

Overweight

Current Price	S\$0.084
Fair Value	S\$0.12
Up / (downside)	+40%

Stock Statistics

Market cap	S\$38m
52-low	S\$0.076
52-high	S\$0.094
Avg daily vol	263,703
No of share	454.1m
Free float	55%

Key Indicators

ROE 14F	2.8%
ROA 14F	1.9%
P/BK	0.75x
Net gearing	14%

Major Shareholders

Qian Hu Holding	24.0%
Yap Family	21.4%

Historical Chart

Source: Bloomberg

Jacky Lee
 (+65) 6236-6887
 jacky.lee@nracapital.com
www.nracapital.com

Strong pipeline of innovative accessories products

- **Earnings below expectation.** Qian Hu's 2Q14 net profit of S\$22k came in 93% below our S\$0.3m estimate due mainly to lower-than-expected sales and slightly weaker gross profit margins.
- **Hydra sales pick up slower-than-expected...** Qian Hu's proprietary product, OF Hydra Aquatic Depurator, launched last year. The sales disappointed due partially to the European market taking a longer time to certify its products. However, after the long acceptance period, the first shipping for this product is expected soonest in coming quarter.
- **Maintain forecasts and recommendation.** As the group remains optimistic for its transformation business model and expects to continue improving sequentially, we kept our earnings forecast relatively unchanged. We maintain our fair value at S\$0.12, still pegged at 1x FY14 P/NTA. On the bright side, its associates turned profitable after seven consecutive quarters of loss. Given the downside risk is limited and continued improvement of its operating profit and cash flow, maintain **Overweight** recommendation.
- **1Q14 revenue down 1% yoy to S\$21.1m** due mainly to lower contribution from Plastics division. Plastics revenue declined by 30.6% yoy due to a reduction in market demand as a result of revision in selling prices of its plastic products in view of the increase in raw material (resins) prices. However, these were mostly offset by the growth from the fish (+4% yoy) and accessories (+8% yoy) divisions.
- **EBITDA margins improved by 0.9% pts yoy to 3.1%** boosted by the stabilisation of Dragon Fish prices that yielded strong margins. However, this was partially offset by its plastics segment due to higher raw material price, resins used for its plastic division and gradual increase in overall operating expenses.
- **Balance sheet remained healthy.** Qian Hu generated S\$0.5m negative free cash flow in 2Q after increasing its working capital requirement. As a result, its net gearing increased from 11% in the previous quarter to 13.5%.

Key Financial Data (S\$ m, FYE Dec)	2012	2013	2014F	2015F	2016F
Sales	84.4	83.5	88.2	90.3	92.2
Gross Profit	25.4	24.2	26.9	29.8	31.3
Net Profit	(9.1)	0.3	1.5	3.3	3.9
EPS (cents)	(2.0)	0.1	0.3	0.7	0.9
EPS growth (%)	(363.6)	103.3	384.8	128.2	17.1
PER (x)	nm	126.3	26.1	11.4	9.7
NAV/share (cents)	11.9	11.2	11.8	12.2	12.8
DPS (cents)	0.2	0.6	0.2	0.3	0.3
Div Yield (%)	2.4	7.1	2.4	3.6	3.6

Source: Company, NRA Capital forecasts

Qian Hu Corporation

Results comparison

FYE Dec (\$\$ m)	2Q14	2Q13	yoy % chg	1Q14	QoQ % chg	Prev. 2Q14F	Comments
Revenue	21.1	21.2	(1)	20.7	2	22.3	6% below expectation
Operating costs	(20.4)	(20.7)	(2)	(19.9)	2	(21.4)	Below, lower-than-expected sales
EBITDA	0.7	0.5	43	0.8	(14)	0.9	Below, lower-than-expected sales
EBITDA margin (%)	3.1	2.2		3.7	(15)	4.0	0.9% pts below expectation
Depn & amort.	(0.4)	(0.5)	(28)	(0.4)	(2)	(0.4)	In line
EBIT	0.3	(0.1)	388	0.4	(27)	0.5	Below, lower-than-expected sales
Interest expense	(0.1)	(0.1)	5	(0.1)	3	(0.1)	In line
Interest & invt inc	(0.0)	0.4	(112)	0.1	(194)	0.0	In line
Associates' contrib	0.0	(0.0)	179	(0.0)	227	(0.0)	
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	0.2	0.3	(34)	0.3	(50)	0.5	Below, lower-than-expected sales
Tax	(0.1)	(0.1)	(30)	(0.1)	(37)	(0.1)	Above, higher-than-expected taxation
Tax rate (%)	46.1	43.2		36.1	27	20.0	
Minority interests	(0.1)	(0.1)	14	(0.1)	(31)	(0.1)	
Net profit	0.02	0.1	(73)	0.1	(81)	0.3	93% below expectation
EPS (cts)	0.0	0.0	(73)	0.0	(81)	0.1	

