 rights shares will be bundled with 1 free warrant. Shareholders who wish to accept the provisional allotment will have to pay the issue price of \$0.035 per rights share and each warrant has an exercise price of \$0.035.

1 existing share : 2 rights shares
4 rights shares: 1 warrant

Valuation. We continue to have an optimistic view on the company's earning's prospect. We project a 3 year CAGR revenue growth of 17% in our estimates. In view of the enlarged share base, we adjust our valuation accordingly. Our fair value of \$0.25 is pegged to a 15x blended FY07/08 earnings. Maintain BUY.

Key financial data						
Year ended Dec 31						
	3Q06	3Q07	%ch	FY06A	FY07F	FY08F
Revenue (S\$ m)	18.9	22.7	20.0	76.1	92.1	111.7
EBITDA	1.7	2.7	58.8	8.30	10.0	12.0
EBIT	1.2	2.1	75.0	6.0	7.7	9.6
Net profit	0.8	1.6	100.0	3.9	5.3	6.7
Net profit attributable to shareholders	0.6	1.27	111.7	2.62	3.95	5.04
Net profit margin (%)	4.2	7.0	2.8ppt	5.1	5.7	6.0
ROE (%)	1.6	2.9	1.3ppt	7.9	7.1	8.3
Fully diluted EPS (cents)	0.16	0.31	93.7	0.99	1.52	1.94
NTA (cents)	N.A	13.09	-	10.42	11.81	12.92
Gearing (Total debt/ total assets)	0.16	0.16	-	0.17	0.16	0.15

Source: Company, Phillip Securities Research

Financials

Year Ended Dec 31

Income Statement

(S\$m)	FY05A	FY06A	FY07F	FY08F
Revenue	66.3	76.1	92.1	111.7
COGS	(42.6)	(49.1)	(59.9)	(72.6)
Other operating income	0.10	0.17	0.27	0.28
Selling & Distribution expense	(2.1)	(2.5)	(2.9)	(3.7)
General & Administrative expense	(11.6)	(13.1)	(15.7)	(18.9)
Other expenses	(2.5)	(2.8)	(3.8)	(4.7)
Depreciation and amortisation	(2.35)	(2.30)	(2.32)	(2.38)
Net finance expense	(0.51)	(0.69)	(0.75)	(0.76)
Tax	(1.1)	(1.4)	(1.7)	(2.2)
Share of profit from associate	0	0	0.04	0.08
Net profit	4.09	3.88	5.26	6.73
Net profit attributable to shareholders	2.03	2.62	3.95	5.05
Gross profit margin	35.7	35.4	35.0	35.0
Net profit margin	4.4	5.1	5.7	6.0
ROE	4.44	5.36	7.08	8.27

Balance Sheet

(S\$m)	FY05A	FY06A	FY07F	FY08F
Assets				
Cash and bank balance	4.7	5.6	7.0	9.1
Inventories	20.2	21.6	22.7	24.5
Other current assets	18.9	19.4	21.1	22.6
Fixed assets	12.7	11.5	12.0	11.5
Investment in associate	0	0	0.85	0.93
Intangible assets	1.9	1.9	2.0	2.2
Other non-current assets	9.9	15.3	18.0	18.6
Current liabilities	19.8	23.6	24.7	25.1
Non current liabilities	2.8	2.9	3.3	3.4
Shareholders equity	45.7	48.9	55.8	60.9
Total debt/Total assets	0.16	0.17	0.16	0.15
NTA per share (cents)	9.75	10.41	11.81	12.92

Cash Flow Statement

(S\$m)	FY05A	FY06A	FY07F	FY08F
Net cash flow from operating activities	6.69	8.65	5.25	6.16
Net cash flow from investing activities	(4.04)	(6.59)	(6.59)	(2.55)
Net cash flow from financing activities	(2.47)	(0.92)	2.72	(1.49)
Net increase in cash/cash equivalents	0.18	1.14	1.38	2.11
Cash at beginning of year	4.15	4.33	5.47	6.85
Cash at end of year	4.33	5.47	6.85	8.96

Phillip Research Stock Selection Systems

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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