

Qian Hu Corporation

3Q12 results update
19 October 2012

Neutral

Current Price	S\$0.087
Fair Value	S\$0.10
Up / (downside)	+15%

Stock Statistics

Market cap	S\$39.5m
52-low	S\$0.073
52-high	S\$0.116
Avg daily vol	121,766
No of share	454.1m
Free float	50%

Key Indicators

ROE 12F	-12.7%
ROA 12F	-8.9%
P/BK	0.56x
Net gearing	10%

Major Shareholders

Qian Hu Holding	24.0%
Yap Family	20.2%

Historical Chart



Source: Bloomberg

Let's get ready for fishing

- Maintain Neutral.** Qian Hu's 3Q12 net loss of S\$10m came in 29% above our S\$7.8m net loss estimate due to higher-than-expected operating costs (S\$9.3m was a one-time exceptional loss due to its disposal of the loss making subsidiary in Malaysia). Given the worse than expected 3Q12 results, we have widened our FY12 net loss forecast from S\$6.4m to S\$8.1m. However, we kept our FY13-14 forecast relatively unchanged. As a result, our fair value remains at S\$0.10, still pegged at 10x FY13 PER.
- Worse could be over.** Qian Hu has experienced an unprecedented business challenge in its ornamental fish business segment this year. 1) It is facing oversupply and intensive competition of mass market varieties of Dragon Fish in Malaysia; and 2) Its export of ornamental fish to the European markets was affected by the prolonged uncertainty over Europe's economic woes. However, after disposing its loss making breeder divisions, Kim Kang Aquaculture and its Guangzhou manufacturing arm in last year, the group is now back to focusing on distribution and marketing. This time the group has its own full range of products when previously it only distributed third-party products. The group will continue to strengthen its investment in R&D.
- Unlock valuation.** The disposals also unlocked the value of the assets and allows Qian Hu to rationalise its financial and capital resources. Management plans to use the cash proceeds to reduce bank borrowings as well as for the payment of a special dividend of 0.5 cents in October 2013. More efforts can also be redirected to expand the distribution network so as to increase the Dragon Fish sales to the Asian markets, especially China. On the brighter note, its newly set-up export hub in Jakarta, Indonesia was marginally profitable in 3Q12.
- 3Q12 revenue advanced by 1% yoy to S\$21.7,** led by higher contributions from its accessories and plastics businesses which grew by 24.2% and 3.2% yoy respectively. Its core Ornamental Fish business slumped 17.7% mainly due to the intense price competition caused by the oversupply of Dragon Fish in Malaysia despite improving purchasing sentiment amongst its customers in Europe.
- Net gearing remained healthy.** Qian Hu generating S\$1.7m positive free cash flow in 3Q after improving its working capital and lowering its capital expenditures requirement. Its net gearing has lowered from 14.6% in the previous quarter to 10%.

Key Financial Data

(S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Sales	91.2	88.3	85.8	84.8	87.1
Gross Profit	29.2	27.3	25.7	26.3	26.6
Net Profit	4.2	3.5	(8.1)	4.7	4.8
EPS (cents)	0.9	0.8	(1.8)	1.0	1.1
EPS growth (%)	(40.2)	(17.7)	(334.6)	157.6	3.2
PER (x)	9.4	11.4	nm	8.4	8.2
NAV/share (cents)	16.1	16.2	14.2	13.4	14.6
DPS (cents)	0.5	0.6	0.2	1.0	0.5
Div Yield (%)	5.7	6.9	2.3	11.5	5.7

Source: Company, NRA Capital estimates

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Results comparison

FYE Dec (S\$ m)	3Q12	3Q11	yoy % chg	2Q12	QoQ % chg	Prev. 3Q12F	Comments
Revenue	21.7	21.5	1	22.4	(3)	21.7	In line
Operating costs	(21.3)	(20.0)	6	(21.0)	1	(20.0)	Above, higher-than-expected operating costs
EBITDA	0.4	1.5	(74)	1.3	(70)	1.7	Below, lower-than-expected margins
<i>EBITDA margin (%)</i>	1.8	7.0		5.9	(69)	7.8	6.1% pt below expectation
Depn & amort.	(0.7)	(0.7)	8	(0.7)	1	(0.7)	In line
EBIT	(0.3)	0.8	(142)	0.6	(159)	1.0	Below, lower-than-expected margins
Interest expense	(0.1)	(0.1)	(7)	(0.1)	(3)	(0.1)	In line
Interest & invt inc	(0.2)	0.2	(205)	0.1	(292)	0.1	Below
Associates' contrib	(0.0)	(0.0)	(33)	0.0	(238)	0.0	In line
Exceptionals	(9.3)	0.0	<i>nm</i>	0.0	<i>nm</i>	(9.2)	In line, one-time exceptional loss
Pretax profit	(10.0)	0.9	(1,244)	0.6	(1,726)	(8.2)	Above, lower-than-expected margins
Tax	(0.1)	(0.2)	(52)	(0.1)	6	0.4	
Tax rate (%)	(1.2)	27.7		17.7	(107)	5.0	
Minority interests	0.0	(0.1)	108	0.0	(79)	(0.0)	
Net profit	(10.1)	0.6	(1,867)	0.5	(2,007)	(7.8)	29% above expectation
EPS (cts)	(2.2)	0.1	(1,867)	0.1	(2,007)	(1.7)	

