

Qian Hu Corporation

2Q11 results update

Overweight

Current Price **S\$0.101**
18 July 2011

Fair Value **S\$0.16**

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Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$45.9m
52-HI	S\$0.140
52-LOW	S\$0.101
Avg Vol (1 yr)	267,308
Shares Outstanding	454.1m
Free Float	253.4m

Key Indicators

ROE 11F	6.5%
ROA 11F	4.6%
P/BK	0.73x
Net gearing	4.6%

Major Shareholders

Qian Hu Holding	24.0%
Yap family	20.2%

Dragged by OEM business

- **Below expectations.** Despite 2Q11 revenue being spot on with our forecast, its S\$1.0m net profit was 18% below our S\$1.2m expectation, due mainly to lower margins contribution from its accessories segment and slightly higher-than-expected taxation provision. 1H result represents 37% of our full-year forecast.
- **2Q11 revenue increased by 3% yoy to S\$23.3m** on the back of 6% improvement from ornamental fish sales due to higher demand from Asian and new market penetration. However, its accessories sales decreased by 1.8% yoy due to sluggish European economy. Whereas, revenue from plastics remain stable and grew 1.8% yoy.
- **EBITDA margins declined 0.7% pts yoy to 9.5%** due to lower revenue contribution from accessories division and higher wage cost in China. On the bright side, its fish margins have recovered with the resumption of the consistent supply of self-bred dragon fish. Including the lower financial costs and higher taxation, pretax and net profit increased 12% and 5% yoy respectively.
- **Net gearing remained comfortable.** Qian Hu generated \$0.25m negative free cash flow in 2Q11 after increasing its cash conversion cycle days by 9 days qoq to 200 days (due mainly to higher inventory and advances deposit placed for the purchase of related equipment). Including S\$2.3m dividend payout, its net gearing increased to 4.6% from 0.8% at previous quarter.
- **Still in good shape.** Despite its accessories business being not out of the wood yet due to its OEM customers with business dealings mainly in the European markets, currently its Guangzhou utilisation rate is less than 50%. However, since early this year, Qian Hu is using the surplus capacity in Guangzhou to produce a new range of its own propriety products, which include LED lightings, filtration systems and fish tanks. Management will increase its own propriety products in the coming quarter for sales to the China domestic market so as to hedge against the cloudy European markets. Although we view Qian Hu as a novice in the accessories market, the low to medium markets are also less demanding for branded products, we believe the group should be able to capture some of this market. In addition, Qian Hu is expecting its India JV to be profitable for the full year.
- **Maintain Overweight.** We have cut our FY11-13 forecasts by 9-10% to factor in unexpected higher costs. We also roll forward our fair value 14x FY11 PER to 10x FY12 PER. As such, our fair value has been reduced by 1ct to S\$0.16, or 0.9x PBR FY11. Given its reasonable 5% yield and good track record, maintain **Overweight** rating.

