

## Qian Hu Corporation

2Q09 results update

## BUY

**Current Price** **S\$0.13**  
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**Fair Value** **S\$0.19**

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## Historical Chart



Source: Bloomberg

## Stock Statistics

<b>Market Cap</b>	S\$54.7m
<b>52-HI</b>	S\$0.155
<b>52-LOW</b>	S\$0.075
<b>Avg Vol (1 yr)</b>	311.79
<b>Shares Outstanding</b>	420.98m
<b>Free Float</b>	185.2m

## Key Indicators

<b>ROE 09F</b>	9.4%
<b>ROA 09F</b>	6.1%
<b>P/BK</b>	0.97x
<b>Net gearing</b>	0.07x

## Major Shareholders

<b>Qian Hu Holding</b>	26.3%
<b>Yap family</b>	29.8%

## As good as it gets

- **Results within expectations.** 2Q09 net profit of S\$1.7m was in line with our net profit forecast of S\$1.6m but better than consensus forecast. 1H09 results represent 52% and 47% of consensus and our full-year forecasts, respectively. Traditional, Qian Hu's results is stronger in second half.
- **Sales inched up 0.6% yoy to S\$23.7m** as both fish and accessories grew 2% and 5% yoy, respectively. However the gains were offset by a 17% decline yoy for plastics business due to lower selling prices following the significant reduction in the raw material costs. Dragon Fish sales continued to grow with new markets penetration. It contributed 25% of group revenue in 2Q09 as compared to 21% for full year 2008 sales.
- **EBITDA margins increased 0.8% pts yoy to 14.1%** due to higher gross margins, mainly driven from its self-bred Dragon Fish which yielded better margins, as well as enhanced profitability of the accessories business for its Guangzhou factory.
- **Net gearing improved qoq from 7% to 6% at end-Jun 09.** Despite Qian Hu having increased its capital expenditure for brooder stocks, it managed to achieve a shortened cash conversion cycle (-4 days qoq). The group therefore generated S\$1.4m positive free cash flow.
- **Continued expansion into new markets.** After successfully penetrating into the Chinese market (estimated to account for 40% total sales now). Qian Hu now plans to enter the Indian market, the second highest populated country. This will be through a joint venture firm in Chennai, India which will initially focus on manufacturing of aquarium accessories and fish food.
- **Forecasts unchanged; maintain Buy.** We are keeping our FY09-11 earnings estimates intact and our fair value of S\$0.19, applying 1.3x FY10 P/BV, the mean of its 7-year rolling forward P/BV band. We believe Qian Hu trades currently at 9x FY09 fully diluted P/E and 5x EV/EBITDA, which is not demanding given its rather unique business and strong brand name. We see potential catalysts in this financial year, including from its successful expansion into the accessories businesses, better yield return of dragon fish productivity and positive contributions from the new farm to be fully completed in September.

## Key Financial Data

(S\$ m, FYE Dec)	2007	2008	2009F	2010F	2011F
<b>Sales</b>	91.7	93.1	96.2	102.4	109.1
<b>Gross Profit</b>	31.5	33.1	33.8	36.2	38.7
<b>Net Profit</b>	4.9	6.0	6.5	7.6	8.6
<b>Fully Diluted EPS (cents)</b>	1.3	1.5	1.4	1.6	1.9
<b>EPS growth (%)</b>	77.9	8.4	(3.2)	16.5	13.2
<b>Fully Diluted PER (x)</b>	9.7	8.9	9.2	7.9	7.0
<b>NTA/share (cents)</b>	12.5	12.4	13.4	14.7	14.8
<b>DPS (cents)</b>	2.5	0.2	0.4	0.4	0.5
<b>Div Yield (%)</b>	19.0	1.5	3.0	3.5	3.6
<b>EV/EBITDA (x)</b>	6.3	5.5	5.4	4.7	4.3