Source: NRA Capital estimates

Qian Hu Corporation

Profit & Loss (\$\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Revenue	91.2	88.3	85.8	84.8	87.1
Operating expenses	(83.1)	(82.5)	(81.2)	(76.6)	(79.4)
EBITDA	8.0	5.8	4.6	8.2	7.6
Depreciation & amortisation	(2.8)	(2.9)	(2.8)	(2.4)	(2.4)
EBIT	5.3	2.9	1.8	5.8	5.3
Net interest & invt income	0.1	1.3	(0.1)	0.0	0.1
Associates' contribution	(0.1)	(0.1)	(0.1)	0.2	0.8
Exceptional items	0.0	0.0	(9.3)	0.0	0.0
Pretax profit	5.3	4.2	(7.7)	5.9	6.1
Tax	(0.8)	(0.6)	(0.6)	(1.0)	(1.0)
Minority interests	(0.3)	(0.1)	0.1	(0.3)	(0.3)
Net profit	4.2	3.5	(8.1)	4.7	4.8
Wt. shares (m)	454.1	454.1	454.1	454.1	454.1
Shares at year-end (m)	454.1	454.1	454.1	454.1	454.1
Balance Sheet (\$\$ m, as at Dec)	2010	2011	2012F	2013F	2014F
Fixed assets	44.0	42.0	23.6	20.6	22.7
Intangible assets	2.3	2.3	0.3	0.3	0.3
Other long-term assets	1.1	1.0	0.7	0.7	0.7
Total non-current assets	47.4	45.2	24.6	21.7	23.7
Cash and equivalents	11.7	8.6	11.4	21.5	23.1
Stocks	24.1	19.6	19.2	18.7	19.4
Trade debtors	21.5	31.5	36.0	24.6	25.3
Other current assets	2.7	1.1	0.4	0.4	0.4
Total current assets	60.0	60.7	67.1	65.3	68.1
Trade creditors	12.9	11.6	11.4	10.5	10.9
Short-term borrowings	16.0	15.7	14.6	13.6	13.1
Other current liabilities	0.7	0.6	0.6	1.0	1.0
Total current liabilities	29.7	27.8	26.6	25.1	25.0
Long-term borrowings	0.4	0.3	0.2	0.2	0.2
Other long-term liabilities	4.3	4.2	0.6	0.6	0.6
Total long-term liabilities	4.7	4.5	0.8	0.8	0.7
Shareholders' funds	62.7	63.4	54.2	50.7	55.6
Minority interests	10.3	10.2	10.1	10.3	10.6
NTA/share (\$\$)	0.13	0.13	0.12	0.11	0.12
Total Assets	107.4	105.9	91.7	86.9	91.9
Total Liabilities + S'holders' funds	107.4	105.9	91.7	86.9	91.9
Cash Flow (\$\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Pretax profit	5.3	4.2	(7.7)	5.9	6.1
Depreciation & non-cash adjustments	3.6	0.1	21.2	(2.9)	3.9
Working capital changes	(3.7)	(2.1)	(4.4)	11.0	(0.9)
Cash tax paid	(1.1)	(0.5)	(0.5)	(0.6)	(1.0)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	4.1	1.7	8.6	13.5	8.1
Capex	(1.3)	(2.0)	(1.5)	(1.1)	(1.1)
Net investments & sale of FA	1.7	0.3	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	0.4	(1.7)	(1.5)	(1.1)	(1.1)
Debt raised/(repaid)	(0.5)	(0.4)	(1.2)	(1.1)	(0.5)
Equity raised/(repaid)	1.1	0.0	0.0	0.0	0.0
Dividends paid	(2.2)	(2.3)	(2.7)	(0.9)	(4.5)
Cash interest & others	(1.1)	(0.4)	(0.5)	(0.5)	(0.5)
Cash flow from financing	(2.7)	(3.1)	(4.4)	(2.4)	(5.5)
Change in cash	1.8	(3.1)	2.7	10.0	1.5
Change in net cash/(debt)	2.3	(2.7)	3.9	11.0	2.0
Ending net cash/(debt)	(4.7)	(7.4)	(3.5)	7.5	9.5
KEY RATIOS (FYE Dec)	2010	2011	2012F	2013F	2014F
Revenue growth (%)	(3.6)	(3.1)	(2.9)	(1.1)	2.6
EBITDA growth (%)	(34.2)	(28.0)	(20.4)	78.2	(7.0)
Pretax margins (%)	5.8	4.7	(9.0)	7.0	7.0
Net profit margins (%)	4.6	3.9	(9.5)	5.5	5.5
Interest cover (x)	11.6	11.1	(16.3)	15.4	16.5
Effective tax rates (%)	14.8	13.2	(7.5)	17.0	17.0
Net dividend payout (%)	54.0	78.6	(11.2)	97.0	47.0
Debtors turnover (days)	86.0	130.0	153.3	105.9	105.9
Stock turnover (days)	142.0	117.1	116.8	116.8	116.8
Creditors turnover (days)	76.3	69.3	69.4	65.7	65.7

Source: Company, NRA Capital estimates

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