

Overweight

Current Price	S\$0.090
Fair Value	S\$0.12
Up / (downside)	+33%

Stock Statistics

Market cap	S\$40.9m
52-low	S\$0.082
52-high	S\$0.104
Avg daily vol	205,847
No of share	454.1m
Free float	55%

Key Indicators

ROE 13F	2.6%
ROA 13F	1.7%
P/BK	0.76x
Net gearing	10%

Major Shareholders

Qian Hu Holding	24.0%
Yap Family	20.2%

Historical Chart

Source: Bloomberg

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Coming back on track soon

- **Earnings below expectation.** Qian Hu's 2Q13 marginal profit of S\$83k came in below our S\$0.6m net profit estimate due to lower-than-expected sales and gross profit margins. Despite the setback, we expect Qian Hu will perform better in the second half with its dragon fish business returning to profitability. We cut our FY13-15 net profit forecast by 19-52% to factor lower-than-expected margins. However, we maintain our fair value at S\$0.12, still pegged at 1x P/NTA. Given the downside risk is limited with 6-8% dividend yield projection, maintain **Overweight** recommendation. A special dividend of 0.5 cents will be paid in October 2013, after receipt of second tranche of cash proceeds from the disposal of Kim Kang.
- **A positive view from Indonesia.** Despite the quiet Indian market, Qian Hu is performing well in the Indonesian market and the group increased its stake from 55% to 90% in 1Q13. Furthermore, its new expansion farm in Indonesia is completed and expects to start operation in this month. As such, we believe the increasing market share in Indonesia and improving dragon fish business profitability will bring Qian Hu back on track.
- **2Q13 revenue down 5% yoy to S\$21.2m**, led by its ornamental fish business which decreased by 11.6% mainly due to the decrease in revenue contribution following the disposal of its subsidiary, Kim Kang. The reduction was partially offset by the increase in revenue contribution from the newly set-up Indonesian subsidiary. Its accessories sales dropped 8.4% yoy due to a one-off increase in export orders from a major customer in 2Q12. In addition, during the quarter, Qian Hu experienced loss of sales resulting from the delay in the delivery of goods from its China suppliers because of a setback in rolling out its newly launched products. These orders were delivered towards the end of June, as evident by the increase in the group's accessories inventory balances. Its plastic business revenue increased by 28.3% yoy through enlarging its customer base.
- **EBITDA margins decreased 3.4% pts yoy to 2.4%** due to the lower fish revenue registered as well as the intense price competition caused by the oversupply of Dragon Fish.
- **Net gearing remained healthy.** Its net gearing has increased from 8% in the previous quarter to 10%. Despite a marginally increase its working capital requirement, Qian Hu still managed to generate S\$0.1m positive free cash flow in 2Q.

Key Financial Data

(S\$ m, FYE Dec)	2011	2012	2013F	2014F	2015F
Sales	88.3	84.4	87.6	91.7	94.3
Gross Profit	27.3	25.4	26.3	29.3	31.1
Net Profit	3.5	(9.1)	1.3	2.9	3.6
EPS (cents)	0.8	(2.0)	0.3	0.6	0.8
EPS growth (%)	(17.7)	(363.6)	114.1	126.7	25.2
PER (x)	11.8	nm	31.8	14.0	11.2
NAV/share (cents)	16.2	11.9	11.1	11.5	11.6
DPS (cents)	0.6	0.2	0.7	0.5	0.6
Div Yield (%)	6.7	2.2	7.8	5.6	6.7

