

Qian Hu

Impressive 1Q02 profit growth

NEUTRAL
Initiating coverage

S\$0.87

We are initiating coverage on Qian Hu with a Neutral rating due to rich valuations. Qian Hu is an under-researched integrated service provider in the tropical ornamental fish industry. It is an attractive small cap play given the high corporate transparency and strong earning growth from overseas operations. Notwithstanding the strong fundamentals, Qian Hu's recent share price rally (up almost 100% in the last three days) puts the stock close to our target price of S\$0.90.

- **Not a livestock company.** Contrary to market perception that Qian Hu is a tropical fish breeder, Qian Hu's main revenue drivers are the distribution of ornamental fishes and pet accessories products. There are three main businesses in Qian Hu - distribution of ornamental fish, distribution and manufacturing of pet accessories and manufacturing of plastic bags. Qian Hu's plastic manufacturing business complements the fish distribution business.

- **FY02 net profit is expected to rise 45% led by margin improvement.** Net profit in FY02 is expected to grow by 45% to S\$5m, led by a widening in profit margin for the distribution of higher value added fish (Dragon and Loach) and the manufacturing of in-house brands of pet accessories in China. In addition, there is an absence of restructuring and startup costs in Thailand and China incurred in 2001.

At a Glance

Price Target:
1-year S\$0.90

Stock Code:
Bloomberg: QIAN SP
Reuters: QIAN.SI

Sector: Consumer

STI: 1,740.35

Stock Rating:
★ ★ ★ ☆ ☆

Sector Rating:
★ ★ ★ ★ ☆

Technical Rating:
★ ★ ★ ☆ ☆

Reason for Report:
Initiating coverage

Implications:
Positive

Consensus EPS:
FY02 3.2 S cts

**DBSV vs Consensus
EPS (% variance):**
FY02 +59.4%

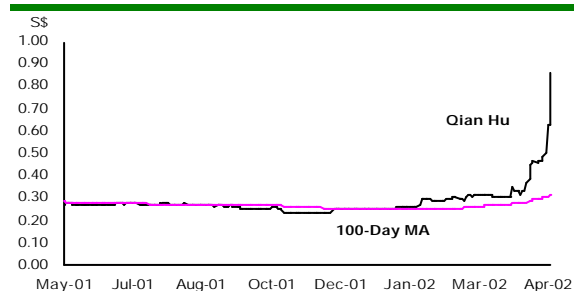
Forecasts and Valuation

FY Dec (\$m)	2001A	2002F	2003F	2004F
Turnover	41	56	68	77
EBITDA	5.6	8.1	10.1	12.0
Pretax Profit	4.3	6.5	8.4	10.1
Net Profit	3.4	5.0	6.4	7.7
EPS (S cts)	4.2	5.1	6.4	7.7
EPS Gth	8.9%	23.0%	24.4%	20.2%
P/E Ratio (x)	20.8	16.9	13.6	11.3
P/B Ratio (x)	4.2	3.3	2.7	2.2
Div Yield	0.6%	0.7%	0.9%	1.1%
ROA	13.6%	15.1%	15.2%	15.4%
ROE	22.4%	22.9%	21.9%	21.6%
Net Gearing (%)	cash	2%	cash	cash
NTA (S cts)	20.8	26.2	31.9	38.8

General Data

Issued Capital (m shrs)	100
Mkt Cap (S\$m/US\$m)	87 / 48
Major Shareholders	
Qian Hu Holdings (%)	31.4
Yap family members (%)	43.6
Free Float (%)	25.0
Avg Daily Vol ('000 shrs)	1,768

Share Price Chart



Share Price Performance

	Share Price	Rel STI	Rel Sector
Past 1 mth	175%	178%	176%
Past 3 mths	188%	191%	185%
Past 6 mths	273%	243%	252%
Past 12 mths	217%	217%	193%

Highlights

- **Strong 1Q earnings growth of 73%.** Net profit jumped to \$1m due to strong sales growth and margin enhancement, as there were no more restructuring cost for the Thai and Malaysia subsidiaries. Earnings contribution from accessories (due to the China plant) and sale of ornamental fishes largely drove sales growth. Sales of ornamental fishes grew at a robust 26% due to increase sales in Singapore (as a result of Luo Han fish and the opening of more ornamental fish distribution shops), and higher sale to Taiwan (following the deregulation of the import of Dragon Fish) and increase earnings contribution from the Thai and Malaysian subsidiaries.