Source: Company, NRA Capital estimates

## Results comparison

FYE Dec (\$ m)	2Q09	2Q08	yoy % chg	1H09	1H08	yoy % chg	Prev. 2Q09F	Comments
Revenue	23.7	23.6	1	46.9	46.6	1	24.1	In line
Operating costs	(20.4)	(20.4)	(0)	(40.6)	(40.6)	0	(21.0)	In line
EBITDA	3.4	3.2	6	6.3	6.0	4	3.1	Above, better-than-expected margins
EBITDA margin (%)	14.1	13.4		13.4	12.9		13.0	Above, better-than-expected margins
Depn & amort.	(0.7)	(0.6)	10	(1.3)	(1.2)	11	(0.7)	In line
EBIT	2.7	2.6	6	5.0	4.8	2	2.5	
Interest expense	(0.2)	(0.2)	(11)	(0.4)	(0.4)	(13)	(0.2)	In line
Interest & invt inc	0.0	0.0	(11)	0.1	0.1	(22)	0.1	In line
Associates' contrib	(0.0)	(0.0)	(83)	(0.0)	0.0	(300)	0.0	In line
Exceptionals	0.0	0.0	0	0.0	0.0	0	0.0	
<b>Pretax profit</b>	<b>2.6</b>	<b>2.4</b>	<b>8</b>	<b>4.6</b>	<b>4.5</b>	<b>3</b>	<b>2.3</b>	Above, better-than-expected margins
Tax	(0.5)	(0.5)	0	(0.9)	(1.0)	(11)	(0.5)	Above, higher-than-expected tax rate
Tax rate (%)	20.3	21.9		19.9	23.0		19.8	
Minority interests	(0.4)	(0.3)	9	(0.7)	(0.7)	(5)	(0.3)	In line
<b>Net profit</b>	<b>1.7</b>	<b>1.5</b>	<b>10</b>	<b>3.1</b>	<b>2.8</b>	<b>10</b>	<b>1.6</b>	In line
EPS (cts)	0.4	0.4	8	0.7	0.7	9	0.4	

