

Recommendation:

BUY

Previous call: Buy

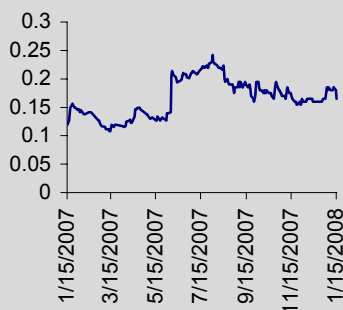
Price

Previous close **S\$0.165**
Fair value **S\$0.20**
Share price return **21%**

Share Statistics

Shares 412.7m
Market Cap. \$68.09m
Trailing PER 13.4x
Forward PER 13.4x
P/BV 1.22x
52-week Price Range \$0.11-\$0.24
52-week PER Range 8.9x-19.5x
Listing Bourse SGX-Main Board
Major Shareholder Qianhu Holdings 26.4%

Price Chart



Company Profile

Qian Hu Corporation Limited imports, exports and distributes ornamental fish and aquarium and pet accessories. The company also manufactures and distributes plastic bags for ornamental fish, food and electronics industries.

Analyst

Lee Kok Joo, CFA
+65-6531 1685
FAX +65-6536 4435
leekj@phillip.com.sg
Web www.phillipresearch.com

Qian Hu Corporation Limited Ushering In A Prosperous New Year

16 January 2008

Qian Hu (QH) reported its full year result with a 20% increase in revenue from S\$76.1 million in FY06 to S\$91.7 million. Net profit attributable to shareholder jumps 89% from S\$2.6 million to S\$4.9 million. Earnings per share rose from 0.64 cents to 1.23 cents on a fully diluted basis.

Better than we thought. Top-line growth came in within our forecast of S\$92.1 million. QH however beats our bottom-line estimates of S\$3.9 million by 25% as we have assumed higher operating and tax expenses.

Product segments analysis. All three product segments showed growth during the past year. On a percentage basis, accessories revenue grew 33%, testament to QH's effort in growing the accessories business to the same scale as the ornamental fish business. Ornamental fish revenue grew 14% while plastics business grew 11%. However on an absolute basis, ornamental fish still accounts for the largest contribution of almost 50%. The two core business segments of ornament fish and accessories together accounted for 88% of total revenue.

Geographical analysis. Revenue from Singapore and overseas grew by 8.1% and 26.3% respectively. However percentage contribution from local sales fell from 32% to 28% while overseas sales grew from 68% to 72%. The improvement from overseas highlights QH's strategy of shipping more products to more overseas markets.

Growth drivers. Profitability is mainly driven by the increase in sales of dragon fish that carries a higher margin as well as increase in the export sales of both ornamental fish and accessories. Currently QH exports its fish to more than 70 countries and ships its accessories to more than 20 countries. QH intends to expand its fish export to more than 80 countries and by tapping on Arcadia's distribution network, widens its accessories sales to more than 70 countries.

Valuation and recommendation. Our optimism in QH has not been in vain as QH returned a stellar set of results that exceeded our forecast. We believe in the management capabilities of QH and that QH will be able to deliver on its expansion plans. We roll over our fair value peg of 15x blended FY08/09 earnings which gives us a value of \$0.20. We maintain our Buy rating with an upside of 21%.

Key Financial Data

(Financial Year Ended 31 Dec)	FY06	FY07	%ch	FY08F	FY09F
Turnover (S\$m))	76.1	91.7	20.5	104.2	113.4
EBITDA	8.3	10.9	31.3	12.0	13.1
EBIT	6.0	8.7	45.0	9.6	10.7
Net profit attributable to shareholder	2.6	4.9	88.5	5.5	6.2
Gross profit margin (%)	35.4	34.4	N.M	35.0	35.9
Net profit margin (%)	5.1	6.9	1.8ppt	6.7	6.9
Diluted EPS (cents)	0.64	1.23	92.1	1.23	1.4
NTA per share (cents)	37.8	13.5	(64.3)	14.3	14.5
ROE (%)	6.2	10.3	4.1ppt	9.4	9.6
Gearing (Total debt/ Total assets) (%)	16.8	17.9	1.1ppt	15.7	13.6

Source: Phillip Securities Research

N.M = Not meaningful

Financials

Profit & Loss Statement

(S\$m)	FY06	FY07	FY08F	FY09F
Revenue	76.1	91.7	104.2	113.4
COGS	(49.1)	(60.2)	(67.7)	(73.7)
Gross profit	27.0	31.5	36.5	39.7
Other operating income	0.17	0.2	0.2	0.3
Selling & Distribution expense	(2.5)	(2.8)	(3.1)	(3.4)
General & Administrative expense	(13.1)	(16.3)	(17.2)	(18.7)
Other expenses	(2.8)	(1.6)	(4.4)	(4.7)
Depreciation and amortisation	(2.30)	(2.2)	(2.4)	(2.4)
Net finance expense	(0.69)	(0.8)	(0.8)	(0.8)
Tax	(1.4)	(1.6)	(1.8)	(2.1)
Share of profit from associate	0.0	0.0	0.1	0.1
Net profit	3.88	6.3	7.0	7.9
Net profit attributable to shareholders	2.62	4.9	5.5	6.2
Gross profit margin (%)	35.4	34.4	35.0	35.0
Net profit margin (%)	5.1	6.9	6.7	6.9

