

Qian Hu Corporation

1Q10 results update

BUY

Current Price **S\$0.145**
20 April 2010

Fair Value S\$0.22

Jacky Lee
65 62366 887
jacky.lee@nracapital.com

Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$65m
52-HI	S\$0.18
52-LOW	S\$0.09
Avg Vol (1 yr)	1,152,868
Shares Outstanding	448.54m
Free Float	185.8m

Key Indicators

ROE 10F	9.6%
ROA 10F	6.7%
P/BK	1.02x
Net gearing	1%

Major Shareholders

Qian Hu Holding	25.8%
Yap family	17.0%

Positive free cash flow generating

- **Results within expectations.** 2Q09 net profit of S\$1.41m was in line with our net profit forecast of S\$1.44m and consensus forecast. 1Q09 results represent 20% of consensus and our full-year forecasts. Traditionally, Qian Hu's results are weaker in the first half.
- **Sales flat yoy at S\$23.2m** as both fish and plastics grew 4.2% and 16.7% yoy, respectively. However the gains were offset by a 9.1% decline yoy for accessories business due to delay in delivery from its suppliers as a result of labour shortage which affected its production and export of accessories. Management expects the delay of sales will be compensated for in the next quarter.
- **EBITDA margins declined 1.4% pts yoy to 12.3%** due to 1) lower revenue contribution from accessories, 2) erosion in profit margin from plastics segment as a result of increasing raw material costs and 3) lower sales of its self-bred Dragon Fish which yield better margins.
- **Balance sheet improved.** Qian Hu generated S\$1.2m positive free cash flow in 1Q10 as a result of lowering its capex spending. Net gearing improved qoq from 4% to 1% at end-Mar 10. We believe Qian Hu will become a net cash company by end of the year.
- **Introduction of new generation of aquarium filtration systems.** The group will be launching this new product by mid May at the aquarium EXPO Interzoo 2010 in German. Management expects the mass production could start in 3Q of this year. Nevertheless, the reduction in the supply of self-bred Dragon Fish might also affect the margins in the 2Q10, given that the unprecedented severe hot weather from end January to February has led to a lower supply of Dragon Fish. The current close down of airports in several countries in Europe is also affecting its sales. However, according to management, the impact is minimal for now.
- **Maintain Buy.** We are keeping our FY10-12 earnings relatively unchanged and our fair value of S\$0.22, applying 14x FY10 PER (mean of its 8 years rolling forward PER). With good track record and a strong brand name, we maintain our **Buy** recommendation.

Key Financial Data

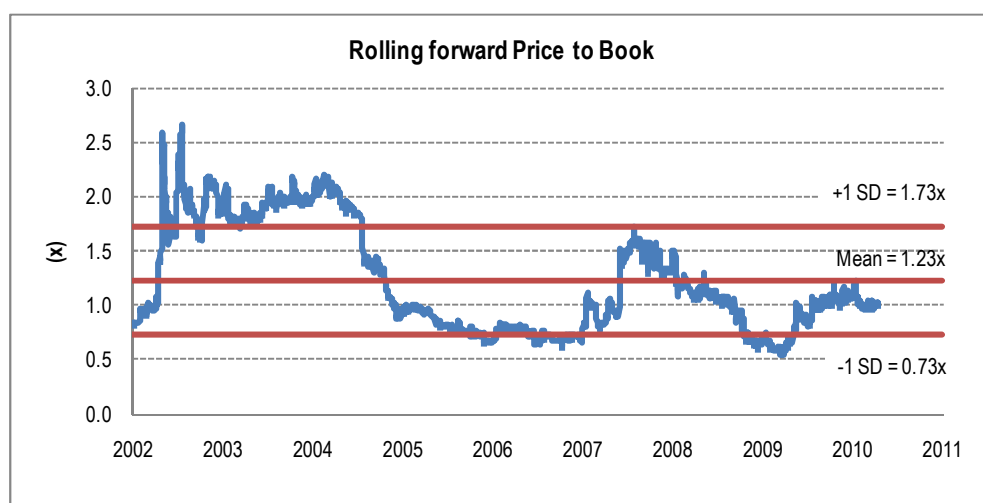
(S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Sales	93.1	94.6	100.8	107.3	114.3
Gross Profit	33.1	32.7	33.8	37.0	39.4
Net Profit	6.0	6.5	7.4	8.7	9.1
Fully Diluted EPS (cents)	1.5	1.6	1.6	1.9	2.0
EPS growth (%)	8.4	6.3	4.7	17.6	5.3
Fully Diluted PER (x)	9.9	9.4	8.9	7.6	7.2
NTA/share (cents)	12.4	13.5	14.3	15.4	16.8
DPS (cents)	0.2	0.5	0.5	0.6	0.6
Div Yield (%)	1.4	3.4	3.4	3.9	4.2
EV/EBITDA (x)	6.0	5.9	5.6	4.8	4.6

Source: Company, NRA Capital estimates

Results comparison

FYE Dec (S\$ m)	1Q10	1Q09	yoy % chg	4Q09	QoQ % chg	Prev. 1Q10F	Comments
Revenue	23.2	23.2	0	23.9	(3)	24.0	3% below expectation
Operating costs	(20.4)	(20.0)	2	(20.4)	(0)	(20.9)	In line
EBITDA	2.8	3.2	(10)	3.4	(17)	3.1	8% below expectation
EBITDA margin (%)	12.3	13.6		14.4	(15)	13.0	Lower-than-expected margins
Depn & amort.	(0.7)	(0.7)	6	(0.7)	4	(0.8)	In line
EBIT	2.1	2.5	(14)	2.8	(22)	2.3	In line
Interest expense	(0.1)	(0.2)	(36)	(0.1)	(7)	(0.1)	In line
Interest & invt inc	(0.2)	(0.2)	10	(0.1)	225	0.1	Below, S\$0.3m of forex loss
Associates' contrib	0.0	0.0	1,000	0.0	(15)	(0.0)	In line
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	1.8	2.1	(14)	2.6	(30)	2.2	Below, lower-than-expected margins
Tax	(0.3)	(0.4)	(36)	(0.5)	(50)	(0.4)	Below, lower-than-expected tax rate
Tax rate (%)	14.4	19.5		20.1	(28)	20.0	
Minority interests	(0.1)	(0.3)	(56)	(0.3)	(52)	(0.3)	Below
Net profit	1.4	1.4	1	1.8	(22)	1.4	In line
EPS (cts)	0.3	0.3	(1)	0.4	(22)	0.3	

