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## Qian Hu worth second look

**O**RNAMENTAL fish exporter Qian Hu recently posted a 10.5 per cent increase in first quarter net profit to \$1.4 million, announced a new joint venture in India, and bagged four Singapore corporate awards. Could it be time for investors to take a second look at this former stock market darling, whose management says it is "swimming confidently against the tide of recession"?

After its listing in 2000, Qian Hu enjoyed a run as a hot stock. Earnings growth from its niche business, as well as a colourful managing director who calls himself "The Fish", helped to raise the company's profile. But Qian Hu faded from the limelight after a bout of falling profits and uncertain business restructuring between 2004 and 2006.

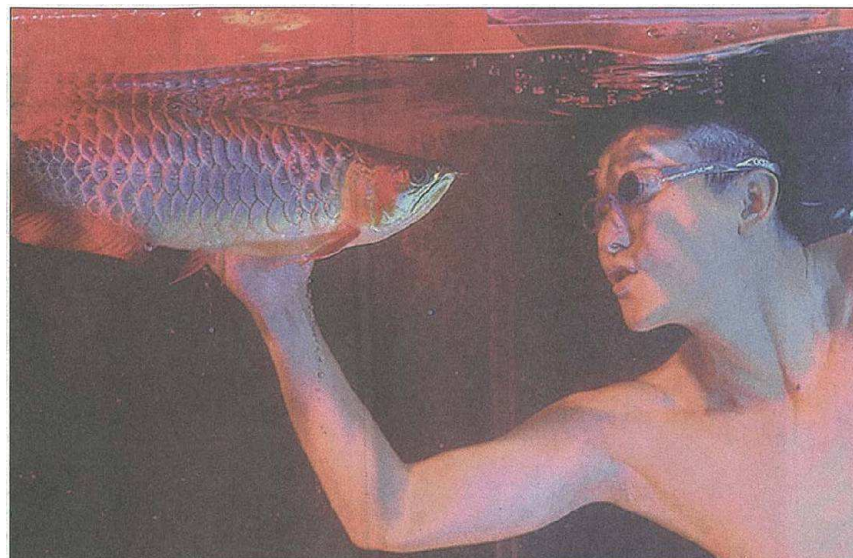
Now, those few years of quietly building up its business appear to have paid off. The company has sustained profit growth for over two years now and doubts previously raised over its strategic direction and sustainability of earnings, seem to have been assuaged.

For instance, there had been concern at one point over the company's over-reliance on star-performing fish, such as the Arowana and then the Dragon Fish. But demand for the high-margin Dragon Fish, which Qian Hu breeds on farms in Malaysia and Singapore and exports, remains strong in markets like China, Japan and Taiwan. The company also expects the assimilation of *feng shui* into Western and other markets to drive up global demand for Dragon Fish.

In any case, the business restructuring it undertook, which was met with some scepticism initially, sought in part to diversify its business away from the core ornamental fish export segment.

Breeding and exporting ornamental fish contributed to 49 per cent of turnover, while aquarium and fish accessories made up 39 per cent of overall revenue in FY08. Qian Hu intends to grow this segment – the manufacturing and export of fish tanks, pumps, fish food and other accessories – into as large a revenue contributor as its live fish division.

And its \$400,000 investment in the new Chennai joint venture, which will have two factories focusing on production of fish food and aquarium accesso-



**In the swim:** Mr Yap with a high margin Dragon Fish. Qian Hu intends to grow the accessories arm into as large a revenue contributor as its live fish business which accounts for almost half of turnover

FILE PHOTO

ries, is a means to that end. According to the company, for every dollar customers spend on fish, five dollars is spent on peripherals, so it is only natural that this arm of the business should be expanded.

There is scope for geographical growth too, given that Qian Hu currently has a distribution network spanning 80 countries for its fish business, but it exports accessories to only 30 countries.

Its ancillary business division of manufacturing plastic bags for packing ornamental fish, has served the company well as a "cash cow" with high profit margins, while it has also reached downstream with its range of aquarium and pet accessories brands, stocked in major retailers and hypermarkets.

The ornamental fish industry has not been badly affected by the economic downturn, deriving resilience from its product – the emotional bond between pets and their owners means people are likely to keep paying for food and other accessories.

But a second plus point for Qian Hu, is that in a recession where ugly lapses in

corporate governance have emerged, its track record on transparency and governance makes it stand out among small caps.

Three of the four awards it received at the Singapore Corporate Awards 2009 had to do with corporate governance – best-managed board, best investor relations, and best annual report. The firm has also consistently been ranked among the likes of SingTel and other blue-chips on BT's Corporate Transparency Index, relaunched as the Governance and Transparency Index earlier this year. Managing director Kenny Yap holds question and answer sessions online with shareholders. With the current market uncertainty, such openness will help bolster potential investors' confidence.

All things considered though, Qian Hu remains a small company. In its niche industry, populated mostly with small-scale domestic players, Qian Hu is a "big fish" for its operational scale and export network, and though there is no comparable listed company locally, Malaysia's ornamental fish breeder and trad-

er Xian Leng reported turnover of RM32.5 million (S\$13.5 million) at the end of FY08.

However, with an annual turnover of \$93 million (FY08), a small misstep by Qian Hu might well reverse good progress made. Also, despite its recession-resilient business model, the current environment remains risky, particularly with the potential influenza pandemic threatening cross-border movements. The closure of Bangkok's airport last year, for example, led to a \$1.1 million fall in revenue Q408, as quantities of ornamental fish which could be exported were limited.

However, Qian Hu's management has been quick to assure that new ventures, such as the recent one in India, are undertaken cautiously and only when a strong symmetry of goals and mutual trust between potential partners exists, and that it manages its risks.

The stock has been overlooked for some time. Given its credible track record and efforts to broaden its business, Qian Hu might now be worth watching.

**HOCK LOCK SIEW**

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