

# SGX Research Incentive Scheme

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## Qian Hu Corporation

 QIAN SP  
 BUY: TP: S\$0.16

 Price @09/02/09: S\$0.085  
 52-week range (SGD): 0.08 – 0.175  
 Market cap – S\$35m

### Not enough credit attached to this recession proof business model

- Overall, no matter how we dissect Qian Hu's results base on its 4Q08 alone or taking it on a yearly basis, it became pretty lucid that revenue alone does not paint the correct picture for this niche company.
- We do not need to highlight the well documented fact that there is a very challenging business environment out there in 2008. Quite understatedly, we were very excited that Qian Hu actually turns in a set of robust performance that outperforms our FY08 expectation by 11%.
- Though sales in FY08 registered a mere 1.5% yoy growth, net profit were up a sterling 22.1% yoy.
- The drag in sales came largely on the back of a 9.7% fall in 4Q08 turnover from the Ornamental Fish segment. The decline in revenue was the making from the shortage in supply of Dragon Fish (despite rising demand) and the temporary closure of Bangkok International Airport in Nov 08.
- The group's ability to shore up profitability in all segments from gross to operational to its after tax profit is a testament of sound management and effective control of cost.

### Exceptionally good result in tough time

	FY07	FY08
<b>Total Revenue</b>	<b>91.720</b>	<b>93.062</b>
Fish	45.336	45.708
Accessories	35.350	35.627
Plastics	11.034	11.727

	FY07	FY08
<b>Operating profit</b>	<b>7.919</b>	<b>9.191</b>
Fish	8.100	8.751
Accessories	1.803	2.425
Plastics	0.688	0.718
Unallocated corporate expenses	(2.672)	(2.703)

	FY07	FY08
<b>Operating margin (%)</b>		
Fish	17.9	19.1
Accessories	5.1	6.8
Plastics	6.2	6.1

	FY07	FY08
<b>Gross Profit</b>	<b>31.545</b>	<b>33.070</b>
Gross margin (%)	34.4%	35.5%
<b>EBITDA</b>	<b>9.948</b>	<b>11.504</b>
EBITDA margin (%)	10.8%	12.4%

### Catalysts and improving fundamentals

- We see potential catalysts from its successful expansion into the accessories business and positive contributions from a new farm in 2009.
- Company maintains its low gearing and stable cash cycle days. Net gearing inched up from 3.4% as at end FY07 to 7.2% as at end FY08, due to additional bank borrowings to finance its farming facilities in Singapore and Malaysia.
- Stock turnover days were up slightly by 3 days to 145 days in FY08, but are expected to fall further in the coming quarters as management spelled out new KPI to improve overall cash conversion days.

### Recommendation – maintain BUY

- Qian Hu trades at 5.4x CY09 P/E and 3.2x EV/EBITDA, which are not lofty given its rather unique business and strong brand name, in our opinion. Previously, we have a target price of S\$0.22 by applying 10x

CY09 P/E, or the low end of its 6-year P/E band.

- We are less optimistic about the speed at which such valuation can be achieved in 12-month's time. As such, we applied another 30% discount the target multiple, and we derived a new **target price of S\$0.16** (based on the current 7x CY09 P/E).
- Given the 84% upside potential, we reiterate our **Buy** recommendation.

### Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (S\$ m)	92.1	93.1	100.0	107.5	115.7
EBITDA (S\$ m)	10.1	11.5	12.8	14.0	15.2
EBITDA margins (%)	11.0	12.3	12.8	13.0	13.1
Pretax profit (S\$ m)	4.3	9.2	10.3	11.4	12.3
Net profit (S\$ m)	4.8	6.0	6.5	7.1	7.8
EPS (S cts)	1.3	1.5	1.6	1.7	1.9
EPS growth (%)	+78%	+11%	+7%	+10%	+9%
P/E (x)	6.5	5.8	5.4	4.9	4.5
Core EPS (cts)	1.3	1.5	1.6	1.7	1.9
Core EPS growth (%)	+78%	+11%	+7%	+10%	+9%
Core P/E (x)	6.5	5.8	5.4	4.9	4.5
FD EPS (cts)	1.2	1.4	1.5	1.6	1.7
FD P/E (x)	6.9	6.2	5.8	5.3	4.9
Gross DPS (S cts)	0.2	0.0	0.3	0.3	0.4
Dividend yield (%)	2.4	0.6	3.7	4.1	4.4
P/NTA (x)	0.7	0.7	0.6	0.6	0.5
ROE (%)	13.7	11.9	11.6	11.6	11.6
Net gearing (%)	3.4	7.2	4.6	3.2	1.9
P/CF (x)	4.4	4.1	3.8	3.5	3.2
EV/EBITDA (x)	4.0	3.5	3.2	2.9	2.7
% change in EPS estimates	-	-	-	-	-

### Technical Chart indicates BUY



- The stock is still in its long term downtrend. The only positive is that it is trading very near the downtrend channel support.
- MACD is also showing some signs of a potential rebound taking place soon. There is a bullish divergence on its MACD while its RSI is also slowly turning positive.
- Aggressive buyers may want to accumulate near the S\$0.08 support or its S\$0.06 support. Resistance is seen at S\$0.10 and S\$0.125.

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