Key Financial Data

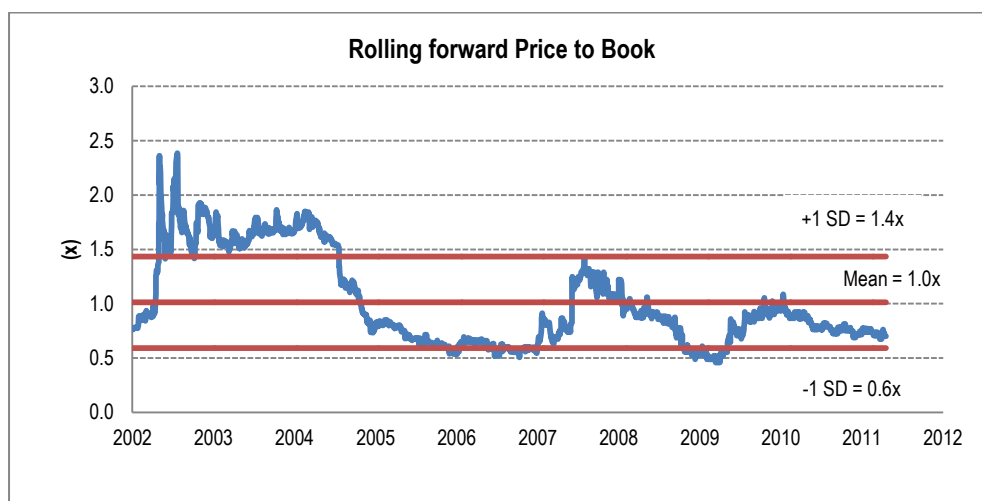
(S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Sales	94.6	91.2	96.1	102.1	109.1
Gross Profit	32.7	29.2	30.3	34.7	37.1
Net Profit	6.5	4.2	4.9	7.1	7.6
EPS (cents)	1.6	0.9	1.1	1.6	1.7
EPS growth (%)	6.3	(40.2)	17.5	43.4	7.3
PER (x)	6.5	10.9	9.3	6.5	6.0
NAV/share (cents)	16.4	16.1	16.8	17.9	19.2
DPS (cents)	0.5	0.5	0.5	0.5	0.5
Div Yield (%)	5.3	5.0	5.0	5.0	5.0

Source: Company, NRA Capital estimates

Results comparison

FYE Dec (\$\$ m)	2Q11	2Q10	yoy % chg	1Q11	QoQ % chg	Prev. 2Q11F	Comments
Revenue	23.3	22.7	3	24.2	(3)	23.6	In line
Operating costs	(21.1)	(20.4)	4	(21.9)	(3)	(21.2)	In line
EBITDA	2.2	2.3	(4)	2.3	(3)	2.4	7% Below, lower-than-expected GP margin
EBITDA margin (%)	9.5	10.2		9.5	0	10.1	0.6% pt below expectation
Depn & amort.	(0.7)	(0.7)	(2)	(0.7)	(5)	(0.7)	In line
EBIT	1.5	1.6	(5)	1.6	(2)	1.7	In line
Interest expense	(0.1)	(0.1)	(18)	(0.1)	18	(0.1)	In line
Interest & invt inc	(0.0)	(0.2)	nm	(0.0)	(63)	0.1	In line
Associates' contrib	(0.0)	(0.1)	nm	0.0	(427)	0.0	In line
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	1.4	1.2	12	1.4	(5)	1.6	Below, lower-than-expected GP margin
Tax	(0.3)	(0.3)	(9)	(0.3)	8	(0.2)	Above
Tax rate (%)	20.1	24.8		17.7	13	15.0	Above
Minority interests	(0.1)	0.0	(366)	(0.2)	(47)	(0.2)	
Net profit	1.0	1.0	5	1.0	(1)	1.2	18% below expectation
EPS (cts)	0.2	0.2	5	0.2	(1)	0.3	

Source: NRA Capital estimates



Source: NRA Capital Estimates

Profit & Loss (S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Revenue	94.6	91.2	96.1	102.1	109.1
Operating expenses	(82.0)	(82.6)	(86.7)	(90.2)	(96.6)
EBITDA	12.6	8.5	9.4	11.9	12.5
Depreciation & amortisation	(2.6)	(2.8)	(2.8)	(2.7)	(2.7)
EBIT	10.0	5.7	6.6	9.2	9.8
Net interest & invt income	(0.6)	(0.4)	(0.1)	(0.2)	(0.1)
Associates' contribution	(0.0)	(0.1)	0.0	0.0	0.0
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	9.4	5.3	6.5	9.1	9.7
Tax	(1.8)	(0.8)	(1.1)	(1.6)	(1.8)
Minority interests	(1.1)	(0.3)	(0.5)	(0.4)	(0.4)
Net profit	6.5	4.2	4.9	7.1	7.6
Wt. shares (m)	422.2	454.1	454.1	454.1	454.1
Shares at year-end (m)	422.2	454.1	454.1	454.1	454.1

