

Recommendation:

BUY

Previous call: Buy

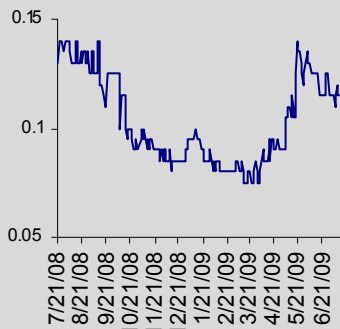
Price

Previous close **S\$0.135**
Fair value **S\$0.170**
Share price return **25.9%**

Share Statistics

Shares 420.98m
Market Cap. \$56.83m
Trailing PER 9.2x
Forward PER 9.6x
P/BV 0.87x
52-week Price Range 0.075-0.14
52-week PER Range 5.1x-9.8x
Listing Bourse SGX-Main Board
 Qianhu Holdings
Major Shareholder 26.89%

Price Chart



Company Profile

Qian Hu Corporation Limited imports, exports and distributes ornamental fish and aquarium and pet accessories. The company also manufactures and distributes plastic bags for ornamental fish, food and electronics industries.

Analyst

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Qian Hu Corporation Limited
Recession-Proof Business Proven

22 July 2009

Mr Kenny Yap, Chairman of Qian Hu Corporation Limited has a long held conviction of the resiliency of the ornamental fish business, even during an economic recession. This belief is now proven true as QH reports stable financial results for the 1HFY09. Revenue for 1HFY09 is \$46.9 million (+0.6% yoy), net profit is \$3.1 million (+10.4% yoy) and EPS for the half year is 0.73 cents. On a quarter basis, revenue is \$23.7 million (+0.6% qoq), net profit is \$2.6 million (+10.1% qoq) and EPS is 0.39 cents.

Product segments analysis. Revenue make-up remains fairly consistent. Sales of ornamental fish continues to be the biggest contributor at 51% to total revenue, Accessories sales contribute 39% while the plastics segment account for the remaining 11%.

Exhibit 1. Revenue breakdown by S\$

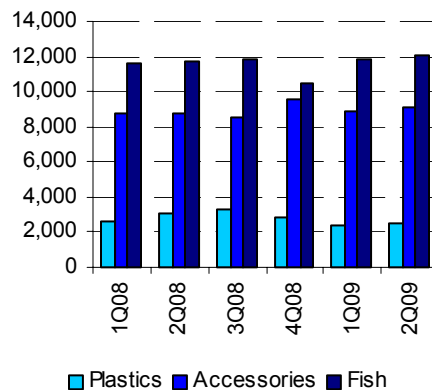
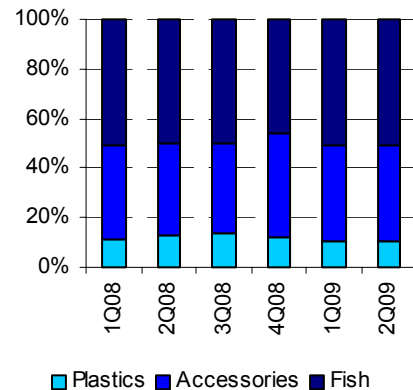


Exhibit 2. Revenue breakdown by %



Source: Company, Phillip Securities Research

Profit margins. QH has placed conscious emphasis on containing cost in the previous quarter and the result is evident in the improvement of net profit margin from 7.25% in 1QFY09 to 8.58% in 2QFY09. As can be seen from exhibit 4, the accessories and plastic segments have shown general improvement in operating efficiency. The plastics segment has shown significant improvement through cost-saving measures implemented. We expect the accessories segment profitability margin to stay within a range of 5-10%. The new Chennai JV may put some pressure on the margin during the start-up phase. Ornament fish's profitability margin has decreased generally compared to FY08. The reason for variability lies in sales of QH self-bred Dragon fish vs externally-sourced Dragon fish. We expect the margin to improve as the breeding facilities in Malaysia becomes productive in 2HFY09 and also the schedule completion of the new ponds in Singapore in another 2-3 months should also add to the profitability. However we expect the Singapore facility to start contributing only in FY10.

Exhibit 3. Profit margins

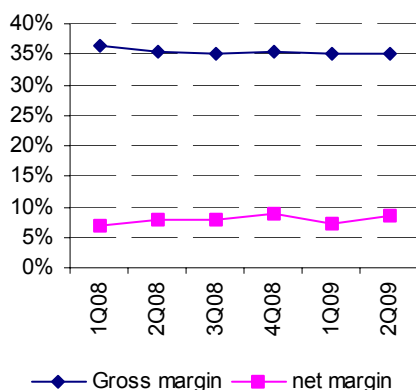
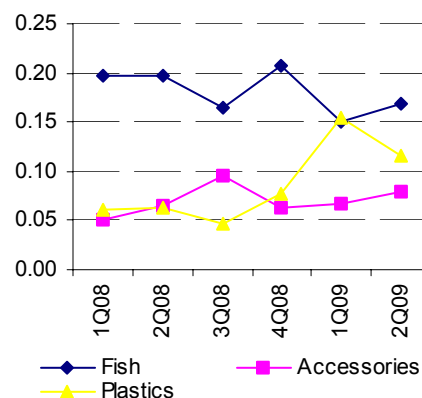


Exhibit 4. Profitability margins



Source: Company, Phillip Securities Research

Geographical analysis. Singapore and Other Asian countries experience slight negative growth in 2QFY09 while Europe and Others region maintain positive growth.

