

Reuters:
Bloomberg: QIAN SPMkt Cap: S\$83m
Free Float:

Tuesday, 21 January 2003

Qian Hu –Swimming in a Bigger Pond - S\$0.81

Qian Hu manufactures and distributes aquarium accessories as well as breeds and export ornamental fish. Half of its sales are based in Singapore while the remaining half comes from Malaysia, Thailand and Taiwan.

FY02 results were impressive

- Sales rose 52%, gross profit up 50% while pretax was up 93% & net profits up 84%.
- Strong net profit growth was due to econ of scale (sales growth > op expenses growth).
- Accessories sales (52% revenue, 73% profits) almost doubled because :-
 - The company expanded its markets into Malaysia and Thailand.
 - Margins improved as QianHu started making its own accessories in China.
 - First time consolidation of a China manufacturing subsidiary.
- Sales of ornamental fish (38% revenue, 25% profits) grew 31%.
 - Distributing to more retail outlets in Singapore + rising in-house retail sales.
 - Increase export of ornamental fish to US, Europe and Taiwan.

Growth going forward will be driven by...

- Malaysian and Thai expansions are still relatively new. Started in those markets with accessory sales and will now proceed to expand sale of ornamental fishes.
- Acquired new Arowana breeders in M'sia for S\$7.7m with the intention of exporting to Taiwan & China. The new acquisition is expected to boost EPS by about 8%.
- Company is attempting to penetrate China, starting with accessory sales.

What we like

- Sales more stable than expected – accessories such as filters & pet food are recurring.
- No single customer or supplier accounts for more than 5% of sales.
- Likewise, no single species (out of 500) of fish account for more than 5% of sales.
- CEO Kenny Yap is very dynamic, market savvy and innovative.

What we do not like

- Highly dependent on strength of distribution (takes time to expand into new markets).
- Stock turnover (88 days) & debtors turnover (62) exceeds creditor turnover (30 days).
- Main breeding farm still situated in Singapore where costs are relatively high.
- With only 1 main farm, the risk of disease/natural disaster is concentrated. However, this is mitigated by establishing new breeding farms in Thailand and Malaysia.

Recommendation

- Qian Hu is interesting in that it offers a proxy into the rising consumer affluence in Asia.
- However, it is in an expansionary mode and is not without execution risks.
- Stock is trading on 13x historical PE and 10-11x forward PE, which is in-line with its Malaysian peer Xian Leng and seems fair to us.
- Sustainable growth probably in the region of 15-20% depending on expansion plans.
- The strong results and acquisition news have given share price a boost recently. We like the business but not the valuations. We would look to accumulate on retracement.
- Alternatively, one might consider People's Food, which also offers a proxy to rising consumer spending in Asia. Stock is trading at 4x and offers 10% yield.

Note: In the interests of timeliness, this document was not edited.

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