Balance Sheet (S\$ m, as at Dec)	2009	2010	2011F	2012F	2013F
Fixed assets	46.3	44.0	44.5	43.0	41.5
Intangible assets	2.3	2.3	2.3	2.3	2.3
Other long-term assets	1.2	1.1	1.1	1.1	1.1
Total non-current assets	49.7	47.4	47.8	46.4	44.9
Cash and equivalents	9.8	11.7	10.9	15.9	19.9
Stocks	21.0	24.1	23.7	24.3	25.9
Trade debtors	18.1	19.2	19.9	21.1	22.6
Other current assets	5.1	5.0	5.5	6.0	6.7
Total current assets	54.0	60.0	59.9	67.3	75.1
Trade creditors	7.7	8.4	7.7	8.2	8.7
Short-term borrowings	12.2	11.7	9.6	9.2	8.7
Other current liabilities	10.3	9.6	9.9	10.6	11.1
Total current liabilities	30.2	29.7	27.2	27.9	28.6
Long-term borrowings	0.3	0.4	0.2	0.2	0.1
Other long-term liabilities	4.1	4.3	4.2	4.2	4.2
Total long-term liabilities	4.4	4.7	4.5	4.4	4.4
Shareholders' funds	59.2	62.7	65.4	70.2	75.6
Minority interests	10.0	10.3	10.8	11.1	11.5
NTA/share (S\$)	0.13	0.13	0.14	0.15	0.16
Total Assets	103.8	107.4	107.8	113.7	120.0
Total Liabilities + S'holders' funds	103.8	107.4	107.8	113.7	120.0

Cash Flow (S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Pretax profit	9.4	5.3	6.5	9.1	9.7
Depreciation & non-cash adjustments	3.9	3.6	5.9	7.3	7.2
Working capital changes	0.1	(3.7)	(1.5)	(1.7)	(3.0)
Cash tax paid	(1.2)	(1.1)	(5.0)	(4.8)	(5.0)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	12.2	4.1	5.9	9.9	8.9
Capex	(6.8)	(1.3)	(1.9)	(1.9)	(1.9)
Net investments & sale of FA	(0.3)	1.7	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	(7.2)	0.4	(1.9)	(1.9)	(1.9)
Debt raised/(repaid)	1.3	(0.5)	(2.2)	(0.5)	(0.5)
Equity raised/(repaid)	0.2	1.1	0.0	0.0	0.0
Dividends paid	(0.9)	(2.2)	(2.3)	(2.3)	(2.3)
Cash interest & others	(2.6)	(1.0)	(0.4)	(0.3)	(0.3)
Cash flow from financing	(1.9)	(2.7)	(4.9)	(3.0)	(3.0)
Change in cash	3.1	1.8	(0.8)	5.0	4.0
Change in net cash/(debt)	1.8	2.4	1.4	5.5	4.5
Ending net cash/(debt)	(2.8)	(0.4)	1.0	6.5	10.9

KEY RATIOS (FYE Dec)	2009	2010	2011F	2012F	2013F
Revenue growth (%)	1.7	(3.6)	5.5	6.2	6.9
EBITDA growth (%)	2.3	(32.5)	10.1	26.9	5.1
Pretax margins (%)	10.0	5.8	6.8	8.9	8.9
Net profit margins (%)	6.9	4.6	5.1	6.9	7.0
Interest cover (x)	14.7	11.6	19.0	28.7	32.4
Effective tax rates (%)	19.0	14.8	17.0	18.0	18.0
Net dividend payout (%)	34.3	54.0	45.9	32.0	29.8
Debtors turnover (days)	73.1	74.6	74.2	73.3	73.1
Stock turnover (days)	127.8	132.8	132.4	129.9	127.2
Creditors turnover (days)	32.5	32.2	30.6	28.3	28.3

Source: Company, NRA Capital Estimates

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