

# Analyse this...

**Retail Research**

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## Qian Hu Corporation

**QIAN SP**  
**BUY: TP: S\$0.20**

 Price @19/10/09: S\$0.17  
 52-week range (SGD): 0.075 – 0.175  
 Market cap – S\$71.6m

### 3Q09 Result Review

FYE Dec (\$\$ m)	3QFY09	3QFY08	yoy % chg	2QFY09	qoq % chg
Revenue	23.9	23.6	1.1	23.7	0.7
Operating costs	(20.8)	(20.4)	2.0	(20.3)	2.3
EBITDA	3.1	3.2	(4.6)	3.4	(9.4)
<i>EBITDA margin (%)</i>	<i>12.9</i>	<i>13.6</i>		<i>14.3</i>	
Depn & amort.	(0.6)	(0.6)	5.7	(0.7)	(0.8)
EBIT	2.4	2.6	nm	2.7	(11.5)
Interest expense	0.0	0.0	(80.0)	0.0	(50.0)
Interest & invt inc	(0.2)	(0.2)	(22.9)	(0.2)	nm
Associates' contrib	(0.0)	(0.0)	(31.0)	(0.0)	480.0
Exceptionals	-	-	-	-	-
<b>Pretax profit</b>	<b>2.2</b>	<b>2.4</b>	<i>(5.3)</i>	<b>2.6</b>	<i>(12.5)</i>
Tax	(0.4)	(0.5)	(23.7)	(0.5)	(31.3)
Tax rate (%)	15.9	19.7		20.3	
Minority interests	(0.2)	(0.4)	(45.7)	(0.4)	(47.6)
<b>Net profit</b>	<b>1.7</b>	<b>1.5</b>	<i>9.8</i>	<b>1.7</b>	<i>1.2</i>
EPS (cts)	0.4	0.4	8.4	0.4	1.5

FYE Dec (\$\$ m)	3QFY09	3QFY08	yoy % chg	Prev. FY09F
Revenue	70.7	70.2	0.8	100.0
Operating costs	(61.3)	(60.9)	0.7	(86.3)
EBITDA	9.4	9.3	1.0	13.7
<i>EBITDA margin (%)</i>	<i>13.3</i>	<i>13.3</i>	<i>0.2</i>	<i>13.7</i>
Depn & amort.	(2.0)	(1.8)	9.5	(2.8)
EBIT	7.5	7.5	(1.1)	10.9
Interest expense	0.0	0.0	(77.8)	0.0
Interest & invt inc	(0.6)	(0.7)	(16.4)	(0.7)
Associates' contrib	(0.0)	(0.0)	(17.5)	0.1
Exceptionals	-	-	-	-
<b>Pretax profit</b>	<b>6.9</b>	<b>6.8</b>	<i>0.3</i>	<b>10.3</b>
Tax	(1.3)	(1.5)	(14.7)	(2.4)
Tax rate (%)	18.6	21.9	(15.0)	23.0
Minority interests	(0.8)	(1.0)	(18.8)	(1.5)
<b>Net profit</b>	<b>4.7</b>	<b>4.3</b>	<i>10.2</i>	<b>6.5</b>
EPS (cts)	1.1	1.0	8.8	1.6

- Once again, Qian Hu's 3Q09 result met our expectation, with net profit attributable to coming in at S\$1.7m (+9.8% yoy), forming 24% of our FY09 estimates. 9M09 net profit of S\$4.7m (+ 10.2% yoy) formed 72% of our FY09 forecast, making the group on track to meet our FY09 numbers.
- The group saw a 1.1% increase in revenue to S\$23.9m, boosted by its continuous effort to increase its reach to more customers and countries around the world with its core products, Ornamental Fish and Accessories.
- Cash management skill at work. Generally, there is consistency in the group's operating profit generated on a quarter-on-quarter basis and for 9M09, and the improvement in the group's net cash generated from operating activities in the 3Q09 was due to lower inventory held, notwithstanding the profit generated has yet been fully realised into cash as its trade receivables balances increased in accordance with the higher credit sales generated in the current quarter.
- On the other hand, much of the cash generated during the 9M09 were utilised for the settlement of trade and other payables so as to secure better trade discounts with the group's suppliers for purchases made.

### Recommendation – maintain BUY

- Overall, this is the second straight set of result that reflected a marked improvement for Qian Hu since 1Q09. Its recessionary resilient business model shines once again, and we believe that the group was on track for another profitable year.
- We maintained our estimates but upped our target price to S\$0.20 (from S\$0.175), pegged at 11x, below its mid-cycle valuation, rolled

forward to CY11 P/E, and still a discount to the FSSTI average. Qian Hu trades at 9.2x CY11 P/E and just 1.1x P/NTA, which is cheap given its almost recessionary proof business model and strong brand equity, in our opinion.

- Given resilient outlook by the group, we reiterate our **Buy** recommendation.

### Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (\$\$ m)	92.1	93.1	100.0	107.5	115.7
EBITDA (\$\$ m)	10.1	11.5	12.8	14.0	15.2
EBITDA margins (%)	11.0	12.3	12.8	13.0	13.1
Pretax profit (\$\$ m)	4.3	9.2	10.3	11.4	12.2
Net profit (\$\$ m)	4.8	6.0	6.5	7.1	7.6
EPS (\$ cts)	1.3	1.5	1.6	1.7	1.8
EPS growth (%)	+78%	+11%	+7%	+10%	+7%
P/E (x)	13.0	11.7	10.9	9.9	9.2
Core EPS (cts)	1.3	1.5	1.6	1.7	1.8
Core EPS growth (%)	+78%	+11%	+7%	+10%	+7%
Core P/E (x)	13.0	11.7	10.9	9.9	9.2
FD EPS (cts)	1.2	1.4	1.5	1.6	1.7
FD P/E (x)	13.8	12.5	11.6	10.6	9.9
Gross DPS (\$ cts)	0.2	0.0	0.3	0.3	0.4
Dividend yield (%)	1.2	0.3	1.8	2.0	2.2
P/NTA (x)	1.4	1.4	1.2	1.1	1.1
ROE (%)	13.7	11.9	11.6	11.6	11.4
Net gearing (%)	3.4	7.2	4.6	3.2	1.9
P/CF (x)	8.9	8.3	7.7	7.1	6.5
EV/EBITDA (x)	7.5	6.6	5.9	5.4	5.0
% change in EPS estimates	-	-	-	-	-

### Technical BUY



- The stock continued to swing higher, closing at its intra-day high yesterday on strong volume. It needs to take out the immediate resistance at S\$0.17 before the bulls can push it towards S\$0.185-0.20 next.
- Both its indicators stayed in their positive mode, supporting the view that there could be more upside from here. As long as prices stay above S\$0.14-0.145 levels, the uptrend is still intact. Keep a stop at below S\$0.14 levels. Aggressive traders should buy on any pullback. Other traders should accumulate near the said support.

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**HOLD:** The stock's total return is expected to range between +15% and -15% over the next three months.

**SELL:** The stock's total return is expected to be -15% or worse over the next three months.

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