

Qian Hu Corporation

4Q13 results update
14 January 2013

Overweight

Current Price **S\$0.089**

Fair Value **S\$0.12**
Up / (downside) **+34%**

Stock Statistics

Market cap	S\$40.4m
52-low	S\$0.076
52-high	S\$0.098
Avg daily vol	325,291
No of share	454.1m
Free float	55%

Key Indicators

ROE 14F	3.9%
ROA 14F	2.8%
P/BK	0.79x
Net gearing	12%

Major Shareholders

Qian Hu Holding	24.0%
Yap Family	20.2%

Historical Chart



Source: Bloomberg

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Swimming out of troubled waters

- **Earnings below expectation.** Qian Hu's 4Q13 marginal profit of S\$76k came in below our S\$0.7m net profit estimate due to lower-than-expected sales and gross profit margins.
- **Going back to normal.** After a series of transformation over the last two years, we believe Qian Hu will resume its profit growth for this coming year. We lowered our FY14 net profit forecast by 26% to factor lower-than-expected margins but raise FY15 estimate by 10% to factor higher sales from the Indonesian market. However, we maintain our fair value at S\$0.12, still pegged at 1x FY14 P/NTA. Given the downside risk is limited, maintain **Overweight** recommendation.
- **More products lined up.** Qian Hu aims to develop at least 4 new innovative products every year and is ambitious to establish itself as the most creative Asian accessories provider.
- **European market yet to fully recover.** Its sales contribution from Europe continued growing over the last three consecutive quarters. However, the full-year contribution in FY13 is still half its peak in FY09 (before the world financial crisis).
- **4Q13 revenue up 9% yoy to S\$21.6m**, led by all business segments. Ornamental fish business increased by 11% yoy following the stabilisation of the selling price of Dragon Fish by the end 1H13 and new contribution from Indonesia. Its accessories sales growth of 7% yoy was mainly due to the difference in sales mix. Its plastic business revenue increased by 7% yoy through enlarging its customer base and selling more varieties of plastic products.
- **EBITDA margins slid 0.1% pts yoy to 0.5%** due to higher raw material price, resins use for its plastic division and gradual increase in overall operating expenses. However, this was offset by its ornamental fish export and accessories businesses, which continued to turn in improved revenue and profit margins.
- **Net gearing remained healthy.** Qian Hu generated S\$1.5m positive free cash flow in 4Q. However, including its S\$2.3m special dividend payout, its net gearing increased from 11% in the previous quarter to 12%.

Key Financial Data

(S\$ m, FYE Dec)	2012	2013	2014F	2015F	2016F
Sales	84.4	83.5	90.6	92.9	94.9
Gross Profit	25.4	24.2	28.1	31.1	31.8
Net Profit	(9.1)	0.3	2.1	3.8	3.5
EPS (cents)	(2.0)	0.1	0.5	0.8	0.8
EPS growth (%)	(363.6)	103.3	607.9	79.4	(8.2)
PER (x)	nm	129.3	18.3	10.2	11.1
NAV/share (cents)	11.9	11.2	12.0	12.5	13.0
DPS (cents)	0.2	0.6	0.2	0.3	0.3
Div Yield (%)	2.3	7.0	2.3	3.5	3.5

Source: Company, NRA Capital estimates

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Results comparison

FYE Dec (S\$ m)	4Q13	4Q12	yoy % chg	3Q13	QoQ % chg	Prev. 4Q13F	Comments
Revenue	21.6	19.8	9	20.5	5	22.7	5% below expectation
Operating costs	(21.0)	(19.3)	9	(19.7)	7	(21.3)	In line
EBITDA	0.5	0.6	(1)	0.8	(31)	1.5	Below, lower-than-expected sales and margins
EBITDA margin (%)	2.5	2.8		3.9	(35)	6.4	3.9% pts below expectation
Depn & amort.	(0.5)	(0.6)	(8)	(0.5)	(5)	(0.7)	Below
EBIT	0.0	(0.0)	2,000	0.3	(85)	0.7	Below, lower-than-expected sales and margins
Interest expense	(0.1)	(0.1)	9	(0.1)	3	(0.1)	In line
Interest & invt inc	0.3	0.2	41	0.1	184	0.1	Above, S\$0.3m forex gain
Associates' contrib	(0.0)	(0.0)	(14)	(0.0)	(40)	(0.0)	In line
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	0.3	0.1	95	0.3	0	0.7	Below, lower-than-expected sales and margins
Tax	(0.1)	(0.1)	11	(0.1)	23	(0.2)	Below
Tax rate (%)	47.6	83.6		39.0	22	29.8	
Minority interests	(0.1)	(0.1)	(6)	(0.1)	(14)	(0.1)	
Net profit	0.1	(0.0)	254	0.1	(14)	0.4	82% below expectation
EPS (cts)	0.0	(0.0)	254	0.0	(14)	0.1	

Source: NRA Capital estimates



Betta flóra is a uniquely designed hybrid tank that incorporate hydroponics system that give you a brand new fish keeping experience in an eco-friendly way

- One –step water change using simple overflow concept.
- Water and fish waste transfer to Hydroponic sump for plant nourishment.
- Integrated water catch cup for easy disposal of extra waste water.
- Pebble Stones included.

