

## Qian Hu Corporation Ltd – Better Q-Q, but still reeling from spillover effects

Phillip Securities Research Pte Ltd

20 October 2010

Market Singapore Stock Exchange  
Sector Livestock  
Reuters QIAN SI  
Bloomberg QIAN SP

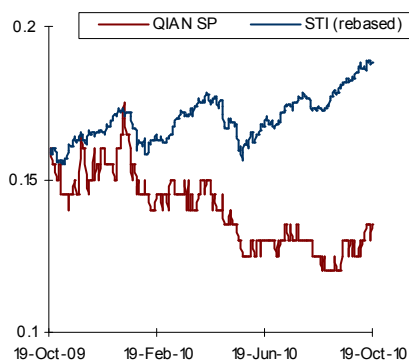
### Hold (Downgrade)

Closing Price S\$0.135  
Target Price S\$0.14 (+3.7%)

**Price**  
Last Price **0.135**  
52w k High (11/24/2009) 0.18  
52w k Low (5/25/2010) 0.12  
Shares Outstanding (mil) 454.11  
Market Cap (S\$ mil) 61.30  
Avg. Daily Turnover (mil) 0.08  
Free float (%) 53.73  
PE (X) 10.89  
PB (X) 0.98

**Price performance %**

	1M	3M	6M
Absolute	3.8%	3.8%	-6.9%
Relative	0.2%	-4.4%	-14.0%



**Major Shareholders**

Shareholder	%
1 Qian Hu Holdings	24.0

- 3Q10 revenue \$22.9 million (-3.9% y-y, +1.0% q-q)
- 2Q10 net profit attributable to shareholder \$1.2 million (-27.9% y-y, +27.7% q-q)
- Results below our expectation
- Downgrade to Hold, fair value of \$0.14

3Q10 results were still dismal compared to a year ago, however q-q analysis showed that things are improving albeit below our estimation. Revenue and net profit came in at \$22.9 million and \$1.2 million, below our forecast of \$25 million and \$1.7 million respectively. Generally there were remnant effects that had affected 2Q10 still visible in 3Q10. These include the drought which had affected the supply of self-bred dragon fish. Exports into the Europe area was also affected due to the cutback in spending. The strong Sing\$ also had a dampener effect on the export of ornamental fish.

**Product segments analysis.** Numbers were largely unchanged from the second quarter, the bright spark being the plastics division which is deemed to be an auxiliary business. Revenue from ornamental fish was \$11.3 million (-5.5% y-y, +0.1% q-q) and contributed 49% to total revenue. Accessories sales was \$8.6 million (-5.3% y-y, +0.8% q-q) and contributed 38%. The plastic business improved in the quarter with revenue of \$2.9 million (+8.0% y-y, +5.1% q-q) and accounted for 13% of total revenue.

Fig 1. Quarterly breakdown by segment (S\$'000)

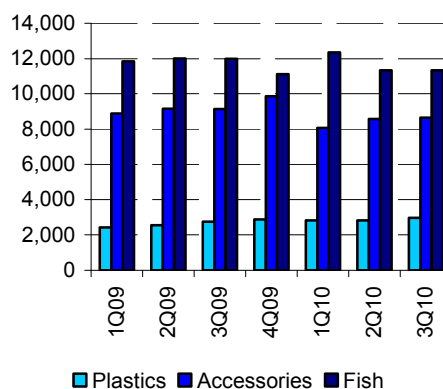
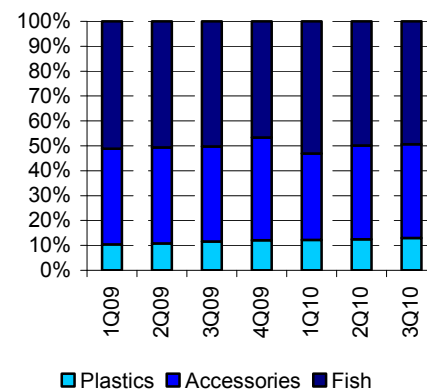


Fig 2. Percentage contribution



Source: Company, Phillip Securities Research

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Conso' Ending	Profits (SG\$m)	EPS SG cents	DPS SG cents	BV (SG\$)	ROE (%)	P/E (X)	Yield (%)	P/BV (x)
12/07 A	4.95	1.34	8.54	0.14	11.4	10.07	63.3%	1.00
12/08 A	6.04	1.46	0.20	0.15	11.8	9.25	1.5%	0.89
12/09 A	6.54	1.14	0.50	0.16	11.0	8.65	3.7%	0.82
12/10 E	5.19	1.14	0.34	0.16	7.6	11.80	2.5%	0.83
12/11 E	6.21	1.37	0.41	0.17	8.5	9.88	3.0%	0.78

