

Qian Hu

Double digit earnings growth in 2004

BUY

\$S\$0.825

Despite the weaker than expected results, share price should continue to be supported by the bonus issue (5 for 1) in the near term. We remain optimistic about the management's ability in delivering strong earnings growth led by the acquisition of Arowana specialist, Kim Kang, and pet accessories retail business. Maintain Buy rating.

- **FY03 result slightly below expectations.** 2003 net profit only grew 7%, to S\$7m, versus our expectation of 15%. This was due to higher than expected start-up cost incurred for the retail business and a decline in profitability in Singapore due to intense competition in the pet accessories industry. Ornamental fish division was the best performer, with earnings rising 116%, due to 6 months contribution from the acquisition of Kim Kang and strong sales from the overseas market. Presently, Arowana fish accounts for about 20% of total sale of ornamental fish.

- **Maintain 2004 earnings.** Turnover should continue to stay strong, led by strong demand for Arowana fish in Asia and margins expansion. Operating margins should improve from the backward integration of breeding Arowana fish and the consolidation of accessories manufacturing activities in Guangzhou.

- **Retail business – a critical strategy to defend margin.** Qian Hu expanded into retail chain business in 3Q03. They are targeting to set up about 10-20 retail outlets in four markets in 2004 and about 100 by 2009. While there would be some start-up cost associated with the opening of such stores, it is a crucial long-term move, as this would enable Qian Hu to enjoy both retail and wholesale margins. We maintain both our BUY rating and price target at \$1.00 on the back of 12x PE on FY04 earnings.

At a Glance

Price Target:
1-year S\$1.00

Stock Code:
Bloomberg QIAN SP
Reuters: QIAN.SI

Sector: Consumer

STI: 1,842.49

Stock Rating:
★★★★☆

Sector Rating:
★★★☆☆

Reason for Report:
Final result

Implications:
Neutral

Earnings Revision:
FY04 unchanged
FY05 +6%

Consensus EPS:
FY04 9.5 S cts
FY05 9.5 S cts

DBSV vs Consensus EPS (% variance):
FY03 -12.6%
FY04 +11.6%

Principal Business:
Distributor and breeder of ornamental fish. Distributes and manufactures aquarium and pet accessories

Forecasts and Valuation

FY Dec (\$m)	2002A	2003A	2004F	2005F
Turnover	62.7	67.7	82.4	95.9
EBITDA	9.9	11.4	14.1	16.1
Pretax Profit	8.6	9.6	11.9	14.8
Net Profit	6.5	7.0	8.9	11.2
EPS (S cts)	6.5	6.6	8.3	10.6
EPS Gth (%)	56.8	1.3	26.4	26.4
PE (x)	11.7	11.5	9.1	7.2
P/cashflow	9.7	9.3	7.3	6.0
EV/EBITDA	7.2	7.1	5.5	4.5
DPS (S cts)	1.2	0.6	1.3	1.6
Div Yield (%)	1.6	0.8	1.6	2.1
Net Gearing (%)	cash	cash	cash	cash
ROE (%)	29.0	21.8	21.4	21.3
NTA (S cts)	27.8	34.4	43.7	55.3
P/Book Value (x)	2.7	2.2	1.7	1.4

General Data

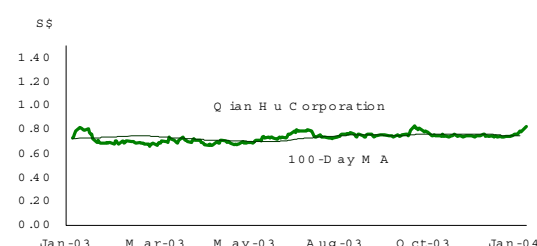
Issued Capital (m shrs)		106
Mkt Cap (\$m/US\$m)	88 /	52
Major Shareholders		
Qian Hu Holdings (%)		29.6
Yap family (%)		45.1
Free Float (%)		25.3
Avg Daily Vol ('000 shrs)		

Consensus Analyst Poll

	Avg Rating	Buy	Hold	Sell
3 Mth	5.00	2	-	-
6 Mth	5.00	2	-	-
12 Mth	5.00	2	-	-
Market	3.63			
Sector	3.64			

Source: Bloomberg
Avg Rating: 1 = Sell, 3 = Hold, 5 = Buy

Share Price Chart



Share Price Performance

	Share Price	Rel STI	Rel Sector
Past 1 mth	11%	4%	2%
Past 3 mths	377%	-2%	-4%
Past 6 mths	4%	-15%	-19%
Past 12 mths	4%	-32%	-47%

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Refer to important disclosures at the end of this report

