

Qian Hu Corporation

2Q10 results update

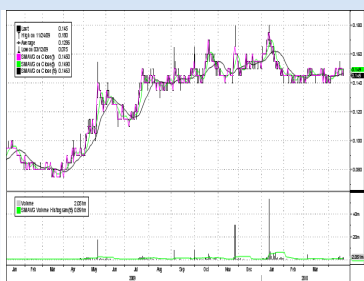
BUY

Current Price **S\$0.13**
20 July 2010

Fair Value **S\$0.21**

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Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$60.7m
52-HI	S\$0.18
52-LOW	S\$0.12
Avg Vol (1 yr)	1,059,822
Shares Outstanding	449.4m
Free Float	268.4m

Key Indicators

ROE 10F	9.0%
ROA 10F	6.3%
P/BK	0.9x
Net gearing	4.6%

Major Shareholders

Qian Hu Holding	24.3%
Yap family	16.0%

Expect India to start contributing in 2H

- **Results below expectations.** Despite 2Q10 sales coming in line with our expectation, net profit of S\$1m was 26% below our profit forecast of S\$1.3m due to lower-than-expected margins (lower sales of self-bred Dragon Fish).
- **Sales declined 4% yoy to S\$22.7m**, due to revenue from the fish division (-5.6% yoy) suffering from the ash cloud situation which disrupted the European airspace and flights. Despite domestic fish revenue surging 78% yoy, it could not offset the dip in the oversea fish revenue. The accessories business (-6% yoy) was affected by the political riots in Bangkok from March to May. Nevertheless, plastics revenue increased 10% yoy.
- **EBITDA margins declined 4.1% pts yoy to 10.3%** due to 1) lower revenue 2) erosion in profit margin from plastics segment as a result of increasing raw material costs, 3) higher wage cost in Guangzhou factory and 4) lower sales of its self-bred Dragon Fish from Malaysia. Due to the hot weather conditions in 1Q, there was a decline in supply (dragon fish need 3-6 months to grow to a marketable size). Management expects to sell more self-bred Dragon fish in 3Q after resumption of the supply in 2Q.
- **Balance sheet remained comfortable.** Despite Qian Hu generating S\$58k positive free cash flow in 2Q, after paying out a dividend of S\$2.2m, its net gearing has increased from 1% at end-Mar quarter to 5% at end-Jun quarter. However, Qian Hu is still on track to turn net cash by the end of this year.
- **Dragon fish production back to normal.** We believe the group would have a better 2H as this is traditionally a stronger half. Management expects its contribution from India will start in 3Q. The new product (filtration system) launched in mid May at the aquarium EXPO Interzoo 2010 in Germany has also started mass production. And most importantly, the resumption of the supply of self-bred Dragon Fish from Malaysia should see better margins in 2H.
- **Maintain Buy.** Despite 2Q earnings being below expectation, we are keeping our FY10-12 earnings as we believe Qian Hu will be able to compensate the shortfall in the 2H. Our fair value is S\$0.21, still applying 14x FY10 PER. We maintain our **Buy** recommendation.

Key Financial Data

(S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Sales	93.1	94.6	97.7	107.3	114.3
Gross Profit	33.1	32.7	33.2	37.0	39.4
Net Profit	6.0	6.5	6.9	8.7	9.1
Fully Diluted EPS (cents)	1.5	1.6	1.5	1.9	2.0
EPS growth (%)	8.4	6.3	(2.2)	25.8	5.2
Fully Diluted PER (x)	8.9	8.4	8.6	6.8	6.5
NTA/share (cents)	12.4	13.5	14.2	15.3	16.7
DPS (cents)	0.2	0.5	0.5	0.6	0.6
Div Yield (%)	1.5	4.1	3.5	4.4	4.6
EV/EBITDA (x)	5.8	5.6	5.6	4.6	4.4

Source: Company, NRA Capital estimates

Results comparison

FYE Dec (S\$ m)	2Q10	2Q09	yoy % chg	1Q10	QoQ % chg	Prev. 2Q10F	Comments
Revenue	22.7	23.7	(4)	23.2	(2)	22.1	In line
Operating costs	(20.4)	(20.3)	0	(20.4)	0	(19.4)	5% higher due lower-than-expected margins
EBITDA	2.3	3.4	(32)	2.8	(19)	2.6	12% below expectation
EBITDA margin (%)	10.2	14.2		12.3	(17)	11.9	Lower-than-expected margins
Depn & amort.	(0.7)	(0.7)	8	(0.7)	1	(0.8)	In line
EBIT	1.6	2.7	(41)	2.1	(25)	1.8	Below, lower-than-expected margins
Interest expense	(0.1)	(0.2)	(33)	(0.1)	(2)	(0.1)	In line
Interest & invt inc	(0.2)	0.0	nm	(0.2)	(17)	0.0	Below, S\$0.2m of forex loss
Associates' contrib	(0.1)	(0.0)	nm	0.0	(682)	0.0	Below, write off setting up costs in India
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	1.2	2.6	(52)	1.8	(32)	1.8	Below, lower-than-expected margins
Tax	(0.3)	(0.5)	(42)	(0.3)	17	(0.4)	Below, lower-than-expected profit
Tax rate (%)	24.8	20.3		14.4	72	20.0	
Minority interests	0.0	(0.4)	109	(0.1)	129	(0.1)	In line
Net profit	1.0	1.7	(43)	1.4	(33)	1.3	Below, lower-than-expected margins
EPS (cts)	0.2	0.4	(46)	0.3	(37)	0.3	