Source: NRA Capital estimates



Qian Hu Corporation

Profit & Loss (\$\$ m, FYE Dec)	2012	2013	2014F	2015F	2016F
Revenue	84.4	83.5	88.2	90.3	92.2
Operating expenses	(81.2)	(81.2)	(84.1)	(84.3)	(85.6)
EBITDA	3.3	2.2	4.1	6.1	6.6
Depreciation & amortisation	(2.7)	(2.1)	(2.1)	(2.1)	(2.0)
EBIT	0.5	0.1	2.0	4.0	4.5
Net interest & invt income	0.2	1.0	0.1	0.2	0.2
Associates' contribution	(0.1)	(0.1)	0.2	0.2	0.3
Exceptional items	(9.3)	0.0	0.0	0.0	0.0
Pretax profit	(8.7)	1.0	2.3	4.4	5.1
Tax	(0.5)	(0.4)	(0.5)	(0.7)	(0.9)
Minority interests	0.0	(0.3)	(0.3)	(0.3)	(0.3)
Net profit	(9.1)	0.3	1.5	3.3	3.9
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)	2012	2013	2014F	2015F	2016F
Fixed assets	16.1	15.8	17.0	17.3	18.2
Intangible assets	0.3	0.3	0.3	0.3	0.3
Other long-term assets	4.4	3.1	1.5	1.5	1.5
Total non-current assets	20.8	19.2	18.9	19.2	20.1
Cash and equivalents	8.3	6.7	10.0	10.3	11.9
Stocks	16.2	16.6	16.5	16.3	16.4
Trade debtors	32.1	32.8	30.9	31.6	32.3
Other current assets	0.5	0.5	0.1	0.1	0.1
Total current assets	57.1	56.6	57.5	58.4	60.7
Trade creditors	9.6	11.0	11.0	10.9	11.0
Short-term borrowings	13.0	12.8	10.6	9.9	10.1
Other current liabilities	0.5	0.4	0.5	0.7	0.9
Total current liabilities	23.2	24.3	22.2	21.6	22.0
Long-term borrowings	0.3	0.2	0.2	0.1	0.1
Other long-term liabilities	0.4	0.4	0.4	0.4	0.4
Total long-term liabilities	0.7	0.6	0.6	0.5	0.5
Shareholders' funds	52.5	49.5	51.9	53.4	56.0
Minority interests	1.6	1.5	1.8	2.0	2.3
NTA/share (\$\$)	0.11	0.11	0.11	0.12	0.12
Total Assets	77.9	75.9	76.4	77.6	80.7
Total Liabilities + S'holders' funds	77.9	75.9	76.4	77.6	80.7
Cash Flow (\$\$ m, FYE Dec)	2012	2013	2014F	2015F	2016F
Pretax profit	(8.7)	1.0	2.3	4.4	5.1
Depreciation & non-cash adjustments	13.0	3.3	5.7	0.1	0.4
Working capital changes	0.2	(0.1)	2.1	(0.7)	(0.7)
Cash tax paid	(0.9)	(0.5)	(0.4)	(0.5)	(0.7)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	3.6	3.7	9.6	3.2	4.0
Capex	(1.5)	(1.9)	(1.1)	(1.1)	(1.1)
Net investments & sale of FA	(0.1)	(0.0)	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	(1.6)	(1.9)	(1.1)	(1.1)	(1.1)
Debt raised/(repaid)	(2.7)	(0.3)	(2.3)	(0.7)	0.2
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(2.7)	(2.3)	(2.7)	(0.9)	(1.4)
Cash interest & others	3.0	(0.8)	(0.2)	(0.2)	(0.2)
Cash flow from financing	(2.4)	(3.4)	(5.2)	(1.8)	(1.4)
Change in cash	(0.4)	(1.6)	3.3	0.3	1.5
Change in net cash/(debt)	2.3	(1.3)	5.6	1.0	1.3
Ending net cash/(debt)	(5.1)	(6.4)	(0.8)	0.2	1.5
KEY RATIOS (FYE Dec)	2012	2013	2014F	2015F	2016F
Revenue growth (%)	(4.4)	(1.2)	5.7	2.4	2.0
EBITDA growth (%)	(43.7)	(31.4)	84.0	46.9	8.7
Pretax margins (%)	(10.3)	1.1	2.6	4.8	5.5
Net profit margins (%)	(10.8)	0.4	1.7	3.7	4.2
Interest cover (x)	(21.4)	4.9	11.7	22.7	25.7
Effective tax rates (%)	(5.5)	41.0	24.0	17.0	17.0
Net dividend payout (%)	(9.9)	902.2	62.0	40.8	34.8
Debtors turnover (days)	138.7	143.6	127.8	127.8	127.8
Stock turnover (days)	100.3	102.5	98.6	98.6	98.6
Creditors turnover (days)	59.3	67.9	65.7	65.7	65.7

Source: Company, NRA Capital forecasts

NRA Capital Pte. Ltd ("NRA Capital") has received compensation for this valuation report. This publication is confidential and general in nature. It was prepared from data which NRA Capital believes to be reliable, and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. No representation, express or implied, is made with respect to the accuracy, completeness or reliability of the information or opinions in this publication. Accordingly, neither we nor any of our affiliates nor persons related to us accept any liability whatsoever for any direct, indirect, special or consequential damages or economic loss that may arise from the use of information or opinions in this publication. Opinions expressed are subject to change without notice.

NRA Capital and its related companies, their associates, directors, connected parties and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may be materially interested in any such securities. NRA Capital and its related companies may from time to time perform advisory, investment or other services for, or solicit such advisory, investment or other services from any entity mentioned in this report. The research professionals who were involved in the preparing of this material may participate in the solicitation of such business. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. You acknowledge that the price of securities traded on the Singapore Exchange Securities Trading Limited ("SGX-ST") are subject to investment risks, can and does fluctuate, and any individual security may experience upwards or downwards movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities traded on the SGX-ST. You are aware of the risk of exchange rate fluctuations which can cause a loss of the principal invested. You also acknowledge that these are risks that you are prepared to accept.

You understand that you should make the decision to invest only after due and careful consideration. You agree that you will not make any orders in reliance on any representation/advice, view, opinion or other statement made by NRA Capital, and you will not hold NRA Capital either directly or indirectly liable for any loss suffered by you in the event you do so rely on them.

You understand that you should seek independent professional advice if you are uncertain of or have not understood any aspect of this risk disclosure statement or the nature and risks involved in trading of securities on the SGX-ST.