Results Summary & Comments

FY Dec (\$m)	4Q02	4Q03	% chg	FY02	FY03	% chg	Comments
Segmental sales	17.4	16.7	-4.2	62.7	67.7	8.0	
Ornamental fish	5.7	6.8	19.2	24.0	27.5	14.3	Led by 6 months contribution from Kim Kang in Malaysia.
Accessories	10.0	8.2	-17.3	31.9	33.6	5.4	22% decline in demand in Singapore partly cushioned by strong demand from the overseas market (32%).
others	1.8	1.7	-6.3	6.7	6.6	-2.5	
Segmental PBIT	2.5	2.9	15.2	8.6	9.6	11.2	
Ornamental fish	0.4	1.9	353.6	2.5	5.3	117.7	Sharp improvement as management embarked on breeding of Arowana fish and gain on revaluation of breeder stock (\$1m worth off-spring of existing brooder stocks).
Accessories	2.4	1.2	-49.5	7.1	5.2	-26.6	Lower retail sales in Singapore coupled with start-up cost for the pet retail business led to a sharp decline in efficiencies.
others	-0.4	-0.3	-24.6	-1.0	-1.0	2.2	
Profit & Loss							
Turnover	17.4	16.7	-4.2	62.7	67.7	8.0	Led by 6 months contribution from Kim Kang in Malaysia.
Gross profit	5.9	6.6	12.8	22.2	25.4	14.4	Margins improved due to backward integration into breeding of Arowana fish.
S, G & A	2.8	1.7	-38.5	12.3	13.9	13.8	Start-up cost for the retail operations in the overseas markets.
EBITDA	3.0	4.9	60.6	9.9	11.4	15.1	
Depreciation	0.3	0.5	57.5	1.3	1.7	26.9	Led by acquisition of Kim Kang in Malaysia.
Interest expense	-0.3	0.0	-87.8	-0.2	-0.2	22.8	
Investment inc	0.0	-0.1	nm	0.0	0.0	0.0	
Associates	0.0	0.1	197.9	0.1	0.1	5.0	
Pretax profit	2.5	2.9	15.2	8.6	9.6	11.2	
Tax	-0.7	-0.8	4.9	-2.1	-1.8	-13.1	Lower tax due to IHQ status.
Minority interest	0.0	-0.4	nm	0.0	-0.8	nm	
Net profit	1.7	1.7	-2.8	6.5	7.0	7.2	
Gross margin (%)	33.6	39.6		35.4	37.5		
EBITDA margin (%)	17.4	29.2		15.8	16.9		
Tax rate (%)	29.0	26.4		23.9	18.7		Lower tax due to IHQ status.
Key Balance Sheet & Cash Flow Items							
DOS Inventory	88	125		88	125		
DOS Acct Receivables	69	62		69	62		
Cash fr Operations	1.5	0.8		4.7	1.0		
Capex	-0.5	-0.3		-1.7	-3.7		
Free Cash Flows	1.0	0.5		3.0	-2.7		

Source: Company, DBS Vickers

Summary Earnings Model (FY02-05)

FY Dec (\$m)	2002A	2003A	2004F	2005F	Comments
Sales					
Ornamental fish	24.0	27.5	33.6	38.7	Led by full year contribution from Kim Kang Demand from overseas market coupled with Qian Hu's retail outlet driving growth.
Accessories	31.9	33.6	42.1	50.5	
Plastic & other	6.7	6.6	6.7	6.7	
Total sales	62.7	67.7	82.4	95.9	
Gross profit	22.2	25.4	30.9	36.0	Margins to remain high led by backward integration for the breeding of Arowana fish. Led by the new retail business.
SGA	-13.7	-15.8	-19.2	-22.6	
Operating Profit	8.6	9.8	11.9	13.9	
Intr/Invsmt Inc	-0.2	-0.2	-0.2	0.8	
Pft Before Tax	8.6	9.6	11.9	14.8	
Tax	-2.1	-1.8	-2.2	-2.8	
MI	0.0	-0.8	-0.8	-0.8	
PAT/MI	6.5	7.0	8.9	11.2	
Margins (%)					
Gross margin	35.4	37.5	37.5	37.5	
Net margin	10.4	10.4	10.8	11.7	
Tax rate	23.9	18.7	18.7	18.7	

Source: Company, DBS Vickers

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DBS Vickers Research Star Rating System

- ★★★★★ - Strong Buy (>30% upside over the next 6 months)
- ★★★★☆ - Buy (>20% upside over the next 12 months)
- ★★★☆☆ - Hold (10-20% upside over the next 12 months)
- ★★☆☆☆ - Fully Valued (Trade within a +/-10% range over the next 12 months)
- ★☆☆☆☆ - Sell (>10% downside over the next 12 months)

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