

Qian Hu Corporation

1Q11 results update

Overweight

Current Price **S\$0.12**
19 April 2011

Fair Value **S\$0.17**

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Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$56.8m
52-HI	S\$0.150
52-LOW	S\$0.115
Avg Vol (1 yr)	303,192
Shares Outstanding	454.1m
Free Float	253.4m

Key Indicators

ROE 11F	7.1%
ROA 11F	5.0%
P/BK	0.89x
Net gearing	0.8%

Major Shareholders

Qian Hu Holding	24.0%
Yap family	20.2%

Expects to resume growth from low base

- **Results below expectations.** Despite 1Q11 sales coming in line with expectation, its S\$1.0m net profit was 27% below our S\$1.4m expectation, due mainly to lower margins contribution from fish segment and staff costs increases were also higher-than-expected. 1Q result represent 15.5% of our full-year forecast
- **1Q11 sales increased by 3.9% yoy to S\$24.2m**, an improved showing after three consecutive quarters of decline in yoy. Europe sales dipped 30.6% yoy as this remained affected by the stricter regulations and weakening purchasing sentiment. However, this was offset by 38% growth yoy from other Asian countries (excluding Singapore).
- **EBITDA margins declined 2.8% pts yoy to 9.5%** due to 1) the European markets demanding lower margin fishes 2) start-up costs in the Indian and Indonesian markets, 3) higher wage cost in China sliced off some profitability of the accessories business and 4) higher raw material cost. Including the lower financial costs and higher taxation, pretax and net profit decreased 20% and 29% yoy respectively.
- **Net gearing remained low at 0.8%**, even though its cash conversion cycle days increased by 16 days qoq (due mainly to higher inventory days). It is on track with management's goal to becoming a debt-free company with high dividend payout for the next one to two years.
- **Worst seem is over.** Despite another year of challenges in FY10, the group's business model remains robust and diversified. Management continues to focus on growing revenue base by increasing its exports of ornamental fish and accessories, sustaining growth in its own breeding of high-margin Dragon Fish. Management is also excited about the prospects of the joint ventures in Indonesia and India. We understand from management there will be more accessories products to be launched under its "own" brand. It is also modifying the conventional filtration systems to adapt to different region requirements.
- **Cutting forecasts but maintain Overweight.** We have cut our FY11 forecasts by 17% but kept our FY12 and FY13 earnings estimate unchanged. Given the worst could be over, we peg our fair value now on 14x FY11, mean of its 9 years rolling forward PER (from 12x previously). As such, our fair value remains at S\$0.17. Maintain Overweight.

Key Financial Data

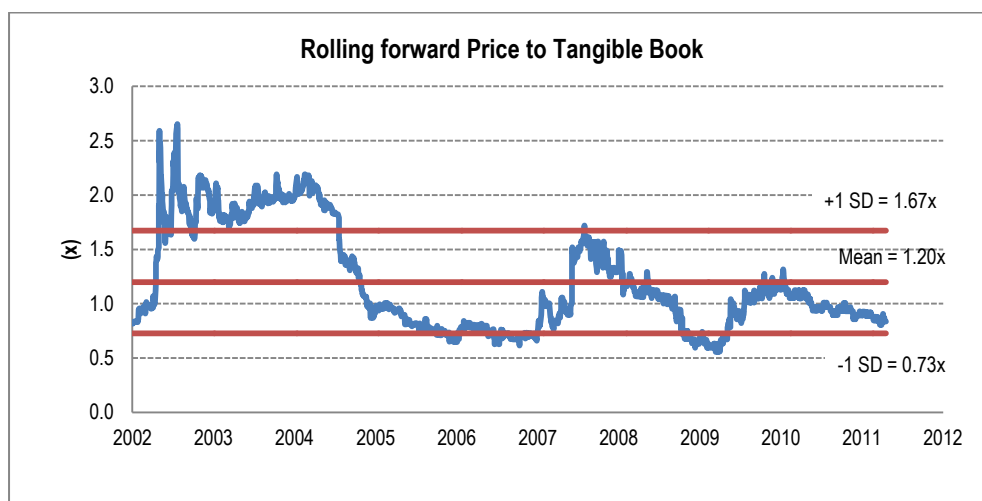
(S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Sales	94.6	91.2	96.1	102.1	109.1
Gross Profit	32.7	29.2	31.7	35.7	38.2
Net Profit	6.5	4.2	5.4	7.9	8.4
EPS (cents)	1.6	0.9	1.2	1.7	1.9
EPS growth (%)	6.3	(40.2)	28.6	45.8	6.9
PER (x)	8.1	13.5	10.5	7.2	6.7
NTA/share (cents)	13.5	13.3	14.0	15.2	16.6
DPS (cents)	0.5	0.5	0.5	0.5	0.5
Div Yield (%)	4.2	4.0	4.0	4.0	4.0

Source: Company, NRA Capital estimates

Results comparison

FYE Dec (\$\$ m)	1Q11	1Q10	yoy % chg	4Q10	QoQ % chg	Prev. 1Q11F	Comments
Revenue	24.2	23.2	4	22.2	9	23.4	In line
Operating costs	(21.9)	(20.4)	7	(20.7)	5	(20.8)	Slight higher-than-expected
EBITDA	2.3	2.8	(20)	1.5	53	2.6	10% Below, lower-than-expected margin
EBITDA margin (%)	9.5	12.3		6.7	41	10.9	1.4% pt below expectation
Depn & amort.	(0.7)	(0.7)	5	(0.7)	9	(0.7)	In line
EBIT	1.6	2.1	(28)	0.8	89	1.9	Below, lower-than-expected margin
Interest expense	(0.1)	(0.1)	(32)	(0.1)	(23)	(0.1)	In line
Interest & invt inc	(0.0)	(0.2)	nm	0.0	(431)	0.0	In line
Associates' contrib	0.0	0.0	nm	(0.0)	1,200	(0.0)	In line
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	1.4	1.8	(20)	0.7	99	1.8	Below, lower-than-expected margin
Tax	(0.3)	(0.3)	(2)	(0.0)	1,488	(0.3)	In line
Tax rate (%)	17.7	14.4		2.2	699	18.0	
Minority interests	(0.2)	(0.1)	43	(0.1)	138	(0.1)	
Net profit	1.0	1.4	(29)	0.6	59	1.4	27% below expectation
EPS (cts)	0.2	0.3	(34)	0.1	59	0.3	