**Profit margins.** Profit margins took a rebound in 3Q10. Gross profit margin was 34.5% while net profit margin was 5.9%. Profitability margin of the fish segment improved 2ppt over the previous quarter to 9.0%, as sales of self-bred dragon fish resumed. The drought occurred in 1Q10 and it takes 3-6 months for off-springs to grow to a marketable size. Thus we are expecting profit margin for fish to rebound to double-digits figure in the next quarter. Both the accessories and plastics segments showed improvement in margins.

Fig 3. Gross, Net profit margins

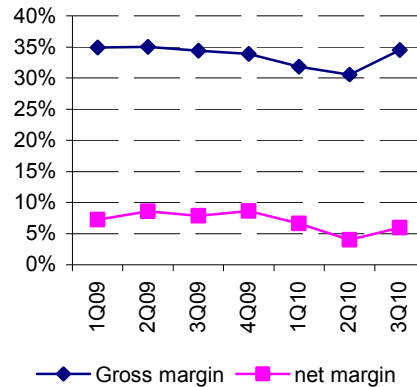
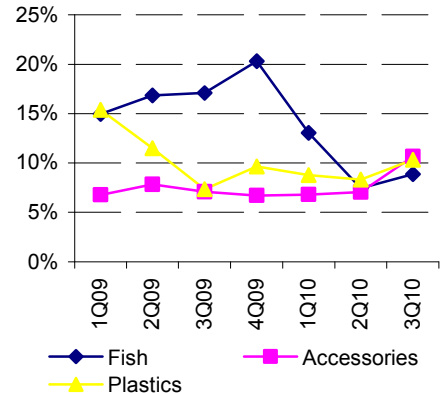


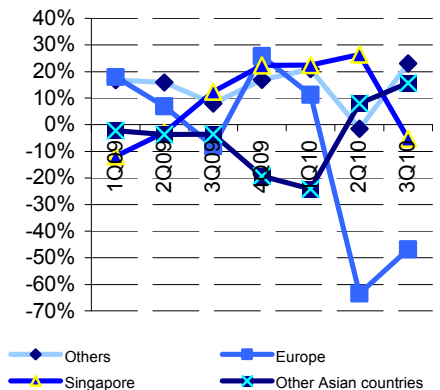
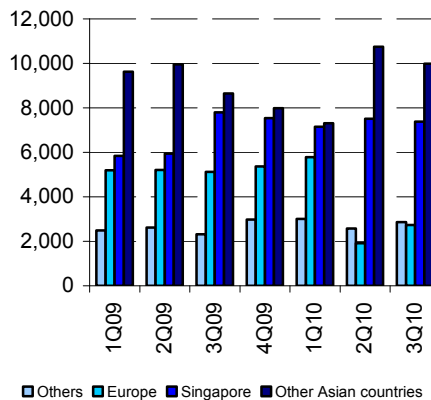
Fig 4. Profitability margins



Source: Company, Phillip Securities Research

**Geographical analysis.** Europe and Singapore saw revenue decreased compared to a year ago, while Other Asian Countries and Others regions are still registering growth. Europe sales was badly affected in 2Q10 due to airport closure from the volcanic ash and the World Cup. Although sales recovered somewhat in 3Q10, it is still lower y-y as an economic condition in the European region is still uncertain.

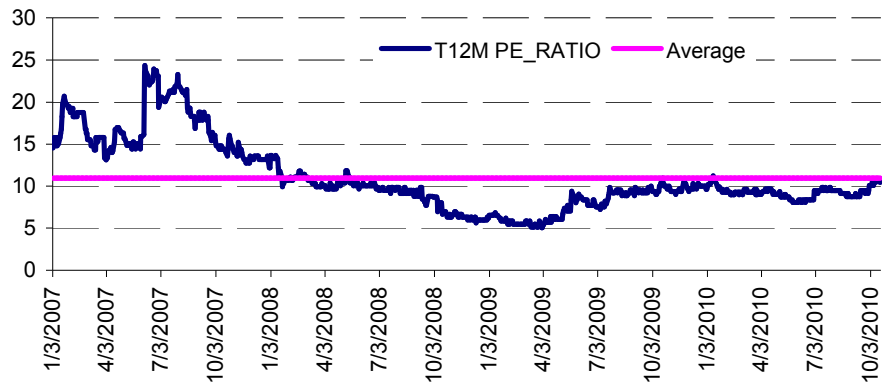
Fig 5. Revenue breakdown by regions (S\$'000) Fig 6. Y-Y growth