Segmentals earnings

FY: Dec (\$m)	1Q01	1Q 02
Sales		
Ornamental fish	4.4	5.5
Accessories	3.7	5.5
Plastic & other	1.4	1.5
Total sales	<u>9.4</u>	<u>12.5</u>
Operating profit		
Ornamental fish	0.5	0.7
Accessories	0.4	1.0
Plastic & other	0.1	0.1
Unallocated expenses	(0.2)	(0.3)
Total operating profit	<u>0.8</u>	<u>1.4</u>
Margins		
Ornamental fish	10.9%	12.8%
Accessories	9.6%	18.2%
Plastic & other	7.8%	3.7%
Total opg profit	8.2%	11.3%

Source : Company

- **Not a livestock company.** Contrary to market perception that Qian Hu is a tropical fish breeder, Qian Hu's main revenue drivers are the distribution of ornamental fishes and pet accessories products. There are three main businesses in Qian Hu - distribution of ornamental fish, distribution and manufacturing of pet accessories and manufacturing of plastic bags. Qian Hu's plastic manufacturing business complements the fish distribution business.

- **An integrated service provider in the ornamental fish industry.** Qian Hu is a one-stop service provider in the sourcing of ornamental fishes for the international and domestic fish buyers. Apart from sourcing the variety, Qian Hu's value add lies in its ability in ensuring the quality and sturdiness (low mortality after long flights) of the fishes via its strict selection, conditioning and packaging process. In particular, Qian Hu has managed to achieve a 97% survival rate of all fishes being exported due to their quality packaging process.

- **Moving from distributing to manufacturing of pet accessories.** Qian Hu's previous business model was to distribute third party and their own brand of accessories (under the "Ocean Free" and "Ao Shen" brands). They developed their own brand of products by outsourcing the manufacturing processes to sub-contractors in China. In 2001, Qian Hu acquired Wan Jiang in China to manufacture Qian Hu's and third party brand of pet accessories.

- **Stable profit in FY01 despite weak economic conditions.** In spite of the weak economic conditions, net profit rose a marginal 3% in FY01 due to increased turnover. In fact, net profit would have been higher if not for an initial startup cost incurred for the Thai and China subsidiaries. Since then, these subsidiaries have achieved profitability.

Prospects

- **Higher sales due to the opening of new markets and distribution centers.** Sales are expected to grow 37% led by increase revenue from both domestic and overseas markets led by the opening of more fish retail shops and new distribution outlets in Thailand and Malaysia. Revenue from the distribution of Arowana fish is expected to improve on the back of import deregulation moves in Taiwan. In addition, there would be increase revenue coming from the new accessories manufacturing plant in China.
- **FY02 net profit is expected to rise 45% led by margin improvement.** Net profit is expected to rise a stronger 45%, to S\$5m, led by a widening in profit margin for the distribution of higher value added fish (Dragon and Loach) and the manufacturing of in-house brands of pet accessories in China. In addition, there is an absence of restructuring and startup costs in Thailand and China incurred in 2001.

Action

- **We are initiating coverage on Qian Hu with a Neutral rating due to rich valuations.** Qian Hu is an under-researched integrated service provider in the tropical ornamental fish industry. It is an attractive small cap play given the high corporate transparency and strong earning growth from overseas operations. Notwithstanding the strong fundamentals, the recent rally in share price (up almost 100% in the last three days) puts the stock close to our target price of S\$0.90.