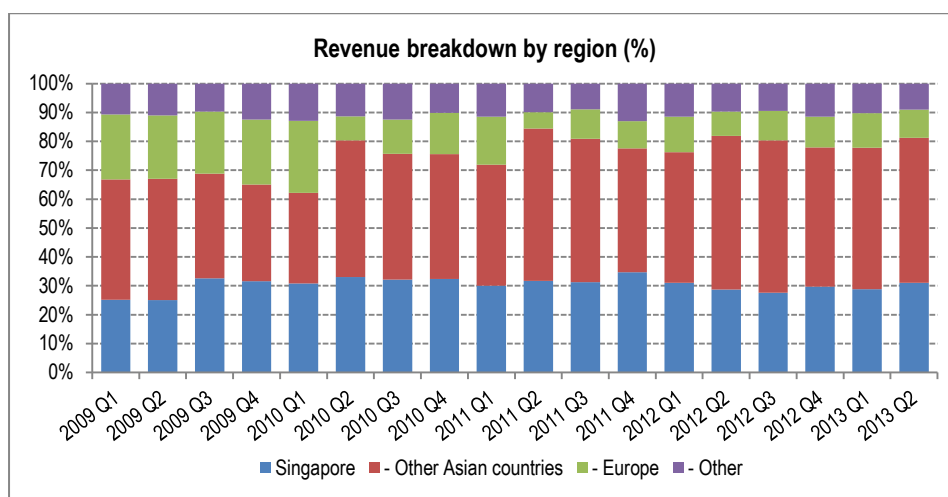
Source: Company, NRA Capital estimates

Qian Hu Corporation

Results comparison

FYE Dec (S\$ m)	2Q13	2Q12	yoy % chg	1Q13	QoQ % chg	Prev. 2Q13F	Comments
Revenue	21.2	22.4	(5)	20.2	5	22.4	5% below expectation
Operating costs	(20.7)	(21.0)	(2)	(19.6)	6	(21.2)	In line
EBITDA	0.5	1.3	(60)	0.6	(17)	1.2	Below, lower-than-expected sales and GPM
EBITDA margin (%)	2.4	5.9		3.1	(21)	5.5	3% pts below expectation
Depn & amort.	(0.5)	(0.7)	(25)	(0.6)	(1)	(0.4)	In line
EBIT	(0.0)	0.6	(105)	0.1	(141)	0.8	Below, lower-than-expected sales and GPM
Interest expense	(0.1)	(0.1)	(45)	(0.1)	(5)	(0.1)	In line
Interest & invt inc	0.4	0.1	201	0.2	126	0.1	Above due to forex gain
Associates' contrib	(0.0)	0.0	(200)	(0.0)	167	(0.0)	In line
Exceptionals	0.0	0.0	nm	0.0	nm	0.0	
Pretax profit	0.3	0.6	(59)	0.2	57	0.8	Below, lower-than-expected sales and GPM
Tax	(0.1)	(0.1)	(1)	(0.0)	130	(0.1)	In line
Tax rate (%)	43.2	17.7		29.6	46	18.0	Higher-than-expected taxation
Minority interests	(0.1)	0.0	(346)	(0.1)	18	(0.1)	
Net profit	0.1	0.5	(84)	0.1	34	0.6	Below, lower-than-expected sales and GPM
EPS (cts)	0.0	0.1	(84)	0.0	34	0.1	