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Profit & Loss (S\$ m, FYE Dec)	2012	2013	2014F	2015F	2016F
Revenue	84.4	83.5	90.6	92.9	94.9
Operating expenses	(81.2)	(81.2)	(85.6)	(85.8)	(88.2)
EBITDA	3.3	2.2	5.0	7.0	6.7
Depreciation & amortisation	(2.7)	(2.1)	(2.1)	(2.1)	(2.0)
EBIT	0.5	0.1	2.9	5.0	4.7
Net interest & invt income	0.2	1.0	0.1	0.1	0.2
Associates' contribution	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
Exceptional items	(9.3)	0.0	0.0	0.0	0.0
Pretax profit	(8.7)	1.0	2.9	5.0	4.6
Tax	(0.5)	(0.4)	(0.5)	(0.8)	(0.8)
Minority interests	0.0	(0.3)	(0.3)	(0.3)	(0.3)
Net profit	(9.1)	0.3	2.1	3.8	3.5
Wt. shares (m)	454.1	454.1	454.1	454.1	454.1
Shares at year-end (m)	454.1	454.1	454.1	454.1	454.1
Balance Sheet (S\$ m, as at Dec)	2012	2013	2014F	2015F	2016F
Fixed assets	16.1	15.8	17.0	17.3	18.2
Intangible assets	0.3	0.3	0.3	0.3	0.3
Other long-term assets	4.4	3.1	1.5	1.5	1.5
Total non-current assets	20.8	19.2	18.9	19.2	20.1
Cash and equivalents	8.3	6.7	9.6	10.5	11.4
Stocks	16.2	16.6	16.9	16.7	17.0
Trade debtors	32.1	32.8	31.7	32.5	33.2
Other current assets	0.5	0.5	0.5	0.5	0.5
Total current assets	57.1	56.6	58.6	60.2	62.1
Trade creditors	9.6	11.0	11.3	11.1	11.4
Short-term borrowings	13.0	12.8	10.9	10.2	10.4
Other current liabilities	0.5	0.4	0.5	0.8	0.8
Total current liabilities	23.2	24.3	22.6	22.2	22.6
Long-term borrowings	0.3	0.2	0.2	0.1	0.1
Other long-term liabilities	0.4	0.4	0.4	0.4	0.4
Total long-term liabilities	0.7	0.6	0.6	0.5	0.5
Shareholders' funds	52.5	49.5	52.6	54.6	56.7
Minority interests	1.6	1.5	1.8	2.1	2.4
NTA/share (S\$)	0.11	0.11	0.11	0.12	0.12
Total Assets	77.9	75.9	77.5	79.4	82.2
Total Liabilities + S'holders' funds	77.9	75.9	77.5	79.4	82.2
Cash Flow (S\$ m, FYE Dec)	2012	2013	2014F	2015F	2016F
Pretax profit	(8.7)	1.0	2.9	5.0	4.6
Depreciation & non-cash adjustments	13.0	3.3	5.3	0.1	0.4
Working capital changes	0.2	(0.1)	1.1	(0.7)	(0.8)
Cash tax paid	(0.9)	(0.5)	(0.4)	(0.5)	(0.8)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	3.6	3.7	8.9	3.8	3.3
Capex	(1.5)	(1.9)	(1.1)	(1.1)	(1.1)
Net investments & sale of FA	(0.1)	(0.0)	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	(1.6)	(1.9)	(1.1)	(1.1)	(1.1)
Debt raised/(repaid)	(2.7)	(0.3)	(2.0)	(0.7)	0.2
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(2.7)	(2.3)	(2.7)	(0.9)	(1.4)
Cash interest & others	3.0	(0.8)	(0.2)	(0.2)	(0.2)
Cash flow from financing	(2.4)	(3.4)	(5.0)	(1.8)	(1.4)
Change in cash	(0.4)	(1.6)	2.9	0.9	0.8
Change in net cash/(debt)	2.3	(1.3)	4.9	1.6	0.6
Ending net cash/(debt)	(5.1)	(6.4)	(1.5)	0.1	0.7
KEY RATIOS (FYE Dec)	2012	2013	2014F	2015F	2016F
Revenue growth (%)	(4.4)	(1.2)	8.5	2.5	2.1
EBITDA growth (%)	(43.7)	(31.4)	123.8	40.6	(5.1)
Pretax margins (%)	(10.3)	1.1	3.2	5.4	4.8
Net profit margins (%)	(10.8)	0.4	2.4	4.1	3.7
Interest cover (x)	(21.4)	4.9	14.2	25.0	22.8
Effective tax rates (%)	(5.5)	41.0	17.0	17.0	17.0
Net dividend payout (%)	(9.9)	902.3	42.5	35.5	38.7
Debtors turnover (days)	138.7	143.6	127.8	127.8	127.8
Stock turnover (days)	100.3	102.5	98.6	98.6	98.6
Creditors turnover (days)	59.3	67.9	65.7	65.7	65.7

Source: Company, NRA Capital estimates

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