

Qian Hu Corp

31 Jul 09

Results Review

Improved Margins

Flat Total Revenue: In 1H09, revenue for Qian Hu Corp edged up 0.6% (YoY) to S\$46.87m. Revenue from Fish (that farms, breeds, distributes and trades ornamental fish) and Accessories (that manufactures and distributes of aquarium and pet accessories) grew 2% and 3% respectively.

However, revenue from Plastics (that manufactures plastic bags) fell 12.5% due to lower average selling price arising from fallen material costs.

Figure 1: Segmental Performance

Rev (S\$m)	1H09	1H08	Chg%
Fish	23.86	23.41	2.0
Accessories	18.03	17.50	3.0
Plastics	4.97	5.68	(12.5)
Total	46.87	46.59	0.6
EBIT (S\$m)	1H09	1H08	Chg%
Fish	3.79	4.62	(17.9)
Accessories	1.32	1.01	30.3
Plastics	0.67	0.35	90.3
Total	4.64	4.49	3.2

Source: Company, SIAS Research

Higher Operating Margin: Total EBIT (Earnings before Interest and Tax) for 1H08 improved 3.2% to S\$4.6m with higher contribution from Plastics (nearly doubled) and Accessories (improved 30%) driven by cost-saving measures.

However, operating income from Fish declined 18% due to reduced self-bred Dragon Fish which yielded better margin than external sources. The situation should gradually improve with the expansion of breeding and farming facilities in Malaysia and Singapore.

Buy (Maintained)

Target Price **17.0 Cents**
Current Price **14.0 Cents**

Report Snapshot

In 1H09, revenue for Qian Hu Corp edged up 0.6% (YoY) to S\$46.87m. With the implementation of cost control measures, earnings improved 10.4% despite a 1.9% drop in gross profit.

Financial Highlights

(Y/E Jun)	FY08	FY09F	FY10F
Sales (S\$m)	93.1	98.2	105.6
Gross Profit	33.1	34.5	37.7
Op Income	9.9	10.0	11.3
Earnings	6.0	6.1	6.8
EPS (Scts)	1.4	1.4	1.5

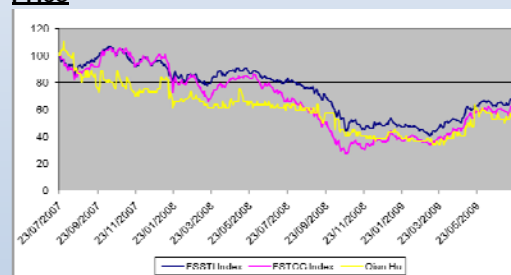
Source: Bloomberg, SIAS Research

Key ratios (FY09F)

PER	10.2
P/BV	0.9
ROE	8.7%
Net gearing	20.6%
Current ratio	1.7

Source: Bloomberg, SIAS Research

Price



Chart

52wks High-Low(S cts) 15.5 - 7.5
Number of Shares 420.98m
Market Capitalization 58.94m

Analyst:

Koh Chin Lek
chinlek@siasresearch.com
Tel: 6227 2107



Results Review

Improved Net Margin: With the implementation of cost control measures, selling and distribution expenses fell 40% while general and administrative expenses just edged up 1.9% despite higher headcount. Hence, despite a 1.9% drop in gross profit, earnings improved 10.4%. EPS improved from 0.62 cents to 0.70 cents.

Steady Balance Sheet: Inventory turnover remained around 145 days while trade receivable turnover increased slightly from 75 days to 77 days. Cash flow from operating activities was S\$3.7m, an improvement of 28.5% from 1H08. Gearing ratio improved slightly from 0.6 to 0.56 following the repayment of borrowings.

Forecast & Recommendation

Right Product Mix: Qian Hu's strategy of broadening its product range gained results. Its accessories and plastics were the main contributor to the growth in earnings.