Source: NRA Capital estimates



Source: NRA Capital

Qian Hu Corporation

Profit & Loss (S\$ m, FYE Dec)	2011	2012	2013F	2014F	2015F
Revenue	88.3	84.4	87.6	91.7	94.3
Operating expenses	(82.5)	(81.2)	(84.4)	(86.3)	(88.1)
EBITDA	5.8	3.3	3.2	5.4	6.1
Depreciation & amortisation	(2.9)	(2.7)	(1.8)	(1.7)	(1.7)
EBIT	2.9	0.5	1.4	3.6	4.4
Net interest & invt income	1.3	0.2	0.6	0.0	0.1
Associates' contribution	(0.1)	(0.1)	(0.1)	0.2	0.2
Exceptional items	0.0	(9.3)	0.0	0.0	0.0
Pretax profit	4.2	(8.7)	1.9	3.8	4.7
Tax	(0.6)	(0.5)	(0.4)	(0.7)	(0.8)
Minority interests	(0.1)	0.0	(0.3)	(0.3)	(0.3)
Net profit	3.5	(9.1)	1.3	2.9	3.6
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)	2011	2012	2013F	2014F	2015F
Fixed assets	42.0	16.1	14.0	16.8	18.3
Intangible assets	2.3	0.3	0.3	0.3	0.3
Other long-term assets	1.0	4.4	2.2	1.1	1.1
Total non-current assets	45.2	20.8	16.5	18.3	19.7
Cash and equivalents	8.6	8.3	11.3	14.2	12.2
Stocks	19.6	16.2	16.6	16.8	17.1
Trade debtors	31.5	32.1	28.9	25.7	26.4
Other current assets	1.1	0.5	0.5	0.5	0.5
Total current assets	60.7	57.1	57.3	57.2	56.1
Trade creditors	11.6	9.6	11.0	11.2	11.4
Short-term borrowings	15.7	13.0	11.4	11.0	10.4
Other current liabilities	0.6	0.5	0.6	0.7	0.8
Total current liabilities	27.8	23.2	23.0	22.9	22.5
Long-term borrowings	0.3	0.3	0.2	0.2	0.1
Other long-term liabilities	4.2	0.4	0.4	0.4	0.4
Total long-term liabilities	4.5	0.7	0.6	0.6	0.5
Shareholders' funds	63.4	52.5	48.4	49.9	50.4
Minority interests	10.2	1.6	1.9	2.1	2.4
NTA/share (S\$)	0.13	0.11	0.11	0.11	0.11
Total Assets	105.9	77.9	73.8	75.5	75.9
Total Liabilities + S'holders' funds	105.9	77.9	73.8	75.5	75.9
Cash Flow (S\$ m, FYE Dec)	2011	2012	2013F	2014F	2015F
Pretax profit	4.2	(8.7)	1.9	3.8	4.7
Depreciation & non-cash adjustments	0.1	13.0	1.3	1.6	(0.8)
Working capital changes	(2.1)	0.2	4.3	3.1	(0.8)
Cash tax paid	(0.5)	(0.9)	(0.3)	(0.6)	(0.7)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	1.7	3.6	7.2	8.1	2.4
Capex	(2.0)	(1.5)	(1.1)	(1.1)	(1.1)
Net investments & sale of FA	0.3	(0.1)	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	(1.7)	(1.6)	(1.1)	(1.1)	(1.1)
Debt raised/(repaid)	(0.4)	(2.7)	(1.7)	(0.4)	(0.7)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(2.3)	(2.7)	(0.9)	(3.2)	(2.3)
Cash interest & others	(0.4)	3.0	(0.5)	(0.5)	(0.5)
Cash flow from financing	(3.1)	(2.4)	(3.1)	(4.1)	(3.4)
Change in cash	(3.1)	(0.4)	3.0	2.8	(2.1)
Change in net cash/(debt)	(2.7)	2.3	4.7	3.3	(1.4)
Ending net cash/(debt)	(7.4)	(5.1)	(0.4)	2.9	1.5
KEY RATIOS (FYE Dec)	2011	2012	2013F	2014F	2015F
Revenue growth (%)	(3.1)	(4.4)	3.7	4.7	2.8
EBITDA growth (%)	(28.0)	(43.7)	(3.0)	70.0	14.1
Pretax margins (%)	4.7	(10.3)	2.2	4.2	5.0
Net profit margins (%)	3.9	(10.8)	1.5	3.2	3.9
Interest cover (x)	11.1	(21.4)	7.7	12.5	16.0
Effective tax rates (%)	13.2	(5.5)	20.0	17.0	17.0
Net dividend payout (%)	78.6	(9.9)	247.2	77.9	74.7
Debtors turnover (days)	130.0	138.7	120.5	102.2	102.2
Stock turnover (days)	117.1	100.3	98.6	98.6	98.6
Creditors turnover (days)	69.3	59.3	65.7	65.7	65.7

Source: Company, NRA Capital estimates

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