Balance Sheet

(S\$m)	FY06	FY07	FY08F	FY09F
<i>Assets</i>				
Cash and bank balance	4.7	7.5	8.9	12.9
Inventories	20.2	22.0	23.7	24.9
Breeder stocks	1.7	1.4	1.4	1.4
Trade receivables	15.9	17.6	19.0	19.9
Other current assets	1.8	3.5	3.6	3.7
Property, plant & equipment	11.5	12.4	12.1	11.5
Brooder stocks	15.3	21.3	21.9	22.4
Investment in associate	0	0.8	0.9	0.9
Intangible assets	2.1	2.1	2.3	2.2
<i>Liabilities</i>				
Trade payables	6.0	7.3	7.7	8.1
Current bank term loans	6.7	9.4	8.7	8.0
Other current liabilities	10.6	11.5	11.2	10.9
Finance lease	0.1	0.3	0.3	0.3
Non current bank term loans	0.7	1.5	1.5	1.5
Deferred tax	2.4	2.9	2.9	2.9
Shareholders equity	48.7	55.6	61.5	68.2

Statement of cash flows

(S\$m)	FY06	FY07	FY08F	FY09F
Profit for the period	5.3	7.9	8.8	9.9
Operating profit before working capital changes	8.7	11.7	12.7	13.9
Net cash from operating activities	8.6	8.6	5.5	7.5
Net cash from investing activities	(6.6)	(9.6)	(2.8)	(2.3)
Net cash from financing activities	(0.9)	0.8	(1.2)	(1.3)
Net change in cash	1.1	0.0	1.5	3.9
Cash at beginning	4.3	5.4	5.4	6.9
Cash at end	5.4	5.4	6.9	10.8

Source: Company, Phillip Securities Research

Ratings History

Qian Hu Corporation Limited

Rating	Date	Closing price (S\$)	Fair value (S\$)	Remarks
BUY	16 January 2008	0.165	0.20	FY07 results
BUY	23 October 2007	0.165	0.25	Update
BUY	25 July 2007	0.59	0.71	Resume coverage

Phillip Research Stock Selection Systems	BUY	>15% upside from the current price
	HOLD	Trade within \pm 15% from the current price
	SELL	>15% downside from the current price
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<p>SINGAPORE</p>	<p>Phillip Securities Pte Ltd Raffles City Tower 250, North Bridge Road #06-00 Singapore 179101 Tel : (65) 6533 6001 Fax : (65) 6535 6631 Website : www.poems.com.sg</p>
<p>HONG KONG</p>	<p>Phillip Securities (HK) Ltd 11/F United Centre 95 Queensway, Hong Kong Tel : (852) 2277 6600 Fax : (852) 2868 5307 Website : www.poems.com.hk</p>
<p>THAILAND</p>	<p>Phillip Securities (Thailand) Public Co Ltd 15/F, Vorawat Building 849 Silom Road Bangkok Thailand 10500 Tel : (622) 635 7100 Fax : (622) 635 1616 Website : www.poems.in.th</p>
<p>MALAYSIA</p>	<p>Phillip Capital Management Sdn Bhd B-2-6 Megan Avenue II 12 Jalan Yap Kwan Seng 50450 Kuala Lumpur Tel : (603) 2166 8099 Fax : (603) 2166 5099 Website : www.poems.com.my</p>
<p>CHINA</p>	<p>Phillip Financial Advisory (Shanghai) Co. Ltd No 550 Yan An East Road, Ocean Tower Unit 2318, Postal code 200001 Tel: (86-21) 51699200 Fax: (86-21) 63512940 Website: www.phillip.com.cn</p>
<p>JAPAN</p>	<p>PhillipCapital Japan K.K. Nagata-cho Bldg., 8F, 2-4-3 Nagata-cho, Chiyoda-ku, Tokyo Tel : (81) 03 3666 2101 Fax : (81) 03 3664 0141 Website : www.phillip.co.jp</p>
<p>UNITED KINGDOM</p>	<p>King & Shaxson Ltd 6th Floor, Candlewick House 120 Cannon Street London EC4N 6AS Tel : (44) 207 426 5950 Fax : (44) 207 626 1757 Website : www.kingandshaxson.com</p>