

Qian Hu Corporation

4Q14 results update
14 January 2015

Overweight

Current Price	S\$0.085
Fair Value	S\$0.12
Up / (downside)	36%

Stock Statistics

Market cap	S\$36.8m
52-low	S\$0.070
52-high	S\$0.092
Avg daily vol	124,176
No of share	454.1m
Free float	55%

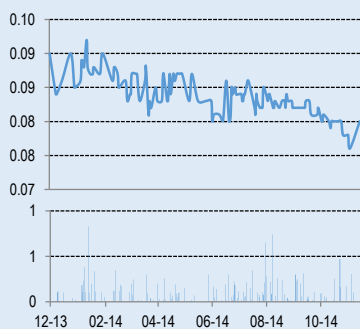
Key Indicators

ROE 15F	5%
ROA 15F	3%
P/BK	0.76
Net gearing	11%

Major Shareholders

Qian Hu Holding	24.0%
Yap Family	21.4%

Historical Chart



Source: Bloomberg

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A baby step in the right direction

- **Earnings below expectation.** Including one off loss of S\$134k on disposal of its India associate, Qian Hu's 4Q14 net profit of S\$176k came in 74% below our S\$0.7m estimate due mainly to lower-than-expected sales and weaker-than-expected gross profit margins.
- **Cut forecasts but maintain Overweight.** Our FY15-16 earnings estimates have been lowered by 10% after we cut our sales projection. Nevertheless, we believe the group has found its right direction to boost efficiency and productivity with advanced technology, we remain optimistic on the transformation of its business model and expect the group to continue improving sequentially. The steep fall in oil price should benefit its plastics division and overall utilities costs. Our fair value remains at S\$0.12, after we roll forward from 1x FY14 P/NTA to FY15 P/NTA. Given the 36% potential upside and continued improvement of its operating profit and cash flow, maintain Overweight recommendation.
- **Exciting new products launched.** Late last year, Qian Hu launched three exciting products; koi and stingray tank which enables two viewing angles because of its high open-top concept. Another product, RevoReef marine fish tank – revolutionises the art of keeping marine fish and corals, the group believe it is the first commercially-produced tank for marine fish.
- **2015 Outlook highlight.** Despite disposing its India associate, the group said it is not giving up on this market and management is looking for a better JV partner now. The upgrading of its Singapore farm is still in progress, the group expects to complete by end of this year, and this will increase its ornamental fish capacity by more than 200%. Management expects the China and Indonesia markets will continue to be a growth driver for the next two years. Currently, its Indonesia farm is only focused on the export market and will be slowly expanding to the domestic market. Given its huge population size, the group is optimistic. Qian Hu aims to develop at least four innovative products every year.
- **4Q14 revenue slid 1% yoy to S\$21.3m** affected by the reduction in plastics demand, plastics revenue dropped 7.7% yoy. Fish revenue was flat as the selling price of Dragon fish has stabilised, the group expects a sustainable growth in its ornamental fish business in the coming quarter.
- **Balance sheet remained healthy.** Qian Hu generated S\$0.7m positive free cash flow in 4Q after improving its working capital requirement. As a result, its net gearing decreased from 11.4% in the previous quarter to 10.6%. The board declared a final dividend of 0.1 cts (total 0.6 cts in 2013 including a special 0.5 cts dividend).

Key Financial Data (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Sales	83.5	83.5	84.9	87.3	90.2
Gross Profit	24.2	23.2	26.3	27.8	28.9
Net Profit	0.3	0.4	2.4	2.8	3.0
EPS (cents)	0.1	0.1	0.5	0.6	0.7
EPS growth (%)	103.3	29.8	517.9	17.0	4.5
PER (x)	127.8	98.5	15.9	13.6	13.0
NAV/share (cents)	11.2	11.2	11.5	12.0	12.6
DPS (cents)	0.6	0.1	0.2	0.2	0.2
Div Yield (%)	7.1	1.2	2.4	2.4	2.4

Source: Company, NRA Capital forecasts

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Results comparison

FYE Dec (S\$ m)	4Q14	4Q13	yoy % chg	3Q14	QoQ % chg	Prev. 4Q14F	Comments
Revenue	21.3	21.6	(1)	20.5	4	23.1	8% below expectation
Operating costs	(20.8)	(21.1)	(1)	(20.0)	4	(21.3)	In line
EBITDA	0.5	0.5	2	0.4	11	1.8	Below, lower-than-expected sales and margins
EBITDA margin (%)	2.3	2.3		2.2	6	7.7	5.4% pts below expectation
Deprn & amort.	(0.4)	(0.5)	(22)	(0.4)	(1)	(1.0)	Below
EBIT	0.1	(0.0)	504	0.0	116	0.8	Below, lower-than-expected sales and margins
Interest expense	(0.1)	(0.1)	2	(0.1)	(5)	(0.1)	In line
Interest & invt inc	0.5	0.4	21	0.2	86	0.1	Above due to S\$0.4m forex gain
Associates' contrib	(0.0)	(0.0)	(83)	0.0	(125)	0.1	In line
Exceptionals	(0.1)	0.0	nm	0.0	nm	0.0	S\$0.134m loss on disposal of India associate
Pretax profit	0.4	0.3	31	0.2	47	0.9	Below, lower-than-expected sales and margins
Tax	(0.1)	(0.1)	(9)	(0.1)	30	(0.2)	
Tax rate (%)	33.0	47.6		37.4	(12)	22.8	Higher than expected taxation
Minority interests	(0.1)	(0.1)	(14)	(0.1)	(12)	(0.0)	
Net profit	0.2	0.1	155	0.1	123	0.7	74% below expectation
EPS (cts)	0.0	0.0	155	0.0	123	0.1	