Source: NRA Capital estimates



Source: Bloomberg, NRA Capital

Profit & Loss (S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue	93.1	94.6	97.7	107.3	114.3
Operating expenses	(80.7)	(82.0)	(85.0)	(91.9)	(98.1)
EBITDA	12.4	12.6	12.6	15.4	16.1
Depreciation & amortisation	(2.4)	(2.6)	(3.1)	(3.0)	(3.0)
EBIT	9.9	10.0	9.6	12.3	13.1
Net interest & invt income	(0.7)	(0.6)	(0.3)	(0.3)	(0.2)
Associates' contribution	(0.0)	(0.0)	0.0	0.0	0.0
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	9.2	9.4	9.3	12.1	13.0
Tax	(1.8)	(1.8)	(1.7)	(2.4)	(2.5)
Minority interests	(1.4)	(1.1)	(0.7)	(1.1)	(1.4)
Net profit	6.0	6.5	6.9	8.7	9.1
Wt. shares (m)	414.6	422.2	449.3	454.8	454.8
Shares at year-end (m)	414.6	422.2	449.3	454.8	454.8

Balance Sheet (S\$ m, as at Dec)	2008	2009	2010F	2011F	2012F
Fixed assets	41.4	46.3	46.7	47.2	45.6
Intangible assets	2.2	2.3	2.3	2.3	2.3
Other long-term assets	0.8	1.2	1.2	1.2	1.2
Total non-current assets	44.4	49.7	50.2	50.7	49.1
Cash and equivalents	8.3	9.8	11.0	13.9	16.8
Stocks	22.4	21.0	21.9	23.9	26.9
Trade debtors	19.8	18.1	20.2	22.2	23.7
Other current assets	5.6	5.1	5.9	6.7	7.8
Total current assets	56.1	54.0	59.0	66.7	75.2
Trade creditors	9.2	7.7	8.8	9.7	9.1
Short-term borrowings	10.4	10.5	7.8	7.5	6.9
Other current liabilities	12.1	10.3	10.3	11.1	11.7
Total current liabilities	31.8	28.4	26.9	28.3	27.7
Long-term borrowings	2.4	2.1	1.6	1.3	1.1
Other long-term liabilities	3.6	4.1	4.1	4.1	4.1
Total long-term liabilities	6.0	6.1	5.7	5.4	5.1
Shareholders' funds	53.6	59.2	65.9	72.0	78.4
Minority interests	9.1	10.0	10.7	11.8	13.2
NTA/share (S\$)	0.12	0.13	0.14	0.15	0.17
Total Assets	100.5	103.8	109.2	117.4	124.3
Total Liabilities + S'holders' funds	100.5	103.8	109.2	117.4	124.3

Cash Flow (S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Pretax profit	9.2	9.4	9.3	12.1	13.0
Depreciation & non-cash adjustments	3.3	3.9	6.6	4.5	6.8
Working capital changes	(1.6)	0.1	(2.5)	(3.7)	(5.6)
Cash tax paid	(1.1)	(1.2)	(5.3)	(4.9)	(5.2)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	9.8	12.2	8.1	8.0	8.9
Capex	(10.9)	(6.8)	(2.1)	(2.1)	(2.1)
Net investments & sale of FA	0.1	(0.3)	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	(10.8)	(7.2)	(2.1)	(2.1)	(2.1)
Debt raised/(repaid)	3.9	1.3	(3.1)	(0.6)	(0.9)
Equity raised/(repaid)	0.1	0.2	0.9	0.0	0.0
Dividends paid	0.0	(0.9)	(2.2)	(2.1)	(2.6)
Cash interest & others	(1.8)	(2.6)	(0.4)	(0.4)	(0.3)
Cash flow from financing	2.2	(1.9)	(4.9)	(3.1)	(3.9)
Change in cash	1.2	3.1	1.2	2.9	2.9
Change in net cash/(debt)	(2.7)	1.8	4.3	3.5	3.9
Ending net cash/(debt)	(4.6)	(2.8)	1.5	5.0	8.9

KEY RATIOS (FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue growth (%)	1.5	1.7	3.2	9.9	6.5
EBITDA growth (%)	14.8	2.3	(0.1)	21.7	5.0
Pretax margins (%)	9.9	10.0	9.5	11.3	11.3
Net profit margins (%)	6.5	6.9	7.1	8.1	8.0
Interest cover (x)	11.5	14.7	18.9	25.9	30.8
Effective tax rates (%)	19.5	19.0	18.0	19.5	19.0
Net dividend payout (%)	13.7	34.3	30.4	30.0	30.0
Debtors turnover (days)	73.3	73.1	71.6	72.2	73.3
Stock turnover (days)	135.1	127.8	121.4	119.0	124.0
Creditors turnover (days)	32.4	32.5	30.7	31.4	30.0

Source: Company, NRA Capital Estimates

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