

Qian Hu

Stronger than expected 1H profits

Qian Hu remains an attractive strong growth small cap play with expected profit growth of 37% over the next three years. Notwithstanding the strong growth prospects and good corporate transparency, Qian Hu's current share price is close to our price target of S\$0.96. Maintain Neutral.

- **Stronger than expected 1H02 net profit of S\$2.9m.** Qian Hu's 1H02 profit came in at 60% of our full year net profit forecast of S\$4.8m. This was led by stronger than expected sale and a margin expansion for the pet accessories business.
- **A true blue intergrated service provider for the ornamental fish industry.** Qian Hu has successfully diversified beyond the fish distribution business. Pet accessories now account for 60% of total PBIT earnings when compared with 47% a year ago. This is a marked improvement given that fish distribution also grew at a robust rate of 28% in 1H.
- **Raising FY02-FY04 net profit by 15% respectively** due to the stronger than expected performance for the accessories business. The profit upgrade is on the back of margin expansion (to 20% from 18% previously) and increase sales growth for the pet accessories business in FY02.

NEUTRAL

Maintained

S\$0.895

At a Glance

Price Target:

1-year S\$0.96

Stock Code:

Bloomberg: QIAN SP

Reuters: QIAN.SI

Sector: Consumer

STI: 1,522.80

Stock Rating:

★ ★ ★ ☆ ☆

Sector Rating:

★ ★ ★ ★ ☆

Technical Rating:

★ ★ ★ ☆ ☆

Reason for Report:

Interim results

Implications:

Positive

Earnings Revision:

FY02 up 15%

FY03 up 15%

FY04 up 15%

Consensus EPS:

FY02 3.23 S cts

FY03 6.4 S cts

FY04 7.7 S cts

DBSV vs Consensus EPS

(% variance):

FY02 +82%

FY03 +14%

FY04 +16%

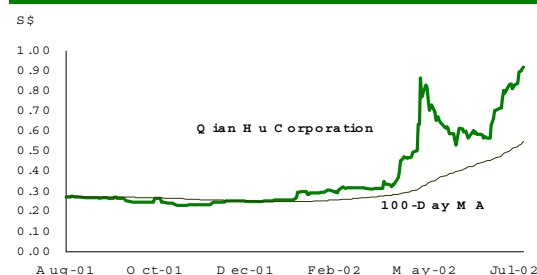
Forecasts and Valuation

FY Dec (\$m)	2001A	2002F	2003F	2004F
Turnover	41	58	69	79
EBITDA	5.6	8.9	11.4	13.6
Pretax Profit	4.3	7.3	9.7	11.7
Net Profit	3.4	5.8	7.4	8.9
EPS (\$ cts)	4.2	5.9	7.3	8.8
EPS Gth	8.9%	42.2%	24.1%	20.2%
P/E Ratio (x)	21.5	15.1	12.2	10.1
P/B Ratio (x)	4.3	3.3	2.7	2.2
Div Yield	0.6%	0.8%	1.0%	1.2%
ROA	13.6%	17.3%	17.2%	17.5%
ROE	22.4%	26.1%	24.4%	23.5%
Net Gearing	cash	1%	cash	cash
NTA (\$ cts)	20.8	26.8	33.5	41.5

General Data

Issued Capital (m shrs)	100
Mkt Cap (\$m/US\$m)	87 / 50
Major Shareholders	
Qian Hu Holdings (%)	29.6
Yap family members (%)	45.1
Free Float (%)	25.3
Avg Daily Vol (m shrs)	10,963

Share Price Chart



Share Price Performance

	Share Price	Rel STI	Rel Sector
Past 1 mth	58%	59%	62%
Past 3 mths	90%	103%	98%
Past 6 mths	245%	254%	242%
Past 12 mths	223%	229%	211%

Highlights

- **Stronger than expected 1H02 net profit of S\$2.9m.** Qian Hu's 1H profit came in at 60% of our full year net profit forecast of S\$4.8m. This was led by stronger than expected sale and a margin expansion for the pet accessories business. In particular, sale of pet accessories grew 60% in 1H02, led by a 73% rise in the second quarter as the Malaysia and Thai subsidiaries started to distribute accessories to the local markets. Margins of fish accessories business widened to 20% in 1H02 compared to only 14% a year ago, due to sale of better margin products.