Peer comparison

		Share price (S\$)	Mkt Cap (S\$m)	EPS 01	PE (x) 01	EV/EBITDA (x)	Opg margin	EBITDA margin	P/Sales (x)	P/BV (x)
OSIM SP	OSIM Intl	0.80	185	0.06	13.8	12.5	9.0%	11.0%	1.4	4.4
AUSS SP	Aussino.com	0.46	87	0.03	14.2	10.0	18.9%	20.4%	2.3	3.8
TTI SP	TT Intl	0.45	135	0.03	15.0	10.7	4.5%	5.4%	0.3	1.7
XLH MK	Xian Leng	1.26	61	0.11	11.9	10.1	50.8%	50.8%	5.0	1.7
LAC LN	Lawrence PLC	10.98	94	0.67	16.3	9.6	13.9%	14.8%	1.3	3.3
QIAN SP	Qian Hu	0.87	87	0.04	20.8	15.2	10.5%	13.7%	2.1	3.3
Fisheries and wholesale industry average			649		15.5	11.1	7.8%	9.0%	0.8	2.8

Income Statement

FY: Dec (S\$m)	2000	2001	2002F	2003F	2004F
Sales	33.9	41.2	56.3	67.6	77.1
EBITDA	5.2	5.6	8.1	10.1	12.0
Operating Profit	4.3	4.3	6.6	8.5	10.2
Associates	0.0	0.0	0.0	0.0	0.0
Intr/Invsmt Inc	-0.2	-0.1	-0.1	-0.1	-0.1
Pft Before Tax	4.1	4.3	6.5	8.4	10.1
Tax	-1.0	-0.9	-1.6	-2.1	-2.5
MI	0.0	0.0	0.0	0.0	0.0
Net profit	3.2	3.4	5.0	6.4	7.7
Depn/Amortn	0.9	1.3	1.5	1.6	1.8
Cash Flow	4.1	4.8	6.5	8.0	9.5
X-ord Items	2.0	0.0	0.0	0.0	0.0
Growth rates:					
Sales Growth	28.2%	21.7%	36.6%	20.0%	14.0%
Opg Profit	119.6%	0.7%	52.7%	28.3%	20.2%
PBT	130.1%	2.9%	53.6%	28.6%	20.4%
PAT	141.2%	8.9%	44.8%	28.3%	20.2%

Source : Company, DBS Vickers

Segmental

FY: Dec (S\$m)	2000	2001	2002F	2003F	2004F
Sales					
Ornamental fish	16.5	18.3	24.7	27.7	30.5
Accessories	12.0	16.6	25.3	31.6	38.0
Plastic & other	5.4	6.3	6.4	8.3	8.6
Total sales	33.9	41.2	56.3	67.6	77.1
Operating profit					
Ornamental fish	2.1	2.1	3.2	3.6	4.0
Accessories	2.1	2.6	4.6	5.7	6.8
Plastic & other	0.4	0.4	0.3	0.5	0.7
Inallocated exp	-0.4	-0.8	-1.4	-1.4	-1.4
Total opg profit	4.2	4.3	6.6	8.5	10.2
Margin					
Ornamental fish	12.7%	11.4%	12.8%	13.0%	13.2%
Accessories	17.2%	15.7%	18.0%	18.0%	18.0%
Plastic & other	8.1%	6.5%	4.0%	6.5%	8.0%
Total opg profit	12.5%	10.4%	11.7%	12.5%	13.2%

DBS Vickers Research Star Rating System

- ★★★★★ - Strong Buy (>20% relative to market over the next 12 months)
- ★★★★☆ - Outperform (>10% relative to market over the next 12 months)
- ★★★☆☆ - Neutral (perform in line with market +/- 10% over the next 12 months)
- ★★☆☆☆ - Underperform (<10% relative to market over the next 12 months)
- ★☆☆☆☆ - Sell (<20% relative to market over the next 12 months)

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