Source: Company, Phillip Securities Research

We had originally expected things to normalize in 3Q10, although things did pick up, but we had overestimated the rate of normalization. The drought occurred in the early months of 1Q10 and given the gestation period of 3-6 months, we had initially thought supply would have normalized by 3Q10. Sales of self-bred dragon fish resumed in the quarter, however we think supply did not reach the normalized level. At the normalized supply level, profit margin for fish should be in the mid-teens region. The profitability of the fish segment was also impacted by the strong Sing\$ whereby export customers sourced for cheaper alternatives. Qian Hu also recorded 2 straight quarters of losses from its Indian associates which Qian Hu had invested back in 3Q09. We are scaling back our FY10E revenue and net profit forecasts by 1% and 10%. We think catalyst to 4Q10E earnings would be the contribution from self-bred dragon fish since ornamental fish sale accounts for almost half of total revenue, as well as roll out of the new "Hydro-Pure" filtration system. We are forecasting a dividend payout of 30% of FY10E net profit in line with the payout ratio in FY09, which translate to 0.35cents per share. We are rolling forward and pegging out target price to 10x FY11E earnings which gives us \$0.14. In view of the limited upside, we are downgrading to Hold.

Fig 7. Historical PE



Source: Bloomberg, Phillip Securities Research

## Financials

Profit model (\$ mil)	2007	2008	2009	2010E	2011E
Revenue	917	93.1	94.6	95.6	97.2
COGS	(60.2)	(60.0)	(61.9)	(64.9)	(64.5)
Gross Profit	315	33.1	32.7	30.7	32.6
Other operating income	0.2	0.2	0.1	0.1	0.1
Selling & Distribution expenses	(2.8)	(2.7)	(1.8)	(2.0)	(2.1)
General & administrative	(20.2)	(20.4)	(20.9)	(21.4)	(21.9)
Financial income	0.0	0.0	0.0	0.0	0.0
Financial expenses	(0.8)	(0.9)	(0.7)	(0.6)	(0.5)
Profit before tax	7.9	9.2	9.5	6.9	8.3
share of profit/(loss) from associates	0.0	(0.0)	(0.0)	0.0	0.0
tax expenses	(1.6)	(1.8)	(1.8)	(1.2)	(1.6)
net profit	6.3	7.4	7.6	5.6	6.7
Attributable to shareholders	4.9	6.0	6.5	5.2	6.2
Attributable to minority interest	1.4	1.4	1.1	0.5	0.5

Growth & margins (%)	2007	2008	2009	2010E	2011E
Revenue growth	20.5%	15%	17%	1%	16%
Gross profit growth	20.5%	15%	17%	1%	16%
Net profit growth	89.1%	22.1%	8.3%	-20.6%	19.5%
Gross profit margin	34.4%	35.5%	34.6%	32.1%	33.6%
Net Profit margins	5.4%	6.5%	6.9%	5.4%	6.4%
ROA	8.1%	8.2%	8.0%	5.8%	6.5%
ROE	11.4%	11.8%	11.0%	7.6%	8.5%

Cash flow statement (\$ mil)	2007	2008	2009	2010E	2011E
Profit before tax	7.9	9.2	9.4	6.9	8.3
adj for					
Depreciation and amortisation	2.2	2.4	2.6	3.5	2.9
Others	0.8	0.4	0.5	0.0	0.0
Share of profit of associates	(0.0)	0.0	0.0	0.0	(0.0)
Interest income	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Finance expenses	0.8	0.9	0.7	0.6	0.5
Operating cash flow before WC changes	11.8	12.9	13.3	11.0	11.8
WC changes	(3.1)	(3.1)	(1.1)	(2.4)	(2.2)
Net cash flow from operating activities	8.7	9.8	12.2	8.5	9.5
Capex	(9.7)	(10.9)	(7.2)	(5.9)	(6.8)
Interest received	0.0	0.0	0.0	0.0	0.0
Others	0.1	0.1	0.1	0.0	0.0
Net cash flow from investing activities	(9.6)	(10.8)	(7.2)	(5.9)	(6.8)
Net increase/(decrease) in bank term loans	1.7	3.5	(0.2)	(0.3)	(0.4)
Net increase/(decrease) in finance lease	(0.2)	(0.3)	(0.2)	(0.5)	0.0
payment of dividends	(0.6)	0.0	(0.8)	(2.1)	(1.6)
Interest paid	(0.8)	(0.9)	(0.7)	(0.6)	(0.5)
Others	0.9	(0.1)	0.0	1.1	0.0
Net cash flow from financing activities	0.9	2.2	(1.9)	(2.4)	(2.5)
Net Increase/decrease in cash	(0.0)	1.2	3.1	0.3	0.3
cash at beginning	7.5	7.0	6.7	9.8	10.1
effects of exchange rate changes	0.0	0.0	0.0	0.0	0.0
cash at end	7.5	8.3	9.8	10.1	10.3