Exhibit 5. Geographical breakdown

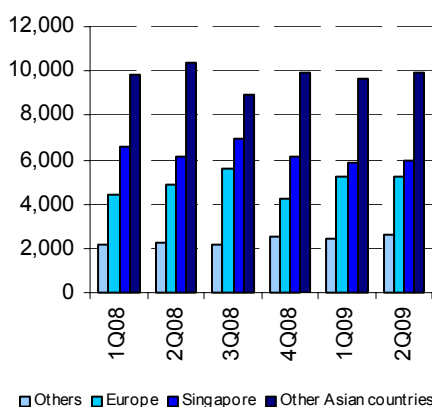
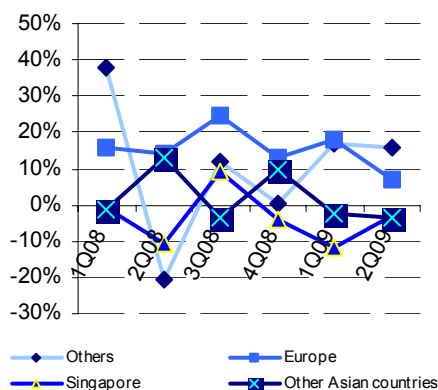


Exhibit 6. YoY growth



Source: Company, Phillip Securities Research

Future plans. The focus for QH is to achieve equal revenue contribution from the fish segment and the accessories segment. QH believes there is still huge potential for the accessories segment as it currently exports to only approximately 30 countries compared to more than 80 countries for the fish segment. The execution QH is adopting is through strategic overseas investments. QH has demonstrated its intention through the investment in Arcadia and also the Chennai JV.

Valuation and recommendation. We revised our growth assumptions and forecast a 5-year CAGR of 3%. In our opinion, we classify QH as a stable growth company. We raise our DCF derived fair value from \$0.15 to \$0.17 which translate to 12x FY09F earnings and 1x FY09F book value. Maintain our Buy recommendation.

Key Financial Data						
(Financial Year Ended 31 Dec)	2Q08	2Q09	%ch	FY09F	FY10F	FY11F
Revenue (S\$m)	23.6	23.7	0.60%	95.7	98.6	101.5
EBITDA (S\$m)	3.2	3.4	6.20%	12.7	13.5	13.8
EBIT (S\$m)	2.6	2.7	5.34%	10.0	10.3	11.1
Net profit attributable to shareholder (S\$m)	1.5	1.7	10.28%	5.9	6.2	6.7
Gross profit margin (%)	35.26%	35.05%	-0.21%	34.15%	34.37%	34.77%
Net profit margin (%)	7.84%	8.58%	0.74%	7.74%	7.82%	8.20%
Basic EPS (cents)	0.36	0.39	8.33%	1.41	1.45	1.54
Diluted EPS (cents)	0.34	0.38	11.76%	1.41	1.47	1.58
NAV per share (cents)	14.18	15.57	9.80%	16.51	18.09	19.78

Source: Company, Phillip Securities Research estimates

Financials

Profit model (\$mil)	2008	2009F	2010F	2011F
Revenue	93.1	95.7	98.6	101.5
COGS	(60.0)	(63.0)	(64.7)	(66.2)
Gross Profit	33.1	32.7	33.9	35.3
Other operating income	0.2	0.2	0.2	0.2
Selling & Distribution expenses	(2.7)	(2.7)	(2.8)	(2.9)
General & administrative	(20.4)	(20.2)	(20.9)	(21.5)
Financial income	0.0	0.0	0.0	0.0
Financial expenses	(0.9)	(0.8)	(0.8)	(0.7)
Profit before tax	9.2	9.3	9.6	10.4
share of profit/(loss) from associates	(0.0)	0.0	0.1	0.1
tax expenses	(1.8)	(1.9)	(2.0)	(2.1)
net profit	7.4	7.4	7.7	8.3
Attributable to shareholders	6.0	5.9	6.2	6.7
Attributable to minority interest	1.4	1.5	1.5	1.7

EPS basic (Cents)	1.46	1.41	1.45	1.54
EPS diluted (Cents)	1.36	1.41	1.47	1.58

Growth & margins (%)	2008	2009F	2010F	2011F
Revenue growth	1.5%	2.9%	3.0%	2.9%
Gross profit growth	1.5%	2.9%	3.0%	2.9%
Net profit growth	22.1%	-1.9%	4.0%	7.9%
Gross profit margin	35.5%	34.2%	34.4%	34.8%
Net Profit margins	6.5%	6.2%	6.3%	6.6%
ROA	8.2%	7.9%	7.6%	7.5%
ROE	9.6%	8.5%	8.0%	7.8%

