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## Singapore Consumer

Reuters QIAN.SI  
Bloomberg QIAN SP

**Priced on 30 July 2007**  
STI @ 3,526.3

**Market cap** US\$53m  
**Shares in issue** 128.2m  
**Free float (est.)** 26.6%

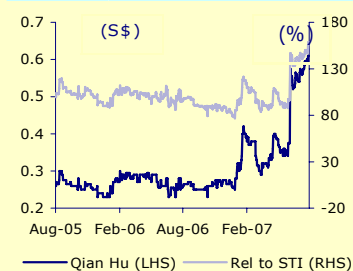
**3M average daily volume**  
S\$0.2m (US\$0.2m)

**12M high/low**  
S\$0.62/0.23

**Major shareholders**  
Yap family 63.4%

### Stock performance (%)

	1M	3M	12M
Absolute	14.8	61.0	143.1
Relative	15.5	53.5	67.5
Abs (US\$)	16.1	61.6	153.9



Source: Bloomberg

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## Stellar growth

Qian Hu announced very strong results for 1H07, net profit was up a strong 57% on the back of steady revenue growth and improved margins. While expenses continued to rise, revenues grew at a faster rate, contributing to a higher operating margin. We have increased our FY07 forecasts, and upgraded FY08 earnings, which we think were pretty conservative. A fair value range of 11-13x FY08 PE (i.e. S\$0.57-0.68) would be appropriate, given it operates in a niche segment, and is a small profitable outfit.

### Strong 1H07 results

1Q07 showed positive signs of improvement, and 2Q07 continued the upward trend. While topline growth was 22% YoY, cost management in selling and general expenses improved operating margins as operating profit was up 40% YoY. Taking into account a concessionary tax rate of 10% and minority interests, net profit actually rose 88.4% YoY for 1H07.

### Revenue trends

Dragon fish sales continue to be the main driver, as the company saw strong export of the ornamental fish to new markets like China, Middle East, Russia and Australia. Accessories segment continues to grow as more effort was channelled to target overseas markets which were previously untapped. The Guangzhou factory managed to secure more orders.

### Going forward

The company has plans to increase its customer base and geographical footprint by exporting to more countries via its distribution hubs in Singapore, Malaysia, Thailand and China. Besides that, it intends to increase the number of retail chain stores, particularly in China. Meanwhile, it will focus on increasing distribution points in China for its Dragon Fish and other accessories to more than 100.

### Valuations

In light of a sound performance, we think an earnings upgrade is warranted. With a robust economy, we expect discretionary spending to increase, and Qian Hu, with its ornamental fish, is clearly poised to capitalise on this trend. Moreover, the signs are all positive as demand has clearly increased, and the company has benefited from cost management, and well as a concessionary tax rate. We think a fair value range for Qian Hu is 11-13x FY08 earnings, which puts it in the range of S\$0.57 – S\$0.68.

### Financials

Year to 31 Dec	04A	05A	06A	07CL	08CL
Revenue (S\$m)	65.5	66.3	76.1	92.4	101.7
Rev forecast change (%)				17.4	18.4
Net profit (S\$m)	1.7	2.1	2.6	4.6	6.6
NP forecast change (%)				20.1	99
EPS (S¢)	1.3	1.6	2.0	3.6	5.2
EPS (% YoY)	(76.3)	20.4	27.6	75.8	44.2
PEX (@S\$0.62)	47.0	39.0	30.5	17.4	12.0
Dividend yield (%)	-	0.6	0.8	1.3	1.9
FCF yield (%)	(7.1)	0.6	(1.0)	-	3.4
ROAE (%)	4.5	5.2	6.3	10.3	13.4
Price/book (x)	2.1	2.0	1.9	1.7	1.5

Note: This company is not under formal CLSA coverage. Source: Company, CLSA Asia-Pacific Markets

**Key to CLSA investment rankings:** **BUY** = Expected to outperform the local market by >10%; **O-PF** = Expected to outperform the local market by 0-10%; **U-PF** = Expected to underperform the local market by 0-10%; **SELL** = Expected to underperform the local market by >10%. Performance is defined as 12-month total return (including dividends).

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