Source: Company, Phillip Securities Research

Balance sheet (\$ mil)	2007	2008	2009	2010E	2011E
PPE	12.4	14.6	15.9	14.2	13.2
Brooder stocks	21.4	26.7	30.3	34.5	39.3
investment in associate	0.8	0.8	1.2	1.2	1.2
Intangibles assets	2.1	2.2	2.3	2.3	2.3
total non current assets	36.8	44.4	49.7	52.1	56.0
Current assets					
Inventories	22.0	22.4	21.0	21.7	22.1
Breeder stocks	1.4	1.6	1.5	1.5	1.5
Trade and other receivables	19.4	23.3	20.4	21.0	21.3
Due from fixed deposits	0.0	0.0	0.0	0.0	0.0
Due from associate	1.7	1.4	1.3	1.3	1.3
Cash and bank balances	7.5	8.3	9.8	10.1	10.3
total current assets	52.0	57.1	54.0	55.6	56.6
Total assets	88.8	100.5	103.8	107.8	112.6
Trade and other payables	17.1	18.5	16.7	17.3	17.2
Due to minority shareholders	0.9	0.1	0.0	0.0	0.0
Finance lease obligations	0.2	0.2	0.2	0.0	0.0
Bank term loans	7.4	10.3	10.3	10.3	10.2
Provision for taxation	0.8	1.1	1.3	0.8	1.1
Bank overdraft	2.1	1.6	0.0	0.0	0.0
total current liabilities	28.4	31.8	28.4	28.4	28.4
Finance lease obligations	0.3	0.4	0.3	0.0	0.0
Bank term loan	1.5	2.1	1.7	1.4	1.0
Deferred tax	2.9	3.6	4.1	4.1	4.1
total non current liabilities	4.8	6.0	6.1	5.5	5.1
Total liabilities	33.2	37.8	34.5	33.9	33.5
Total equity	55.6	62.7	69.2	73.9	79.1
Total liabilities and equity	88.8	100.5	103.8	107.8	112.6

Per share data	2007	2008	2009	2010E	2011E
EPS basic (Cents)	134	146	156	114	137
EPS diluted (Cents)	123	136	148	114	137
NAV/shr	0.14	0.15	0.16	0.16	0.17
Dividend (cents)	8.54	0.2	0.5	0.34	0.41

Key Ratios	2007	2008	2009	2010E	2011E
Gross Gearing	0.18	0.18	0.16	0.15	0.14
Net Gearing	0.10	0.10	0.06	0.06	0.05
Interest Coverage	10.39	11.52	14.75	12.36	16.59
Debt-equity ratio	0.60	0.60	0.50	0.46	0.42
Current ratio	183	177	190	196	199
Cash ratio	0.26	0.26	0.35	0.36	0.36
Receivables turnover days	67	75	75	69	69
Inventory turnover days	133	135	128	120	124
Payables turnover days	41	50	50	44	45

Valuation	2007	2008	2009	2010E	2011E
P/E basic (X)	10.07	9.25	8.65	11.80	9.88
P/B (X)	1.00	0.89	0.82	0.83	0.78
Dividend yield (%)	63.3%	15%	3.7%	2.5%	3.0%

## Ratings History

### Qian Hu Corporation Ltd

Rating	Date	Closing price (S\$)	Fair value (S\$)	Remarks
HOLD	20 October 2010	0.135	0.14	3QFY10 results
BUY	21 July 2010	0.13	0.17	2QFY10 results
BUY	20 April 2010	0.15	0.18	1QFY10 results
BUY	29 March 2010	0.14	0.18	Update
HOLD	13 January 2010	0.175	0.18	FY2009 results
HOLD	20 October 2009	0.170	0.17	3QFY09 results
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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	BUY	>15% upside from the current price
	HOLD	-10% to 15% from the current price
	SELL	>10% downside from the current price
	TRADING SELL	Share price may exceed 10% on the downside over the next 3 months, however longer-term outlook remains uncertain
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