Source: NRA Capital estimates



Source: NRA Capital Estimates

Profit & Loss (S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Revenue	94.6	91.2	96.1	102.1	109.1
Operating expenses	(82.0)	(82.6)	(86.4)	(89.2)	(95.6)
EBITDA	12.6	8.5	9.8	13.0	13.6
Depreciation & amortisation	(2.6)	(2.8)	(2.8)	(2.7)	(2.7)
EBIT	10.0	5.7	7.0	10.2	10.9
Net interest & invt income	(0.6)	(0.4)	(0.2)	(0.2)	(0.2)
Associates' contribution	(0.0)	(0.1)	0.0	0.0	0.0
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	9.4	5.3	6.9	10.0	10.7
Tax	(1.8)	(0.8)	(1.2)	(1.8)	(1.9)
Minority interests	(1.1)	(0.3)	(0.3)	(0.3)	(0.4)
Net profit	6.5	4.2	5.4	7.9	8.4
Wt. shares (m)	422.2	454.1	454.1	454.1	454.1
Shares at year-end (m)	422.2	454.1	454.1	454.1	454.1

Balance Sheet (S\$ m, as at Dec)	2009	2010	2011F	2012F	2013F
Fixed assets	46.3	44.0	44.5	43.0	41.5
Intangible assets	2.3	2.3	2.3	2.3	2.3
Other long-term assets	1.2	1.1	1.1	1.1	1.1
Total non-current assets	49.7	47.4	47.9	46.4	45.0
Cash and equivalents	9.8	11.7	11.9	17.6	22.4
Stocks	21.0	24.1	23.2	23.9	25.6
Trade debtors	18.1	19.2	19.9	21.1	22.6
Other current assets	5.1	5.0	5.5	6.0	6.7
Total current assets	54.0	60.0	60.4	68.6	77.2
Trade creditors	7.7	8.4	7.7	8.2	8.7
Short-term borrowings	12.2	11.7	9.6	9.2	8.7
Other current liabilities	10.3	9.6	9.9	10.7	11.2
Total current liabilities	30.2	29.7	27.2	28.0	28.7
Long-term borrowings	0.3	0.4	0.3	0.2	0.2
Other long-term liabilities	4.1	4.3	4.3	4.3	4.3
Total long-term liabilities	4.4	4.7	4.6	4.6	4.5
Shareholders' funds	59.2	62.7	65.9	71.5	77.6
Minority interests	10.0	10.3	10.6	11.0	11.3
NTA/share (S\$)	0.13	0.13	0.14	0.15	0.17
Total Assets	103.8	107.4	108.3	115.1	122.2
Total Liabilities + S'holders' funds	103.8	107.4	108.3	115.1	122.2

Cash Flow (S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Pretax profit	9.4	5.3	6.9	10.0	10.7
Depreciation & non-cash adjustments	3.9	3.6	6.0	7.5	7.4
Working capital changes	0.1	(3.7)	(1.0)	(1.9)	(3.1)
Cash tax paid	(1.2)	(1.1)	(5.0)	(4.9)	(5.2)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	12.2	4.1	6.9	10.7	9.8
Capex	(6.8)	(1.3)	(1.9)	(1.9)	(1.9)
Net investments & sale of FA	(0.3)	1.7	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	(7.2)	0.4	(1.9)	(1.9)	(1.9)
Debt raised/(repaid)	1.3	(0.5)	(2.1)	(0.5)	(0.5)
Equity raised/(repaid)	0.2	1.1	0.0	0.0	0.0
Dividends paid	(0.9)	(2.2)	(2.3)	(2.3)	(2.3)
Cash interest & others	(2.6)	(1.0)	(0.4)	(0.3)	(0.3)
Cash flow from financing	(1.9)	(2.7)	(4.8)	(3.1)	(3.1)
Change in cash	3.1	1.8	0.2	5.7	4.8
Change in net cash/(debt)	1.8	2.4	2.3	6.2	5.3
Ending net cash/(debt)	(2.8)	(0.4)	1.9	8.1	13.4

KEY RATIOS (FYE Dec)	2009	2010	2011F	2012F	2013F
Revenue growth (%)	1.7	(3.6)	5.5	6.2	6.9
EBITDA growth (%)	2.3	(32.5)	14.6	32.4	4.9
Pretax margins (%)	10.0	5.8	7.2	9.8	9.8
Net profit margins (%)	6.9	4.6	5.6	7.7	7.7
Interest cover (x)	14.7	11.6	19.8	27.6	31.1
Effective tax rates (%)	19.0	14.8	17.0	18.0	18.0
Net dividend payout (%)	34.3	54.0	42.0	28.8	26.9
Debtors turnover (days)	73.1	74.6	74.2	73.3	73.1
Stock turnover (days)	127.8	132.8	133.9	129.5	127.1
Creditors turnover (days)	32.5	32.2	30.6	28.3	28.3

Source: Company, NRA Capital Estimates

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