Expanding Breeding Facilities: Nevertheless, the group still maintains its traditional flag-ship product - the Dragon Fish. It has completed the expansion of breeding and farming facilities in Malaysia at end FY08 and will complete the Singapore's expansion in 3Q09. This will reduce the reliance on external suppliers for dragon fish and thus improve margins.

R&D Efforts: Through its research partner Temasek Life Sciences Laboratory, Qian Hu is studying various breeding biology (e.g. using 'in vitro' fertilization techniques for "tailor-made" dragon fish) and breeding behaviour to improve productivity of dragon fish. However, variation in environment and weather (eg hot and dry weather due to El Nino effects) may affect the breeding.

Foray into India: Qian Hu is collaborating with Messrs Star Agencies to establish a joint venture in India for manufacturing and distribution of fish food, aquarium tanks and its accessories. The initial paid-up share capital is Indian Rupees 26.400m (or about S\$0.8m) and will be operational by end 09.

Figure 2: 1H P&L Summary

S\$m	1H09	1H08	% YoY
Revenue	46.87	46.59	0.6
Gross Profit	16.40	16.73	(1.9)
PBT	4.64	4.49	3.4
Earnings	3.06	2.77	10.4
EPS(Scts)	0.70	0.62	
Gross Margin	35.0%	35.9%	(0.9%-pts)
Net Margins	7.9%	7.4%	0.5%-pts

Source: Company, SIAS Research

Figure 3: Balance Sheet Summary

S\$m	Jun09	Dec08
Non-current Assets	46.53	44.38
Current Assets	55.52	56.13
Current Liabilities	30.54	31.77
Non-current Liabilities	5.96	6.00
Shareholders' Equity	55.85	53.59
Cash & Equivalent	9.61	8.33

Source: Company



SIAS Research Pte Ltd
75 Neil Road
Singapore 088902
Tel: [65] 6227 2107 Fax: [65] 6227 2079
Email: admin@siasresearch.com

Results Review

Broaden Distribution Network: Management has identified Thailand, Malaysia and China as growing markets. Hence, it will increase distribution points in China from the existing 180 locations (from 150 locations in FY08) to more than 200 locations by end 09.

Recommendation: With the expansion in breeding and farming facilities as well as distribution network, we expect FY09's revenue to grow 5.6% to S\$98.2m. However, earnings are expected to remain flat in FY09 due to higher cost arising by the expansion and the startup of JV. Following the recovery in consumer confidence, Qian Hu is expected to stage a strong growth in FY10. Operating cash flow will remain strong.

Meanwhile, there were about 33.8m warrants (to be exercised at S\$0.035 before 19 Sep 2010) outstanding at 1H09. The exercise of these warrants will lead to lower EPS and book value per share.

We have adopted the price to earnings target methodology to value the company. Based on historical average of 12 times to the forecasted FY09's EPS, we derived a value of 17 cents for Qian Hu. At the current price of 14 cents, we maintain "BUY". **(Koh Chin Lek)**

Figure 4: Revenue & Earnings Forecast

	FY09F	FY10F
Revenue (S\$m)	98.2	105.6
Earnings (S\$m)	6.1	6.8
EPS(Scts)	1.4	1.5
BV (Scts)	15.7	17.2

