



Recommendation:
BUY (Maintain)

Previous call: BUY on 22 Jul at \$0.79

Price (20/10/2003)
S\$0.785

Qian Hu Corporation Limited

The Growth is slowing down....

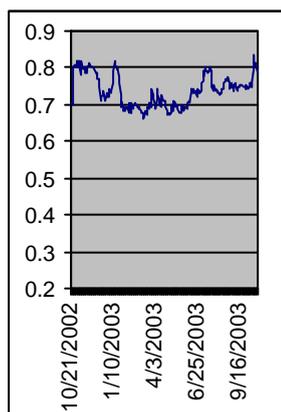
Share Statistics

Shares (mil)	106.1
Mkt Cap (\$mil)	83.3
PER*	11.6x
P/NTA*	2.4x
52-Week Range (Price)	\$0.66 -0.85
52-Week Range (PER)	9.7x – 12.3x
Substantial Shareholders	Qian Hu Holdings (29.4%)

*Trailing

Qian Hu registered 12.6% growth in turnover and 10.8% growth in net profit for the 9 months ended FY03. The drop in profit margin was mainly due to the lower gross profit margin from accessories segment resulting from the keen competition within the industry as well as higher general and administration expenses. The newly-acquired subsidiary – Kim Kang, has contributed to 15% of turnover and 50% of the increase in profit for the ornamental fish segment in 3QFY03. Going forward, we believe Qian Hu will be able to achieve healthy growth in sales and turnover. We maintain our BUY recommendation with a revised target price of 95 cents.

Price over the last 52 weeks



Source: Bloomberg

3Q FY03 Financial Results

(Ended 31st December)

INDICATORS	9mth 02	9mth 03	Change (%)	FY03F	FY04F
TURNOVER (S\$'mil)	45.3	51.0	12.6	72.8	89.0
PROFIT BEFORE TAX (S\$'mil)	6.1	6.7	9.6	10.2	12.5
PROFIT AFTER TAX (S\$'mil)	4.8	5.3	10.8	8.0	9.4
NET PROFIT MARGIN (%)	10.6	10.4	-	11.0	10.6
GEARING (x)	0.6	0.5	-	0.5	0.5
EARNINGS PER SHARE (CENTS)	4.9	5.1	4.1	7.3	8.6
NTA PER SHARE (CENTS)	26.6	33.4	25.6	35.6	43.6

Source: Company, Phillip Securities Research

Company Profile

Qian Hu engages primarily in the import, export and distribution of ornamental fish, the breeding of Dragon Fish, as well as the manufacturing and distribution of aquarium and pet accessories.

Segmental review:

Ornamental fish. Compared to the corresponding period in the previous financial year, turnover for 9 months ended September FY03 increased by 12.8% while profit increased by 69.9%. The newly-acquired subsidiary, Kim Kang Aquaculture Sdn Bhd contributed 15% of the ornamental fish turnover in the 3Q FY03. However, sales for other ornamental fish in Malaysia were lower in 3QFY03. Profit margin has improved from 11.0% to 16.6% as Qian Hu sold more own-bred Dragon Fish from Singapore and Malaysia farms, which fetches higher margin. Kim Kang contributed approximately 50% of the increase in profit in 3QFY03.

Accessories. Sales jumped 15.6% while profit dropped by 17.3% for the 9 months ended FY03. Increase of export from Singapore to more countries, coupled with contribution from Wan Jiang which became Qian Hu's subsidiary in 4Q2002, contributed to the increase in turnover. However, this was partially offset by lower turnover from the Singapore domestic market due to lower demand. Profit margin dropped from 22.1% to 15.8% as a

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result of lower gross margin due to keen competition in both domestic and overseas markets.

Plastic. Sales for 9 months ended FY03 were flat compared to the corresponding period in the same financial year while operating profit increased by 21.6%. The competition in the local market remained keen but Qian Hu managed to sell more high yield items and contain operating costs. These, however, was partially offset by higher raw material prices in 3QFY03. Profit margin has improved from 3.7% to 4.5%.

Recommendation

In view of the keener competition in the accessories segment, we have thus revised our sales and net profit forecast for FY03F from S\$78.4 million and S\$8.5 million to S\$72.8million to S\$8.0 million. We estimate a 22.2% growth in sales and 11.2% increase in net profit for FY04F.

We believe that the sales will enjoy healthy growth going forward, mainly contributed by the overseas operations. Competition in the accessories segment will remain keen, but the lower profit margin from this segment will be offset by higher profit margin from the ornamental fish segment as the sales of Dragon Fish increase. We thus maintain our **BUY** recommendation with revised target price of 95 cents, which is derived based on 11x PER and FY04F EPS of 8.6 cents

Signed

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