

MITA No. 018/06/2007

23 October 2007

Qian Hu Corporation

Maintain

BUY

Previous Rating: BUY

S\$0.165

Fair Value: S\$0.21

Stock Code:

Reuters:

Bloomberg:

QIAN.SI

QIAN.SP

Event:

Results

General Data

Issued Capital (m)	396
Mkt Cap (S\$m/US\$m)	65 / 45
Major Shareholder	Qian Hu Hldgs Pte Ltd (28.18%)
Free Float (%)	26.6
NAV per share (S cents)	13.65
Daily Vol 3-mth ('000)	1,167
52Wk High (S\$)	0.244
52Wk Low (S\$)	0.093

Continued strength in 3Q07

Strong 3Q07 results in line with expectations. Qian Hu Corporation Ltd (Qian Hu) reported its 3Q07 results yesterday, where the numbers were largely in line with our expectations. Revenue grew 19.6% YoY to S\$22.7m, while net profit doubled to S\$1.3m. Bottom-line growth outpaced top-line growth as the Group managed to keep its cost of sales and general & administrative expenses under control. Net profit margins across all segments continued to show YoY improvements, leading the overall net margin for the 9 months to Sep 2007 to come in at 6.6%, a 1.9ppt improvement from 4.7% a year ago.

Revenue growth across the board. The revenue growth was attributed to growth in all three business segments. Among these three segments, the most outstanding growth was recorded by the accessories segment, which witnessed a 35.2% YoY increase in revenue to S\$8.5m. This is in line with Qian Hu's strategy of growing its business via the accessories segment. The fish segment, which is currently contributes 50.6% of Qian Hu's revenue, grew 14.5% YoY to S\$11.5m, while the plastics segment grew 2.3% YoY to S\$2.7m. The strong growth in revenue was boosted by the Group's sales of ornamental fish and accessories to previously untapped markets such as the Middle East, Russia and Australia.

Expect further growth from accessories segment. Qian Hu's accessories business looks set for further growth in FY08. Besides increasing its Guangzhou factory's output to meet the increasing orders from existing and OEM customers, the factory will also take over the production of Arcadia's orders in 2008. As utilization of the factory's capacity increases, we expect Qian Hu to reap economies of scale and improved margins.

Keeping our forecasts and BUY call. Having displayed another quarter of organic growth, we are confident that Qian Hu is on track for growth in FY07 and FY08. We maintain our FY07 revenue and net profit forecasts of S\$92.0m and S\$4.3m respectively. The recent rights-cum-warrants issue has increased the liquidity of trading in Qian Hu's shares, and we have derived our fair value estimate based on the fully-diluted EPS (assuming full conversion of warrants). Based on a similar 17x FY08 PER, we derive a fair value estimate of S\$0.21, representing a potential 26% upside from the last traded price. Maintain **BUY**.

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Year to 31 Dec	Turnover (S\$m)	Gross Profit (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Net Div Yield (%)
FY 05	66.3	23.7	2.0	0.4	-	37.0	-
FY 06	76.1	27.0	2.6	0.6	28.9	28.7	0.7
FY 07F	92.0	32.7	4.3	0.9	62.9	17.6	1.4
FY 08F	111.0	39.7	5.6	1.2	30.3	13.5	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)	3Q06 (S\$m)	3Q07 (S\$m)	% Chg (YoY)	2Q07 (S\$m)	% Chg (QoQ)
Revenue	19.0	22.7	19.6%	22.4	1.2%
Cost of sales	-12.6	-14.7	16.1%	-14.3	2.9%
Gross Profit	6.3	8.0	26.5%	8.2	-1.8%
Other operating income	0.0	0.0	-17.5%	0.1	-64.9%
Selling and distribution costs	-0.6	-0.8	46.6%	-0.8	3.5%
General & administrative expenses	-4.6	-5.1	9.9%	-5.1	0.1%
Profit from operations	1.2	2.1	80.2%	2.4	-10.1%
Net financial expenses	-0.2	-0.2	28.0%	-0.2	5.7%
Share of results of associates	0.0	0.0	N.M.	0.0	N.M.
Profit before tax	1.0	1.9	91.0%	2.2	-10.9%
Tax	-0.2	-0.4	62.3%	-0.6	-39.3%
Profit for the period	0.8	1.6	99.0%	1.6	-0.3%
Minority interests	0.2	0.3	92.6%	0.4	-27.4%
Net profit attributable to shareholders	0.6	1.3	100.6%	1.2	9.8%