Segmentals earnings

FY Dec (\$m)	1H 02	1H01
Turnover		
Ornamental fish	12.0	9.3
Accessories	12.6	7.7
Plastic & other	3.3	2.8
Total sales	27.8	19.9
Opg profit		
Ornamental fish	1.6	1.1
Accessories	2.5	1.1
Plastic & other	0.2	0.2
unallocated exp	-0.1	-0.1
Total opg profit	4.3	2.3
Margins		
Ornamental fish	13.7%	11.7%
Accessories	20.2%	14.1%
Plastic & other	5.0%	7.1%
Total opg profit	15.3%	11.6%

Income Statement

FY Dec (\$m)	1H 02	1H01	
Turnover	27.8	19.9	40%
EBITDA	4.4	2.5	76%
Operating Profit	3.7	1.9	92%
Associates Inc	0.0	0.0	60%
Intr/Invsmt Inc	-0.1	0.0	-343%
Profit Before	3.7	2.0	86%
Tax	-0.8	-0.4	76%
Minority Intr	0.0	0.1	-63%
Net profit	2.9	1.6	83%
Depreciation	0.7	0.6	
Cash Flow	3.6	2.2	
Margins			
EBITDA	15.8%	12.6%	
Operating Profit	13.3%	9.7%	
PAT/MI	10.5%	8.0%	

Source: Company

- A true blue intergrated service provider for the ornamental fish industry. Qian Hu has successfully diversified beyond the fish distribution business. Pet accessories now account for 60% of total PBIT earnings when compared with 47% a year ago. This is a marked improvement given that fish distribution also grew at a robust rate of 28% in 1H.

Prospects

- **Raising FY02-FY04 net profit by 15% respectively due to the stronger than expected profit for the accessories business.** The profit upgrade is on the back of margin expansion (to 20% from 18% previously) and increase sales growth for the pet accessories business in FY02. Management expects sales to remain strong led by increase contribution from the pet accessories manufacturing business and increase marketing efforts in Malaysia and Thailand. In addition, there is an absence of restructuring and startup costs in Thailand and China incurred in 2001.
- **Fish distribution business should continue to perform well.** This is underpinned by increase sales from all the overseas operations, namely Thailand, China and Malaysia, and also increase sales of Dragon Fish to Taiwan due to the liberalization of import regulations. Dragon Fish now accounts for 9% of group sales and 10% of PBT profits.

Action

- **Maintain Neutral rating with a higher price target of S\$0.96.** We have raised Qian Hu's price target to S\$0.96 on the back of our profit upgrade. Our PE target remains unchanged at 14.5x on

average FY02 and FY03 earnings. Qian Hu remains an attractive strong growth small cap play with profit growth of 37% over the next three years. Notwithstanding the strong growth prospects and good corporate transparency, Qian Hu's current share price is close to our price target of S\$0.96. Maintain Neutral.

Segmentals earnings

FY Dec (\$m)	2000	2001	2002F	2003F	2004F
Turnover	33.9	41.2	58.1	69.3	79.1
EBITDA	5.2	5.6	8.9	11.4	13.6
Operating Profit	4.3	4.3	7.4	9.8	11.7
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	7.3	9.7	11.7
Tax	-1.0	-0.9	-1.6	-2.4	-2.9
MI	0.0	0.0	0.0	0.0	0.0
Net profit	3.2	3.4	5.8	7.4	8.9
Depn/Amortn	0.9	1.3	1.5	1.6	1.8
Cash Flow	4.1	4.8	7.2	9.0	10.7
X-ord Items	2.0	0.0	0.2	0.2	0.2
Growth rates:					
Sales Growth	28.2%	21.7%	40.8%	19.3%	14.2%
Opg Profit	119.6%	0.7%	70.9%	32.2%	20.2%
PBT	130.1%	2.9%	72.1%	32.5%	20.3%
PAT	141.2%	8.9%	67.4%	28.0%	20.2%

Income Statement

FY Dec (\$m)	2000	2001	2002F	2003F	2004F
Turnover					
Ornamental fish	16.5	18.3	24.7	27.7	30.5
Accessories	12.0	16.6	26.6	33.3	40.0
Plastic & other	5.4	6.3	6.8	8.3	8.6
Total sales	33.9	41.2	58.1	69.3	79.1
Opg profit					
Ornamental fish	2.1	2.1	3.2	3.6	4.0
Accessories	2.1	2.6	5.3	7.0	8.4
Plastic & other	0.4	0.4	0.3	0.5	0.7
unallocated exp	-0.4	-0.8	-1.4	-1.4	-1.4
Total opg profit	4.2	4.3	7.4	9.8	11.7
Margin					
Ornamental fish	12.7%	11.4%	12.8%	13.0%	13.2%
Accessories	17.2%	15.7%	20.0%	21.0%	21.0%
Plastic & other	8.1%	6.5%	4.0%	6.5%	8.0%
Total opg profit	12.5%	10.4%	12.7%	14.1%	14.8%

Source: Company, DBS Vickers

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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