

Qian Hu Corporation

4Q11 results update

Overweight

Current Price **S\$0.094**
13 January 2012

Fair Value **S\$0.125**

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Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$42.7m
52-HI	S\$0.71
52-LOW	S\$0.073
Avg Vol (1 yr)	184,190
Shares Outstanding	454.1m
Free Float	253.4m

Key Indicators

ROE 12F	7.5%
ROA 12F	5.4%
P/BK	0.66x
Net gearing	4.3%

Major Shareholders

Qian Hu Holding	24.0%
Yap family	20.2%

Sales affected by Thai flood

- **Below expectations.** 4Q11 net profit of S\$0.9m came in 36% below our S\$1.4m estimate mainly due to lower-than-expected sales and gross profit margins.
- **4Q11 revenue dropped 13% yoy to S\$19.3m**, affected by Thai flooding. An approximate 15% of the group's ornamental fish revenue was affected when Bangkok was flooded in October to November 2011. Accessories sales were flat despite the reduction in revenue contribution following the disposal of its Guangzhou manufacturing plant. Plastics sales dropped 4.5% yoy as manufacturing activities in Singapore slowed down.
- **EBITDA margins declined 9.4% pts yoy to 1.1%** due to 1) revenue contribution from the Thailand export of ornamental fish affected by the Thai flood and 2) lower profit margins from its conscientious effort to reduce its accessories inventory level, as well as shortfall in profit contribution from its Guangzhou factory following the disposal in December 2011. Including the gain on disposal of its subsidiary, lower financial costs, forex gain and taxation reduction, net profit increased by 40% yoy.
- **Net gearing remained healthy.** Qian Hu generated S\$0.3m negative cash flow in 4Q after increasing its fish inventory requirement for early Chinese New Year in 2012. Its net gearing however decreased slightly from 4.4% in the previous quarter to 4.3%. To reward shareholders, Qian Hu has declared a higher first and final dividend of 0.6 cts (0.5 cts last year).
- **Expect better in dragon year.** After suffering the Bangkok riots (March-May 2010), ash cloud in 2Q10, Europe crisis starting since 4Q10 and the recent Thai flood 4Q11 over the last two years, we believe Qian Hu is strong enough to face most situations now. After disposing its Guangzhou manufacturing arm, Qian Hu has turned itself from contract manufacturer to only OEM. We believe this is a positive move to Qian Hu given the rising cost of operating in China. Nevertheless, the group will continue to invest in product R&D and marketing. Its Indonesian arm is expected to start contributing this year.
- **Maintain Overweight.** We are keeping our FY12 and FY13 earnings relatively unchanged and also introduce the FY14 forecast. Our fair value is S\$0.125, still applying 10x FY12 PER. Given the attractive 6.4% yield and good track record, we maintain **Overweight** rating.

Key Financial Data

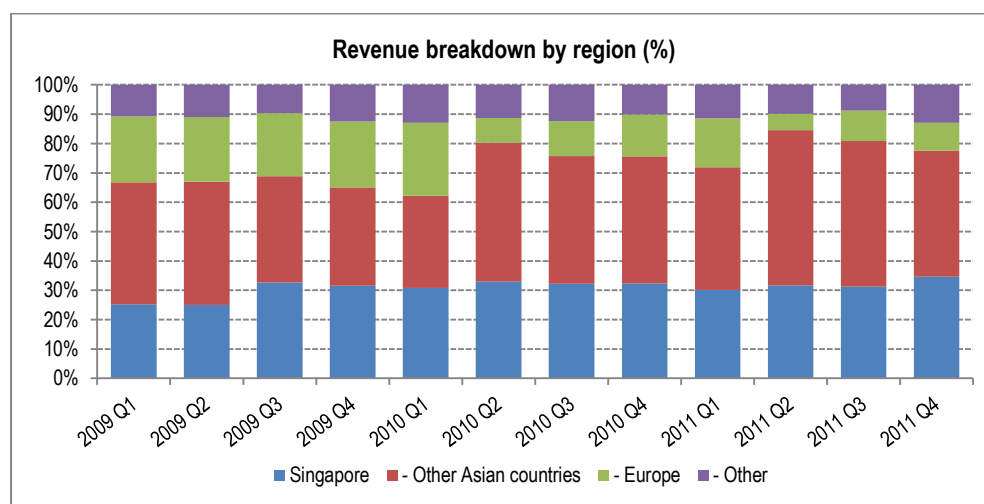
(S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Sales	91.2	88.3	92.7	97.8	101.7
Gross Profit	29.2	27.3	31.5	33.2	34.6
Net Profit	4.2	3.5	5.8	6.1	6.4
EPS (cents)	0.9	0.8	1.3	1.3	1.4
EPS growth (%)	(40.2)	(17.7)	66.2	6.2	4.2
PER (x)	10.1	12.3	7.4	7.0	6.7
NAV/share (cents)	16.1	16.2	17.0	17.8	18.7
DPS (cents)	0.5	0.6	0.6	0.6	0.6
Div Yield (%)	5.3	6.4	6.4	6.4	6.4