Source: NRA Capital estimates



Source: Bloomberg, NRA Capital

Profit & Loss (S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue	93.1	94.6	100.8	107.3	114.3
Operating expenses	(80.7)	(82.0)	(87.5)	(91.9)	(98.2)
EBITDA	12.4	12.6	13.2	15.4	16.2
Depreciation & amortisation	(2.4)	(2.6)	(3.1)	(3.0)	(3.0)
EBIT	9.9	10.0	10.2	12.3	13.1
Net interest & invt income	(0.7)	(0.6)	(0.3)	(0.3)	(0.2)
Associates' contribution	(0.0)	(0.0)	0.0	0.0	0.0
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	9.2	9.4	9.9	12.1	13.0
Tax	(1.8)	(1.8)	(1.8)	(2.4)	(2.5)
Minority interests	(1.4)	(1.1)	(0.7)	(1.1)	(1.4)
Net profit	6.0	6.5	7.4	8.7	9.1
Wt. shares (m)	414.6	422.2	448.3	454.8	454.8
Shares at year-end (m)	414.6	422.2	448.3	454.8	454.8
Balance Sheet (S\$ m, as at Dec)	2008	2009	2010F	2011F	2012F
Fixed assets	41.4	46.3	46.7	47.2	45.6
Intangible assets	2.2	2.3	2.3	2.3	2.3
Other long-term assets	0.8	1.2	1.2	1.2	1.2
Total non-current assets	44.4	49.7	50.2	50.7	49.1
Cash and equivalents	8.3	9.8	10.4	14.2	17.2
Stocks	22.4	21.0	22.8	23.9	27.0
Trade debtors	19.8	18.1	20.9	22.2	23.7
Other current assets	5.6	5.1	5.9	6.7	7.8
Total current assets	56.1	54.0	59.9	67.1	75.6
Trade creditors	9.2	7.7	9.1	9.7	9.1
Short-term borrowings	10.4	10.5	8.1	7.5	6.9
Other current liabilities	12.1	10.3	10.3	11.1	11.7
Total current liabilities	31.8	28.4	27.5	28.3	27.7
Long-term borrowings	2.4	2.1	1.6	1.3	1.1
Other long-term liabilities	3.6	4.1	4.1	4.1	4.1
Total long-term liabilities	6.0	6.1	5.7	5.4	5.1
Shareholders' funds	53.6	59.2	66.2	72.3	78.7
Minority interests	9.1	10.0	10.7	11.8	13.2
NTA/share (S\$)	0.12	0.13	0.14	0.15	0.17
Total Assets	100.5	103.8	110.1	117.8	124.6
Total Liabilities + S'holders' funds	100.5	103.8	110.1	117.8	124.6
Cash Flow (S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Pretax profit	9.2	9.4	9.9	12.1	13.0
Depreciation & non-cash adjustments	3.3	3.9	5.6	4.0	6.1
Working capital changes	(1.6)	0.1	(4.0)	(2.8)	(6.0)
Cash tax paid	(1.1)	(1.2)	(5.3)	(4.9)	(5.2)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	9.8	12.2	6.2	8.4	7.9
Capex	(10.9)	(6.8)	(2.1)	(2.1)	(2.1)
Net investments & sale of FA	0.1	(0.3)	0.0	0.0	0.0
Others	0.0	0.0	1.0	1.0	1.0
Cash flow from investing	(10.8)	(7.2)	(1.1)	(1.1)	(1.1)
Debt raised/(repaid)	3.9	1.3	(2.9)	(0.9)	(0.9)
Equity raised/(repaid)	0.1	0.2	0.9	0.0	0.0
Dividends paid	0.0	(0.9)	(2.1)	(2.2)	(2.6)
Cash interest & others	(1.8)	(2.6)	(0.4)	(0.4)	(0.3)
Cash flow from financing	2.2	(1.9)	(4.5)	(3.5)	(3.9)
Change in cash	1.2	3.1	0.6	3.8	2.9
Change in net cash/(debt)	(2.7)	1.8	3.5	4.7	3.8
Ending net cash/(debt)	(4.6)	(2.8)	0.7	5.4	9.2
KEY RATIOS (FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue growth (%)	1.5	1.7	6.5	6.5	6.5
EBITDA growth (%)	14.8	2.3	4.7	16.1	5.1
Pretax margins (%)	9.9	10.0	9.8	11.3	11.3
Net profit margins (%)	6.5	6.9	7.3	8.1	8.0
Interest cover (x)	11.5	14.7	19.5	25.9	30.8
Effective tax rates (%)	19.5	19.0	18.0	19.5	19.0
Net dividend payout (%)	13.7	32.3	30.4	30.0	30.0
Debtors turnover (days)	73.3	73.1	70.6	73.2	73.2
Stock turnover (days)	135.1	127.8	119.1	121.2	123.9
Creditors turnover (days)	32.4	32.5	30.3	31.8	30.0

Source: Company, NRA Capital Estimates

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