Source: NRA Capital estimates



Source: Bloomberg, NRA Capital

<b>Profit &amp; Loss</b> (\$\$ m, FYE Dec)	<b>2007</b>	<b>2008</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Revenue	91.7	93.1	96.2	102.4	109.1
Operating expenses	(81.0)	(80.7)	(83.8)	(88.0)	(93.3)
EBITDA	10.8	12.4	12.4	14.5	15.8
Depreciation & amortisation	(2.2)	(2.4)	(2.6)	(3.2)	(3.3)
EBIT	8.5	9.9	9.8	11.3	12.5
Net interest & invt income	(0.6)	(0.7)	(0.4)	(0.4)	(0.4)
Associates' contribution	0.0	(0.0)	0.1	0.1	0.1
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>7.9</b>	<b>9.2</b>	<b>9.5</b>	<b>10.9</b>	<b>12.2</b>
Tax	(1.6)	(1.8)	(1.9)	(2.1)	(2.3)
Minority interests	(1.4)	(1.4)	(1.2)	(1.2)	(1.3)
<b>Net profit</b>	<b>4.9</b>	<b>6.0</b>	<b>6.5</b>	<b>7.6</b>	<b>8.6</b>
Wt. shares (m)	368.1	414.6	421.0	421.0	460.5
Shares at year-end (m)	368.1	414.6	421.0	421.0	460.5
<b>Balance Sheet</b> (\$\$ m, as at Dec)	<b>2007</b>	<b>2008</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Fixed assets	33.8	41.4	47.4	51.7	55.9
Intangible assets	2.1	2.2	2.3	2.3	2.3
Other long-term assets	0.8	0.8	0.8	0.8	0.8
<b>Total non-current assets</b>	<b>36.8</b>	<b>44.4</b>	<b>50.5</b>	<b>54.7</b>	<b>58.9</b>
Cash and equivalents	7.5	8.3	8.7	9.7	10.6
Stocks	22.0	22.4	22.5	23.9	25.3
Trade debtors	17.6	20.9	19.7	21.3	23.1
Other current assets	4.9	4.5	5.1	5.8	6.7
<b>Total current assets</b>	<b>52.0</b>	<b>56.1</b>	<b>56.0</b>	<b>60.6</b>	<b>65.8</b>
Trade creditors	7.4	9.2	7.7	8.2	8.7
Short-term borrowings	7.5	10.4	10.6	11.5	12.0
Other current liabilities	13.5	12.1	13.5	14.1	14.8
<b>Total current liabilities</b>	<b>28.4</b>	<b>31.8</b>	<b>31.7</b>	<b>33.8</b>	<b>35.5</b>
Long-term borrowings	1.9	2.4	2.3	2.3	2.2
Other long-term liabilities	2.9	3.6	3.6	3.6	3.6
<b>Total long-term liabilities</b>	<b>4.8</b>	<b>6.0</b>	<b>5.9</b>	<b>5.8</b>	<b>5.8</b>
<b>Shareholders' funds</b>	<b>48.0</b>	<b>53.6</b>	<b>58.5</b>	<b>64.2</b>	<b>70.6</b>
Minority interests	7.6	9.1	10.3	11.5	12.8
NTA/share (\$\$)	0.12	0.12	0.13	0.15	0.15
<b>Total Assets</b>	<b>88.8</b>	<b>100.5</b>	<b>106.4</b>	<b>115.3</b>	<b>124.7</b>
<b>Total Liabilities + S'holders' funds</b>	<b>88.8</b>	<b>100.5</b>	<b>106.4</b>	<b>115.3</b>	<b>124.7</b>
<b>Cash Flow</b> (\$\$ m, FYE Dec)	<b>2007</b>	<b>2008</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Pretax profit	7.9	9.2	9.5	10.9	12.2
Depreciation & non-cash adjustments	3.9	3.3	3.6	4.6	4.6
Working capital changes	(2.0)	(1.6)	(0.6)	(3.2)	(3.7)
Cash tax paid	(1.1)	(1.1)	(4.7)	(4.5)	(4.6)
Others	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from operations</b>	<b>8.7</b>	<b>9.8</b>	<b>7.8</b>	<b>7.8</b>	<b>8.4</b>
Capex	(8.9)	(10.9)	(7.5)	(6.0)	(6.0)
Net investments & sale of FA	(0.7)	0.1	0.0	0.0	0.0
Others	0.0	0.0	0.5	0.0	0.0
<b>Cash flow from investing</b>	<b>(9.6)</b>	<b>(10.8)</b>	<b>(6.9)</b>	<b>(6.0)</b>	<b>(6.0)</b>
Debt raised/(repaid)	(0.2)	3.9	0.1	0.8	0.5
Equity raised/(repaid)	1.2	0.1	0.2	0.0	0.0
Dividends paid	(0.6)	0.0	(0.8)	(1.6)	(1.9)
Cash interest & others	0.5	(1.8)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>0.9</b>	<b>2.2</b>	<b>(0.5)</b>	<b>(0.8)</b>	<b>(1.4)</b>
<b>Change in cash</b>	<b>(0.0)</b>	<b>1.2</b>	<b>0.4</b>	<b>1.0</b>	<b>1.0</b>
<b>Change in net cash/(debt)</b>	<b>0.1</b>	<b>(2.7)</b>	<b>0.3</b>	<b>0.2</b>	<b>0.5</b>
<b>Ending net cash/(debt)</b>	<b>(1.9)</b>	<b>(4.6)</b>	<b>(4.3)</b>	<b>(4.1)</b>	<b>(3.6)</b>
<b>KEY RATIOS</b> (FYE Dec)	<b>2007</b>	<b>2008</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Revenue growth (%)	20.5	1.5	3.4	6.5	6.5
EBITDA growth (%)	32.3	14.8	0.6	16.3	9.4
Pretax margins (%)	8.6	9.9	9.9	10.7	11.2
Net profit margins (%)	5.4	6.5	6.8	7.4	7.8
Interest cover (x)	10.4	11.5	17.3	18.6	20.0
Effective tax rates (%)	20.2	19.5	19.5	19.5	19.0
Net dividend payout (%)	183.8	13.7	27.3	27.3	25.0
Debtors turnover (days)	66.7	75.5	77.0	73.0	74.2
Stock turnover (days)	132.4	135.1	131.1	127.6	127.6
Creditors turnover (days)	26.6	32.4	32.0	28.3	28.3

Source: Company, NRA Capital Estimates

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