Source: Company, NRA Capital estimates

Results comparison

FYE Dec (S\$ m)	4Q11	4Q10	yoy % chg	3Q11	QoQ % chg	Prev. 4Q11F	Comments
Revenue	19.3	22.2	(13)	21.5	(10)	24.1	20% below expectation
Operating costs	(19.1)	(20.7)	(8)	(20.1)	(5)	(21.5)	Below, higher-than-expected sales
EBITDA	0.2	1.5	(86)	1.4	(84)	2.5	Below, lower-than-expected sales and margins
EBITDA margin (%)	1.1	6.9		6.4	(82)	10.6	9.4% pt below expectation
Depn & amort.	(0.8)	(0.7)	13	(0.7)	12	(0.7)	In line
EBIT	(0.5)	0.9	(163)	0.7	(177)	1.9	Below, higher-than-expected sales
Interest expense	(0.1)	(0.1)	(7)	(0.1)	(9)	(0.1)	In line
Interest & invt inc	1.1	(0.0)	nm	0.3	241	0.1	Above due to forex gain
Associates' contrib	(0.0)	(0.0)	nm	(0.0)	(53)	(0.0)	In line
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	0.5	0.7	(35)	0.9	(46)	1.8	Below, lower-than-expected sales
Tax	0.2	(0.0)	1,481	(0.2)	191	(0.4)	
Tax rate (%)	(46.7)	2.2		27.7	(269)	21.1	
Minority interests	0.2	(0.1)	363	(0.1)	420	(0.0)	
Net profit	0.9	0.6	40	0.6	54	1.4	36% below expectation
EPS (cts)	0.2	0.1	40	0.1	54	0.3	

Source: NRA Capital estimates



Source: NRA Capital Estimates

Profit & Loss (S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Revenue	91.2	88.3	92.7	97.8	101.7
Operating expenses	(82.6)	(82.0)	(82.5)	(87.1)	(90.8)
EBITDA	8.5	6.3	10.3	10.6	10.9
Depreciation & amortisation	(2.8)	(2.9)	(2.8)	(2.8)	(2.8)
EBIT	5.7	3.5	7.4	7.8	8.1
Net interest & invt income	(0.4)	0.8	0.0	0.1	0.1
Associates' contribution	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	5.3	4.2	7.3	7.8	8.1
Tax	(0.8)	(0.6)	(1.2)	(1.3)	(1.4)
Minority interests	(0.3)	(0.1)	(0.3)	(0.3)	(0.4)
Net profit	4.2	3.5	5.8	6.1	6.4
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)	2010	2011	2012F	2013F	2014F
Fixed assets	44.0	42.0	40.5	39.0	40.8
Intangible assets	2.3	2.3	2.3	2.3	2.3
Other long-term assets	1.1	1.0	1.0	1.0	1.0
Total non-current assets	47.4	45.2	43.7	42.2	44.0
Cash and equivalents	11.7	8.6	13.7	16.3	17.0
Stocks	24.1	19.6	22.0	23.2	24.2
Trade debtors	19.2	27.1	21.7	22.4	22.9
Other current assets	5.0	5.4	6.2	7.3	8.5
Total current assets	60.0	60.7	63.6	69.2	72.5
Trade creditors	8.4	6.7	7.4	7.8	8.1
Short-term borrowings	11.7	11.5	8.3	7.8	8.1
Other current liabilities	9.6	9.7	10.2	10.7	11.2
Total current liabilities	29.7	27.8	25.9	26.3	27.5
Long-term borrowings	0.4	0.3	0.2	0.2	0.2
Other long-term liabilities	4.3	4.2	4.2	4.2	4.2
Total long-term liabilities	4.7	4.5	4.4	4.4	4.4
Shareholders' funds	62.7	63.4	66.5	69.9	73.5
Minority interests	10.3	10.2	10.5	10.9	11.2
NTA/share (S\$)	0.13	0.13	0.14	0.15	0.16
Total Assets	107.4	105.9	107.4	111.4	116.6
Total Liabilities + S'holders' funds	107.4	105.9	107.4	111.4	116.6

Cash Flow (S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Pretax profit	5.3	4.2	7.3	7.8	8.1
Depreciation & non-cash adjustments	3.6	0.1	7.7	7.5	4.2
Working capital changes	(3.7)	(2.1)	3.0	(2.4)	(2.1)
Cash tax paid	(1.1)	(0.5)	(4.8)	(4.8)	(4.9)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	4.1	1.7	13.3	8.1	5.3
Capex	(1.3)	(2.0)	(2.0)	(1.9)	(1.9)
Net investments & sale of FA	1.7	0.3	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	0.4	(1.7)	(2.0)	(1.9)	(1.9)
Debt raised/(repaid)	(0.5)	(0.3)	(3.2)	(0.6)	0.3
Equity raised/(repaid)	1.1	0.0	0.0	0.0	0.0
Dividends paid	(2.2)	(2.3)	(2.7)	(2.7)	(2.7)
Cash interest & others	(1.0)	(0.5)	(0.4)	(0.3)	(0.3)
Cash flow from financing	(2.7)	(3.1)	(6.2)	(3.6)	(2.8)
Change in cash	1.8	(3.1)	5.1	2.6	0.6
Change in net cash/(debt)	2.4	(2.8)	8.2	3.1	0.4
Ending net cash/(debt)	(0.4)	(3.2)	5.0	8.2	8.5

KEY RATIOS (FYE Dec)	2010	2011	2012F	2013F	2014F
Revenue growth (%)	(3.6)	(3.1)	4.9	5.5	4.0
EBITDA growth (%)	(32.5)	(25.7)	61.7	3.7	2.7
Pretax margins (%)	5.8	4.7	7.9	8.0	8.0
Net profit margins (%)	4.6	3.9	6.2	6.3	6.3
Interest cover (x)	11.6	11.1	25.4	28.7	28.9
Effective tax rates (%)	14.8	13.2	17.0	17.0	17.0
Net dividend payout (%)	54.0	78.6	47.3	44.6	42.8
Debtors turnover (days)	74.6	95.7	96.1	82.4	81.3
Stock turnover (days)	132.8	130.6	124.1	128.0	128.8
Creditors turnover (days)	32.2	31.3	27.8	28.4	28.6

Source: Company, NRA Capital Estimates

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