

MITA No. 018/06/2007

15 January 2008

Qian Hu Corporation

Maintain

BUY

Previous Rating: BUY

S\$0.18

Fair Value: S\$0.21

Stock Code:

Reuters:

Bloomberg:

QIAN.SI

QIAN.SP

Event:

Results

General Data

Issued Capital (m)	413
Mkt Cap (S\$m/US\$m)	74 / 52
Major Shareholder	Qian Hu Hldgs Pte Ltd (28.18%)
Free Float (%)	26.6
NAV per share (S cents)	13.5
Daily Vol 3-mth ('000)	826
52Wk High (S\$)	0.244
52Wk Low (S\$)	0.108

Celebrating a year of prosperity

4Q07 bottom-line surpassed expectations. Qian Hu Corporation Ltd (Qian Hu) reported its FY07 results yesterday. While our revenue forecast was spot on, Qian Hu surprised us with better net profit. FY07 revenue climbed 20.5% YoY to S\$91.7m and net profit soared 89.1% YoY to S\$4.9m, 14% higher than our forecast of S\$4.3m. On a fully diluted basis, EPS surged 92.2% to 1.23 S cents from 0.64 S cents a year ago. No final dividend was declared as management noted that a special interim dividend was recently paid out in September 2007.

Going for organic and inorganic growth. Qian Hu continued to forge on in its organic growth in 4Q07. Revenue from its Fish, Accessories and Plastics segments grew by 15.0%, 30.4% and 0.8%, respectively. Moving forward, the group plans to continue to grow organically by tapping new markets and increasing the density of its penetration in existing markets, and inorganically by keeping a lookout for potential M&As, not dissimilar to the recent acquisition of a 20% stake in Arcadia Products PLC (Arcadia).

Focused growth drivers. Qian Hu has drawn out specific plans for its organic growth. It aims to increase the number of distribution points in China from 100 locations currently to 150 by the end of 2008. In terms of segmental growth, Qian Hu has targeted to grow the export market for its Fish segment from 70 countries currently to 80 in the next year, and that for its Accessories segment from 20 countries currently to 55 countries in the further horizon. The enlargement of its Accessories' export market will be facilitated by its recent acquisition of Arcadia, whose distribution network penetrates 55 countries.

Maintaining our BUY rating and fair value estimate. Having impressed with a strong set of FY07 results, we are confident that Qian Hu has gained momentum for growth. FY08 will see more contributions from Arcadia, as well as improved efficiencies from R&D and the full utilization of its Guangzhou plant. We maintain our **BUY** rating, and our fair value remains at S\$0.21, pegged at 17x FY08 PER.

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Year to 31 Dec	Turnover (S\$m)	Gross Profit (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Net Div Yield (%)
FY 06	76.1	27.0	2.6	0.6	28.9	31.3	0.6
FY 07	91.7	31.5	4.9	1.2	92.2	15.0	0.8
FY 08F	101.8	36.5	5.6	1.2	2.2	14.7	1.6
FY 09F	110.7	39.6	6.7	1.5	19.4	12.3	1.9

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

Qian Hu Ltd's Key Financial Data

Qian Hu Results Year Ended 31 Dec (S\$ m)	4Q06 (S\$m)	4Q07 (S\$m)	% Chg (YoY)	3Q07 (S\$m)	% Chg (QoQ)
Revenue	20.7	24.6	18.9%	22.7	8.5%
Cost of sales	-13.3	-16.7	25.8%	-14.7	13.9%
Gross Profit	7.4	7.9	6.5%	8.0	-1.2%
Other operating income	0.0	0.0	240.0%	0.0	-48.5%
Selling and distribution costs	-0.6	-0.5	-21.8%	-0.8	-42.3%
General & administrative expenses	-5.0	-5.1	1.4%	-5.1	0.7%
Profit from operations	1.8	2.3	31.0%	2.1	9.2%
Net financial expenses	-0.2	-0.2	17.7%	-0.2	-8.0%
Share of results of associates	0.0	0.0	N.M.	0.0	N.M.
Profit before tax	1.6	2.1	32.8%	1.9	10.5%
Tax	-0.3	-0.2	-29.5%	-0.4	-37.8%
Profit for the period	1.3	1.9	48.0%	1.6	21.5%
Minority interests	0.4	0.3	-20.3%	0.3	9.3%
Net profit attributable to shareholders	0.9	1.6	81.6%	1.3	24.4%

