

MITA No. 139/06/2005

20 July 2005

Qian Hu Corporation

Maintain

HOLD

Previous Rating: HOLD

S\$0.285

Fair Value: S\$0.32

Stock Code:

Reuters: QIAN.SI

Bloomberg: QIAN SP

Event:

Results

General Data

Issued Capital (m)	128
Mkt Cap (S\$m/US\$m)	37/22
Major Shareholder	Qian Hu Hldgs Pte Ltd (28%)
Free Float (%)	37
NTA per share (S\$)	0.29
Daily Vol 3-mth ('000)	9
52Wk High (S\$)	0.570
52Wk Low (S\$)	0.255

Not out of troubled waters yet

Uninspiring 2Q05 performance. Qian Hu's sales dipped 13% YoY to S\$15.6m in 2Q05 and 7% YoY to S\$32.0m in 1H05. This was mainly attributed to the Fish Division's 18% YoY sales decline to S\$7.8m in 2Q05, as a drought earlier in the quarter resulted in Dragon Fish supply shortage. Accessories Division continued its eighth straight quarter of QoQ sales decline in 2Q05, as the retail operations in Malaysia faced weak demand. As a result, accessories sales fell 10% YoY to S\$6.1m in 2Q05. Plastics activities generated stable sales of S\$1.8m in 2Q05.

Flat QoQ net profit growth. Qian Hu's profit before tax (PBT) margin dropped 0.6 ppt QoQ to 3.8%, as both selling and distribution expenses and finance costs rose. Due to lower sales of the higher margin Dragon Fish, Fish Division's PBT margin halved QoQ to only 6% in 2Q05, which brought a 76% YoY decline in PBT to S\$485,000. Encouragingly, Accessories Division's PBT margin rose from a meagre 0.8% in 1Q05 to 6.6% in 2Q05, which resulted in a strong PBT recovery to \$398,000. Backed by the low concessionary tax rate in Singapore, net profit held steady on a QoQ basis at S\$480,000. However, net profit in 1H05 still dipped 56% YoY to S\$951,000.

Long road to recovery. While Qian Hu's gross margin dipped 0.5 ppt YoY to 36.6% in 1H05, we note that this was achieved despite the unexpected plunge in the higher margin Dragon Fish sales. Improvement in ornamental fish distribution in the domestic market and better efficiency in its Guangzhou factory were the positive factors in 1H05. However, we have yet to see strong outsourcing demand from Qian Hu's OEM partners, which is needed to jumpstart its fish accessories manufacturing orders. We are also concerned on the unknown gestation period for its retail operations, especially when efforts to restructure its Malaysian operations are undermined by stiff competition.

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Maintain HOLD. Without evidence of a sustainable improvement in its business, our FY05 net profit projection remains at S\$2m. We retain our fair value estimate of S\$0.32, and **HOLD** rating on Qian Hu.

Year to 31 Dec	Turnover (S\$m)	EBIT (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	Consensus EPS (cents)	PER (x)	Net Div Yield (%)
FY 03	67.7	9.8	7.0	5.5	-	-	5.2	1.4
FY 04	65.5	3.9	1.6	1.3	-76.8	-	22.5	-
FY 05F	62.8	3.8	2.0	1.6	24.7	2.3	18.0	-
FY 06F	65.7	5.9	3.5	2.7	71.9	3.4	10.5	-

Please refer to the important disclosures at the back of this document.

Qian Hu Corporation Ltd's Key Financial Data
Income Statement

Year to 31 Dec (In S\$ m)	FY03	FY04	FY05F	FY06F
Revenue	67.7	65.5	62.8	65.7
Cost of sales	(42.3)	(42.5)	(39.0)	(40.0)
Gross profit	25.4	23.0	23.8	25.6
Other operating income	0.2	0.2	0.1	0.2
Selling & distribution expenses	(1.8)	(2.5)	(2.9)	(3.0)
Administrative expenses	(14.0)	(16.8)	(17.3)	(16.9)
EBIT	9.8	3.9	3.8	5.9
Net interest	(0.2)	(0.4)	(0.6)	(0.7)
Share of associates' income	0.0	(0.1)	0.0	0.0
Pre-tax profit	9.6	3.4	3.2	5.3
Tax	(1.8)	(1.2)	(0.8)	(1.1)
Minority Interest	(0.8)	(0.6)	(0.4)	(0.6)
Net profit	7.0	1.6	2.0	3.5
Earnings per share (cents)	5.5	1.3	1.6	2.7
Profitability Ratios				
EBIT margin (%)	14.4	5.9	6.0	9.0
PBT margin (%)	14.1	5.2	5.1	8.0
EAT margin (%)	10.4	2.5	3.2	5.3

Balance Sheet

As at 31 Dec (In S\$ m)	FY03	FY04	FY05F	FY06F
Cash	4.2	4.2	1.5	5.5
Other current assets	31.8	37.9	38.9	39.4
Non-current assets	20.2	21.0	21.0	19.7
Total assets	57.2	64.9	63.3	66.5
Current liabilities less debt	13.4	12.4	13.8	14.2
Debt	1.5	8.5	3.0	1.7
Other long term liabilities	1.6	1.6	1.7	1.7
Total liabilities	16.5	22.5	18.5	17.6
Shareholders equity	36.6	37.6	39.6	43.1
Total equity and liabilities	57.2	64.9	63.3	66.5
NTA per share (cents)	27.8	27.9	29.5	32.2

Cash Flow Statement

Year to 31 Dec (In S\$ m)	FY03	FY04	FY05F	FY06F
Operating profit before working cap. changes	10.0	6.0	5.2	7.2
Working capital changes	(7.1)	(8.0)	0.6	(0.5)
Taxes Paid	(1.9)	(1.1)	(1.0)	(0.7)
Net cash from operations	1.0	(3.1)	4.9	6.0
Capex	(1.5)	(2.9)	(1.5)	(1.5)
Other investing flows	(2.2)	(0.0)	(0.5)	0.9
Investing cash flow	(3.7)	(2.9)	(2.0)	(0.6)
Net change in debt	1.5	6.8	(5.3)	(1.4)
Proceeds from share issuance	(1.0)	0.1	0.0	0.0
Dividends paid	(1.0)	(0.5)	0.0	0.0
Financing cash flow	(1.0)	6.0	(5.5)	(1.3)
Net cash flow	(3.7)	0.0	(2.6)	4.0
Cash at beginning of year	7.8	4.1	4.2	1.5
Cash at end of year	4.1	4.2	1.5	5.5

Key Ratios

	FY03	FY04	FY05F	FY06F
PER (x)	5.2	22.5	18.0	10.5
Price/Book (x)	1.1	1.1	1.1	1.0
EV/EBITDA (x)	3.4	7.8	7.4	4.7
Dividend yield (%)	1.2	0.0	0.0	0.0
ROE (%)	19.2	4.3	5.1	8.1
Gross Gearing (x)	0.0	0.2	0.1	0.0
PE to growth (x)	0.5	nm	0.8	0.2

Source: Company data, OIR estimates

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