EARNINGS FORECAST

Year Ended 31 Dec (S\$ m)	FY05	FY06	FY07F	FY08F
Revenue	66.3	76.1	92.0	111.0
Cost of sales	-42.6	-49.1	-59.2	-71.2
Gross Profit	23.7	27.0	32.7	39.7
Other operating income	0.1	0.2	0.2	0.2
Selling and distribution costs	-2.1	-2.5	-2.9	-3.4
General & administrative expenses	-17.1	-18.7	-22.1	-26.5
Profit from operations	4.6	6.0	7.9	10.0
Net financial expenses	-0.5	-0.7	-0.8	-1.0
Share of results of associates	0.0	0.0	0.0	0.1
Profit before tax	4.1	5.3	7.1	9.1
Tax	-1.2	-1.4	-1.9	-2.5
Profit for the period	2.9	3.9	5.2	6.7
Minority interests	0.9	1.3	0.9	1.1
Net profit attributable to shareholders	2.0	2.6	4.3	5.6
Earnings per share (S cents)	0.4	0.6	0.9	1.2
Profitability Ratios				
Gross margin (%)	35.8	35.4	35.6	35.8
EBIT margin (%)	6.9	7.9	8.6	9.0
PBT margin (%)	6.2	7.0	7.7	8.2
Net profit margin (%)	3.1	3.4	4.6	5.0

BALANCE SHEET

As at 31 Dec (S\$ m)	FY05	FY06	FY07F	FY08F
Cash and bank balances	4.8	5.6	7.3	8.4
Inventories	20.2	21.6	24.8	28.8
Breeder stocks	1.7	1.7	2.3	2.8
Receivables and other current assets	17.2	17.7	20.7	24.4
Property, plant, and equipment	12.7	11.5	10.2	9.1
Other non-current assets	11.9	17.2	20.1	22.1
Total assets	68.4	75.4	85.4	95.7
Debt	7.3	7.2	6.5	5.8
Trade payables	4.5	6.0	6.9	8.3
Other current liabilities	9.0	11.0	13.2	15.9
Finance lease obligations	0.2	0.1	0.1	0.1
Deferred taxation	1.8	2.1	2.5	3.0
Total liabilities	22.7	26.5	29.2	33.2
Share capital	12.9	19.0	21.3	21.3
Reserves	27.6	23.5	27.6	33.0
Minority interests	5.2	6.4	7.3	8.3
Total equity	45.7	48.9	56.2	62.5
Total equity and liabilities	68.4	75.4	85.4	95.7
NTA per share (S cents)	8.5	8.9	10.2	11.3

CASH FLOW

Year Ended 31 Dec (S\$ m)	FY05	FY06	FY07F	FY08F
Operating profit before working cap. changes	7.6	8.8	10.1	12.2
Working capital changes	0.1	1.9	-4.1	-4.2
Taxes paid	-0.5	-1.3	-0.6	-1.5
Interests paid	-0.5	-0.7	-0.8	-1.0
Net cash from operations	6.7	8.7	4.5	5.4
Purchase of property, plant and equipment	-1.6	-0.9	-0.5	-0.5
Purchase of brooder stocks	-3.1	-5.7	-2.0	-2.0
Other investing flows	0.7	0.0	-0.8	0.0
Investing cash flow	-4.0	-6.6	-3.3	-2.5
Dividends paid	0.0	-0.5	-1.0	-1.3
Other financing flows	-2.5	-0.4	1.6	-0.4
Financing cash flow	-2.5	-0.9	0.6	-1.8
Net cash flow	0.2	1.1	1.8	1.1
Cash at beginning of year	4.2	4.3	5.5	7.3
Cash at end of year	4.3	5.5	7.3	8.4
Add: Bank balances and fixed deposits	0.4	0.1	0.0	0.0
Cash and cash equivalents at end of year	4.8	5.6	7.3	8.4

Key Ratios

PER (x)	37.0	28.7	17.6	13.5
Price/NTA (x)	1.9	1.8	1.6	1.5
EV/EBIT (x)	16.9	12.8	9.4	7.3
Dividend yield (%)	0.0	0.7	1.4	1.8
ROE (%)	15.8	13.8	20.0	26.1
Net gearing (%)	6.2	3.8	-1.6	-4.7
PE to growth (x)	na	1.0	0.3	0.4

Source: Company data, OIR estimates

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