EARNINGS FORECAST

Year Ended 31 Dec (S\$ m)	FY06	FY07	FY08F	FY09F
Revenue	76.1	91.7	101.8	110.7
Cost of sales	-49.1	-60.2	-65.4	-71.1
Gross Profit	27.0	31.5	36.5	39.6
Other operating income	0.2	0.2	0.2	0.2
Selling and distribution costs	-2.5	-2.8	-3.1	-3.3
General & administrative expenses	-18.7	-20.2	-23.8	-25.5
Profit from operations	6.0	8.7	9.8	11.1
Net financial expenses	-0.7	-0.8	-0.9	-0.7
Share of results of associates	0.0	0.0	0.1	0.3
Profit before tax	5.3	7.9	9.0	10.6
Tax	-1.4	-1.6	-2.4	-2.9
Profit for the period	3.9	6.3	6.6	7.8
Minority interests	1.3	1.4	1.0	1.1
Net profit attributable to shareholders	2.6	4.9	5.6	6.7
Earnings per share (S cents)	0.6	1.2	1.2	1.5
Profitability Ratios				
Gross margin (%)	35.4	34.4	35.8	35.8
EBIT margin (%)	7.9	9.5	9.6	10.0
PBT margin (%)	7.0	8.6	8.9	9.6
Net profit margin (%)	3.4	5.4	5.5	6.0

BALANCE SHEET

As at 31 Dec (S\$ m)	FY06	FY07	FY08F	FY09F
Cash and bank balances	5.6	7.5	7.9	11.9
Inventories	21.6	22.0	26.5	27.7
Breeder stocks	1.7	1.4	2.5	2.8
Receivables and other current assets	17.7	21.1	22.4	23.8
Property, plant, and equipment	11.5	12.4	11.1	9.9
Other non-current assets	17.2	24.3	26.3	27.9
Total assets	75.4	88.8	96.7	104.0
Debt	7.2	8.9	8.0	7.2
Trade payables	6.0	7.4	7.6	8.3
Other current liabilities	11.0	13.7	17.2	18.0
Finance lease obligations	0.1	0.3	0.2	0.2
Deferred taxation	2.1	2.9	2.7	3.0
Total liabilities	26.5	33.2	35.9	36.7
Share capital	19.0	29.3	29.3	29.3
Reserves	23.5	18.7	24.0	30.2
Minority interests	6.4	7.6	7.6	7.8
Total equity	48.9	55.6	60.9	67.3
Total equity and liabilities	75.4	88.8	96.7	104.0
NTA per share (S cents) (based on fully diluted share capital of 454.8m shares)	8.9	10.1	11.1	12.4

CASH FLOW

Year Ended 31 Dec (S\$ m)	FY06	FY07	FY08F	FY09F
Operating profit before working cap. changes	8.8	11.8	12.3	13.6
Working capital changes	1.9	-2.0	-4.1	-1.0
Taxes and interests paid	-1.3	-1.1	-1.7	-3.3
Net cash from operations	9.4	8.7	6.6	9.3
Purchase of property, plant and equipment	-0.9	-2.4	-0.5	-0.5
Purchase of brooder stocks	-5.7	-6.5	-2.0	-2.0
Other investing flows	0.1	-0.7	0.0	0.0
Investing cash flow	-6.6	-9.6	-2.5	-2.5
Dividends paid	-0.5	-0.6	-1.3	-1.6
Other financing flows	-1.1	1.6	-0.3	-1.3
Financing cash flow	-1.7	0.9	-1.6	-2.8
Net cash flow	1.1	0.0	2.5	3.9
Cash at beginning of year	4.3	5.5	5.4	7.9
Effect of exchange rate changes on cash balances held in foreign currencies	0.0	0.0	0.0	0.0
Cash at end of year	5.5	5.4	7.9	11.9
Add: Bank balances and fixed deposits	0.1	2.0	0.0	0.0
Cash and cash equivalents at end of year	5.6	7.5	7.9	11.9

Key Ratios

PER (x)	31.3	15.0	14.7	12.3
Price/NTA (x)	2.0	1.8	1.6	1.4
EV/EBIT (x)	13.9	9.5	8.4	7.0
Dividend yield (%)	0.6	0.8	1.6	1.9
ROE (%)	6.2	10.3	10.5	11.2
Net gearing (%)	3.8	2.9	0.2	Net Cash
PE to growth (x)	1.1	0.2	6.7	0.6

Source: Company data, OIR estimates

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