

**Overweight**

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

**Stock Statistics**

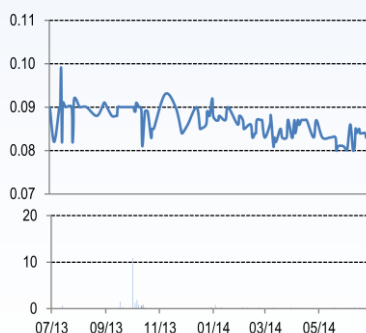
Market cap	S\$38m
52-low	S\$0.076
52-high	S\$0.094
Avg daily vol	263,703
No of share	454.1m
Free float	55%

**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](http://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	
<b>Pretax profit</b>	<b>0.2</b>	<b>0.3</b>	<b>(34)</b>	<b>0.3</b>	<b>(50)</b>	<b>0.5</b>	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)	
<b>Net profit</b>	<b>0.02</b>	<b>0.1</b>	<b>(73)</b>	<b>0.1</b>	<b>(81)</b>	<b>0.3</b>	93% below expectation
EPS (cts)	0.0	0.0	(73)	0.0	(81)	0.1	

Source: NRA Capital estimates



# Qian Hu Corporation

<b>Profit &amp; Loss</b> (\$\$ m, FYE Dec)	<b>2012</b>	<b>2013</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
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
<b>Pretax profit</b>	<b>(8.7)</b>	<b>1.0</b>	<b>2.3</b>	<b>4.4</b>	<b>5.1</b>
Tax	(0.5)	(0.4)	(0.5)	(0.7)	(0.9)
Minority interests	0.0	(0.3)	(0.3)	(0.3)	(0.3)
<b>Net profit</b>	<b>(9.1)</b>	<b>0.3</b>	<b>1.5</b>	<b>3.3</b>	<b>3.9</b>
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
<b>Balance Sheet</b> (\$\$ m, as at Dec)	<b>2012</b>	<b>2013</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
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
<b>Total non-current assets</b>	<b>20.8</b>	<b>19.2</b>	<b>18.9</b>	<b>19.2</b>	<b>20.1</b>
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
<b>Total current assets</b>	<b>57.1</b>	<b>56.6</b>	<b>57.5</b>	<b>58.4</b>	<b>60.7</b>
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
<b>Total current liabilities</b>	<b>23.2</b>	<b>24.3</b>	<b>22.2</b>	<b>21.6</b>	<b>22.0</b>
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
<b>Total long-term liabilities</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>
<b>Shareholders' funds</b>	<b>52.5</b>	<b>49.5</b>	<b>51.9</b>	<b>53.4</b>	<b>56.0</b>
Minority interests	1.6	1.5	1.8	2.0	2.3
NTA/share (\$\$)	0.11	0.11	0.11	0.12	0.12
<b>Total Assets</b>	<b>77.9</b>	<b>75.9</b>	<b>76.4</b>	<b>77.6</b>	<b>80.7</b>
<b>Total Liabilities + S'holders' funds</b>	<b>77.9</b>	<b>75.9</b>	<b>76.4</b>	<b>77.6</b>	<b>80.7</b>
<b>Cash Flow</b> (\$\$ m, FYE Dec)	<b>2012</b>	<b>2013</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
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
<b>Cash flow from operations</b>	<b>3.6</b>	<b>3.7</b>	<b>9.6</b>	<b>3.2</b>	<b>4.0</b>
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
<b>Cash flow from investing</b>	<b>(1.6)</b>	<b>(1.9)</b>	<b>(1.1)</b>	<b>(1.1)</b>	<b>(1.1)</b>
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)
<b>Cash flow from financing</b>	<b>(2.4)</b>	<b>(3.4)</b>	<b>(5.2)</b>	<b>(1.8)</b>	<b>(1.4)</b>
<b>Change in cash</b>	<b>(0.4)</b>	<b>(1.6)</b>	<b>3.3</b>	<b>0.3</b>	<b>1.5</b>
<b>Change in net cash/(debt)</b>	<b>2.3</b>	<b>(1.3)</b>	<b>5.6</b>	<b>1.0</b>	<b>1.3</b>
<b>Ending net cash/(debt)</b>	<b>(5.1)</b>	<b>(6.4)</b>	<b>(0.8)</b>	<b>0.2</b>	<b>1.5</b>
<b>KEY RATIOS</b> (FYE Dec)	<b>2012</b>	<b>2013</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
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

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