Source: NRA Capital estimates



Source: Company <https://www.youtube.com/watch?v=xNDSLyNq66I>

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Profit & Loss (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue	83.5	83.5	84.9	87.3	90.2
Operating expenses	(81.2)	(81.2)	(80.0)	(81.9)	(84.7)
EBITDA	2.2	2.4	4.9	5.4	5.5
Depreciation & amortisation	(2.1)	(1.6)	(1.6)	(1.6)	(1.6)
EBIT	0.1	0.8	3.3	3.8	3.9
Net interest & invt income	1.0	0.5	0.1	0.1	0.1
Associates' contribution	(0.1)	0.0	0.0	0.0	0.1
Exceptional items	0.0	(0.1)	0.0	0.0	0.0
Pretax profit	1.0	1.1	3.4	3.9	4.1
Tax	(0.4)	(0.4)	(0.7)	(0.8)	(0.8)
Minority interests	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Net profit	0.3	0.4	2.4	2.8	3.0
Shares at year-end (m)	454.1	454.1	454.1	454.1	454.1
Balance Sheet (S\$ m, as at Dec)	2013	2014	2015F	2016F	2017F
Fixed assets	15.8	16.3	17.0	18.4	18.2
Intangible assets	0.3	0.3	0.3	0.3	0.3
Other long-term assets	3.1	1.6	1.6	1.6	1.6
Total non-current assets	19.2	18.2	19.0	20.3	20.1
Cash and equivalents	6.7	8.6	7.5	7.8	9.5
Stocks	16.6	16.5	16.4	16.7	17.2
Trade debtors	32.8	32.7	32.3	33.2	34.3
Other current assets	0.5	0.7	0.0	0.0	0.0
Total current assets	56.6	58.5	56.2	57.7	61.0
Trade creditors	11.0	10.8	10.5	10.7	11.0
Short-term borrowings	12.8	13.8	11.0	11.4	11.7
Other current liabilities	0.4	0.4	0.7	0.8	0.8
Total current liabilities	24.3	25.1	22.3	22.9	23.6
Long-term borrowings	0.2	0.2	0.1	0.1	0.1
Other long-term liabilities	0.4	0.4	0.4	0.4	0.4
Total long-term liabilities	0.6	0.6	0.5	0.5	0.5
Shareholders' funds	49.5	49.5	50.6	52.5	54.6
Minority interests	1.5	1.5	1.8	2.1	2.5
NTA/share (S\$)	0.11	0.11	0.11	0.11	0.12
Total Assets	75.9	76.7	75.2	78.0	81.1
Total Liabilities + S'holders' funds	75.9	76.7	75.2	78.0	81.1
Cash Flow (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Pretax profit	1.0	1.1	3.4	3.9	4.1
Depreciation & non-cash adjustments	3.3	2.5	1.2	0.4	1.9
Working capital changes	(0.1)	0.8	0.3	(1.0)	(1.3)
Cash tax paid	(0.5)	(0.4)	(0.4)	(0.7)	(0.8)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	3.7	3.9	4.5	2.6	4.0
Capex	(1.9)	(2.0)	(2.1)	(1.6)	(1.6)
Net investments & sale of FA	(0.0)	0.2	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	(1.9)	(1.8)	(2.1)	(1.6)	(1.6)
Debt raised/(repaid)	(0.3)	1.0	(2.8)	0.3	0.4
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(3.4)	(0.8)	(0.5)	(0.9)	(0.9)
Cash interest & others	0.3	(0.5)	(0.2)	(0.2)	(0.2)
Cash flow from financing	(3.4)	(0.3)	(3.4)	(0.8)	(0.7)
Change in cash	(1.6)	1.8	(1.1)	0.3	1.7
Change in net cash/(debt)	(1.3)	0.9	1.8	(0.0)	1.3
Ending net cash/(debt)	(6.4)	(5.5)	(3.8)	(3.8)	(2.5)
KEY RATIOS (FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue growth (%)	(1.2)	0.1	1.7	2.9	3.3
EBITDA growth (%)	(31.4)	5.1	108.1	10.2	2.5
Pretax margins (%)	1.1	1.3	4.0	4.5	4.6
Net profit margins (%)	0.4	0.5	2.9	3.2	3.3
Effective tax rates (%)	41.0	36.9	20.0	20.0	20.0
Net dividend payout (%)	902.2	115.8	37.5	32.0	30.7
ROE (%)	0.6	0.8	4.8	5.4	5.4
Free cash flow yield (%)	4.7	5.2	6.2	2.7	6.1

Source: Company, NRA Capital forecasts

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