Cash flow statement (\$mil)	2008	2009F	2010F	2011F
Profit before tax	9.2	9.3	9.7	10.5
adj for				
Depreciation and amortisation	2.4	2.6	3.2	2.7
Others	(0.0)	0.0	0.0	0.0
Share of profit of associates	0.0	(0.0)	(0.1)	(0.1)
Interest income	(0.0)	(0.0)	(0.0)	(0.0)
Finance expenses	0.9	0.8	0.8	0.7
Operating cash flow before WC changes	12.5	12.7	13.5	13.8
WC changes	(2.6)	(5.4)	(2.9)	(3.1)
Net cash flow from operating activities	9.8	7.2	10.6	10.6
Capex	(10.9)	(7.0)	(4.3)	(4.9)
Interest received	0.0	0.0	0.0	0.0
Others	0.1	0.0	0.0	0.0
Net cash flow from investing activities	(10.8)	(7.0)	(4.3)	(4.8)
Net increase/(decrease) in bank term loans	3.5	(1.2)	(0.3)	(0.3)
Net increase/(decrease) in finance lease	(0.3)	(0.2)	(0.4)	0.0
payment of dividends	0.0	(0.8)	0.0	0.0
Interest paid	(0.9)	(0.8)	(0.8)	(0.7)
Others	(0.1)	0.2	0.0	0.0
Net cash flow from financing activities	2.2	(2.7)	(1.4)	(1.0)
Net Increase/decrease in cash	1.3	(2.5)	4.9	4.8

Balance sheet (\$mil)	2008	2009F	2010F	2011F
PPE	14.6	13.6	12.0	11.2
Brooder stocks	26.7	31.8	34.5	37.5
investment in associate	0.8	1.2	1.3	1.4
Intangibles assets	2.2	2.2	2.2	2.2
total non current assets	44.4	48.8	50.0	52.3
Current assets				
Inventories	22.4	23.0	23.7	24.4
Breeder stocks	1.6	1.6	1.6	1.6
Trade and other receivables	23.3	24.0	24.7	25.4
Due from fixed deposits	0.0	0.0	0.0	0.0
Due from associate	0.5	0.5	0.5	0.5
Cash and bank balances	8.3	5.8	10.7	15.5
total current assets	56.1	54.9	61.3	67.4
Total assets	100.5	103.7	111.3	119.7
Trade and other payables	18.5	19.3	19.7	20.0
Due to minority shareholders	0.1	0.1	0.1	0.1
Finance lease obligations	0.2	0.4	0.0	0.0
Bank term loans	10.3	7.4	7.4	7.4
Provision for taxation	1.1	1.0	1.1	1.2
Bank overdraft	1.6	1.6	1.6	1.6
total current liabilities	31.8	29.7	29.9	30.3
Finance lease obligations	0.4	0.0	0.0	0.0
Bank term loan	2.1	0.9	0.6	0.3
Deferred tax	3.6	3.6	3.6	3.6
total non current liabilities	6.0	4.5	4.2	3.9
Total liabilities	37.8	34.2	34.1	34.2
Total equity	62.7	69.5	77.2	85.5
Total liabilities and equity	100.5	103.7	111.3	119.7
NAV/shr	0.15	0.17	0.18	0.20

Key Ratios	2008	2009F	2010F	2011F
Gross Gearing	0.18	0.14	0.12	0.11
Net Gearing	0.10	0.08	0.03	-0.02
Interest Coverage	11.52	12.88	13.75	15.59
Debt-equity ratio	0.60	0.49	0.44	0.40
Current ratio	1.77	1.85	2.05	2.23
Cash ratio	0.26	0.20	0.36	0.51
Receivables turnover	1.21	1.14	1.14	1.14
Inventory turnover	2.68	2.74	2.73	2.71
Payables turnover	1.81	1.67	1.65	1.65

Valuation	2008	2009F	2010F	2011F
P/E basic (X)	9.25	9.25	9.58	9.34
P/B (X)	0.90	0.89	0.82	0.75

Source: Company, Phillip Securities Research

Ratings History

Qian Hu Corporation Limited

Rating	Date	Closing price (S\$)	Fair value (S\$)	Remarks
BUY	22 July 2009	0.135	0.17	1HFY09 results
BUY	14 January 2009	0.095	0.15	FY08 results
BUY	5 November 2008	0.095	0.15	3QFY08 results
BUY	23 April 2008	0.140	0.20	1QFY08 results
BUY	16 January 2008	0.165	0.20	FY07 results
BUY	23 October 2007	0.165	0.25	Update
BUY	25 July 2007	0.590	0.71	Resume coverage

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	HOLD	Trade within \pm 15% from the current price
	SELL	>15% downside from the current price
	We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation	

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