Source: SIAS Research

Financial Table and Ratios

Year End Dec	FY06	FY07	FY08	FY09F	FY10F
Income Statement (\$m)					
Revenue	76.1	91.7	93.1	98.2	105.6
Gross Profit	27.0	31.5	33.1	34.5	37.7
Op Income	5.8	8.5	9.9	10.0	11.3
Pretax	5.3	7.9	9.2	9.3	10.6
Earnings	2.6	4.9	6.0	6.1	6.8
EPS (weighted average – S cts)	0.7	1.3	1.5	1.4	1.6
EPS (fully diluted – S cts)	0.6	1.2	1.4	1.4	1.5
Balance Sheet (\$m)					
Non-current Assets	28.9	36.8	44.4	51.0	52.2
Current Assets	46.7	52.0	56.1	56.3	63.4
Current Liabilities	23.6	28.4	31.8	32.3	33.5
Non-current Liabilities	3.2	4.8	6.0	5.6	5.6
Shareholders' Equity	42.5	48.0	53.6	59.1	64.6
Total Equity	48.8	55.6	62.7	69.4	76.6
Cash Flow (\$m)					
Operating Cash Flow	9.4	8.7	9.8	10.5	11.2
Investing Cash Flow	(6.6)	(9.6)	(10.8)	(9.9)	(4.4)
Financing Cash Flow	(1.7)	0.9	2.2	(1.5)	(1.5)
Net Cash Increase/(Decrease)	1.1	(0.0)	1.3	(0.9)	5.3
Cash & Equivalent	5.5	5.5	6.7	5.8	11.1
Financial Ratios					
Revenue Growth (%)	14.9	20.51	1.46	5.57	7.51
Earnings Growth (%)	28.9	89.07	22.13	0.47	12.47
Gross Margin (%)	35.44	34.39	35.54	35.12	35.67
Net Margin (%)	3.44	5.39	6.49	6.18	6.47
Current Ratio (x)	2.0	1.8	1.8	1.7	1.9
Book value per share (S cts)	38.0	13.8	14.1	15.7	17.2
Net Debt/ (Cash) per sh (S cts)	5.6	2.2	2.3	2.7	1.5
Net Debt / Equity (%)	16.9	18.7	19.2	20.6	10.4
Dividend per share (S cts) *	0.60	8.54	0.20	0.20	0.20
Dividend payout ratio (%)	81.08%	635.27%	13.72%	14.33%	12.89%
Return on Equity (%)	5.37	8.89	9.63	8.74	8.92
Return on Asset (%)	3.46	5.57	6.01	5.66	5.91
Debtor Days	77.7	66.7	75.1	76.4	73.1
Creditor Days	38.9	40.5	50.3	50.5	47.5
Inventory Days	168.2	141.9	144.2	142.0	137.9
Cash Conversion Cycle	207.0	168.1	169.0	167.9	163.5
Valuations					
Price to sales (x)	0.24	0.61	0.67	0.63	0.59
PER (x)	21.88	11.38	10.27	10.19	9.12
Price to book (x)	0.4	1.0	1.0	0.9	0.8
Dividend Yield (%)	4.29%	61.00%	1.43%	1.43%	1.43%

Source: Company, SIAS Research



About the Company

Qian Hu Corporation Limited, as an integrated “one-stop” ornamental fish service provider, imports, exports, and distributes ornamental fish, and aquarium and pet accessories. The company also manufactures and distributes plastics bags for ornamental fish, food, and electronic industries. Its clientele consists of the local market, as well as overseas customers in China, Indo China, South East Asia and Europe.

Price and Volume Chart



Source: Bloomberg



SIAS Research Pte Ltd
75 Neil Road
Singapore 088902
Tel: [65] 6227 2107 Fax: [65] 6227 2079
Email: admin@siasresearch.com

Results Review

SGX Research Incentive Scheme

DISCLAIMER

SIAS Research Pte Ltd received compensation for conducting this valuation research. The estimated fair value of the stock is statement of opinion, and not statement of fact or recommendation on the stock.

As of the date of the report, the analyst and his immediate family do not hold positions in the securities recommended in this report.

This research report is based on information, which we believe to be reliable. Any opinions expressed reflect our judgment at report date and are subject to change without notice. This research material is for information only. It does not have regards to the specific investment objectives, financial situation and the particular needs of any specific person who may receive or access this research material. It is not to be construed as an offer, or solicitation of an offer to sell or buy securities referred herein. The use of this material does not absolve you of your responsibility for your own investment decisions. We accept no liability for any direct or indirect loss arising from the use of this research material. We, our associates, directors and/or employees may have an interest in the securities and/or companies mentioned herein. This research material may not be reproduced, distributed or published for any purpose by anyone without our specific prior consent.
