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STI @ 1,881.77

## Singapore

### Consumer

Reuters QIAN.SI  
Bloomberg QIAN.SP

**Market cap**  
S\$75.24m (US\$44.20m)

**Shares in issue**  
127.5m

**Estimated free float**  
31%

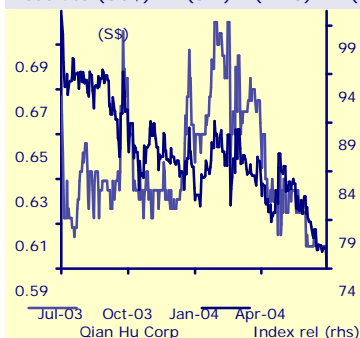
**3M average daily volume**  
S\$0.03m (US\$0.02m)

**12M high/low**  
S\$0.76/0.59

**Major shareholder (s)**  
Qian Hu Holdings 28.4%  
Yap family 40.6%

### Stock performance (%)

	1M	3M	12M
Absolute	(4.1)	(9.9)	(11.5)
Rel index	(8.7)	(11.7)	(25.6)
Absolute (US\$)	(3.1)	(11.3)	(8.4)



Source: Reuters

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## Difficult Transformation

### 2Q04 Results: Worst than expected

Operating profit fell 17% YoY, net profits halved YoY. Poor performance in the accessories business was the key reason:

- Accessories sales fell 24%YoY, and Op profit contribution collapsed 69%YoY
- Aquarium retail sector in Singapore has continued to consolidate after the Luo Han craze of 2002-2003. There are now just 250 shops (from 350 last year). Qian Hu is falling with the market given that it already has 99% market penetration in Singapore.
- New factory in Guangzhou remains inefficient and is barely breaking even. Additional expenses on infrastructure and inexperienced work-force were cited as contributory reasons.

### Silver lining was the ornamental fish division:

- Dragon-fish from the newly acquired Malaysian farm and contributions from newly acquired Indonesia operation helped boost op profit 50%YoY

### Hopes lie ahead

- GZ factory: Management hopes this plant will contribute positively from 2H04 given expanded capacity and orders on hand (which should bring factory to 80-90% utilization)
- Retail store venture: four stores have already opened in China (2 in Shanghai Nextmall, 1 in Nanjing, 1 in Guangzhou) with another coming up in Beijing (will be largest to-date). By September, more outlets will open in Kuala Lumpur, Johor Bahru, Bangkok and Bandung (Indonesia).

### Significant risks remain

- Retailers in Singapore and Malaysia feel threatened by QH's aggressive Pet Family Chain Store concept. Despite reassurances that QH will not be launching this in Singapore, most have demanded bigger discounts. This difficult situation looks unlikely to reverse soon.
- QH's retail chain is a high risk experiment that will take some years to deliver. For now, Shanghai is actually delivering below our revenue hopes.

### Valuation

- We downgraded earnings forecast for both 04 and 05. New target price is at 52 cents based on 9x forward PE.
- Given the attendant risks, we downgrade to SELL.

### Consolidated financials

Year to 31 December	2002A	2003A	2004CL	2005CL
Revenue (S\$m)	63	68	72	85
Revenue growth (%YoY)	52.0	8.0	7.1	17.5
Net profit (S\$m)	7	7	5	7
EPS (S)	5.51	5.59	3.73	5.78
EPS change (%)	69.0	1.5	(33.3)	55.0
PEx (@S\$0.59)	10.7	10.6	15.8	10.2
Dividend yield (%)	1.3	0.6	0.4	0.7
ROE (%)	29.1	21.8	12.3	16.6
PB (x)	2.55	2.04	1.84	1.58
Net gearing (%)	(13)	(0)	(5)	(8)
EV/Op Ebitda (x)	7.7	7.3	8.6	6.1

Note: This company is not under formal CLSA coverage. Source: Company, CLSA Asia-Pacific Markets

Figure 1

<b>Financial Performance</b>					
<b>Year End 31 Dec (S\$m)</b>	<b>2Q04A</b>	<b>2Q03A</b>	<b>YoY(%)</b>	<b>1Q04A</b>	<b>QoQ(%)</b>
<b>Revenue</b>	<b>18.0</b>	<b>17.3</b>	<b>4</b>	<b>16.2</b>	<b>11</b>
Cost of Revenue	(10.9)	(10.9)	(0)	(10.6)	2
<b>Gross Profit</b>	<b>7.1</b>	<b>6.3</b>	<b>12</b>	<b>5.6</b>	<b>27</b>
Other Operating Income	0.1	0.0	14	0.0	92
Selling & distribution expenses	(0.7)	(0.3)	99	(0.5)	40
General & admin	(4.4)	(3.5)	24	(3.6)	22
Interest expenses	(0.1)	(0.1)	28	(0.1)	15
<b>Profit bf taxation</b>	<b>2.0</b>	<b>2.5</b>	<b>(21)</b>	<b>1.5</b>	<b>31</b>
Taxation	(0.4)	(0.5)	(10)	(0.2)	91
<b>Net profit after Tax</b>	<b>1.5</b>	<b>2.0</b>	<b>(23)</b>	<b>1.3</b>	<b>20</b>
Minority Interests	(0.6)	(0.1)		(0.1)	
<b>Net profit</b>	<b>1.0</b>	<b>1.9</b>	<b>(50)</b>	<b>1.2</b>	<b>(19)</b>

Source: CLSA Asia-Pacific Markets

Figure 2

<b>Segment Results</b>						
<b>Breakdown</b>	<b>1H04A</b>	<b>1H03A</b>	<b>YoY%</b>	<b>2Q04A</b>	<b>2Q03A</b>	<b>YoY%</b>
<b>Revenue</b>						
Ornamental fish	16.7	13.1	28	9.5	6.8	41
Accessories	14.2	16.9	(16)	6.8	8.9	(24)
Plastics and others	3.4	3.3	3	1.7	1.6	7
<b>Operating Profit</b>						
Ornamental fish	3.0	2.0	53	2.0	1.3	50
Accessories	1.1	2.7	(61)	0.4	1.3	(69)
Plastics and others	0.2	0.2	(22)	0.05	0.1	(65)

Source: CLSA Asia-Pacific Markets

**Note: In the interests of timeliness, this document was not edited.**
**Key to investment rankings:** BUY = Expected to outperform the local market by >10%; O-PF = outperform by 0-10%; U-PF = underperform by 0-10%; SELL = underperform by >10%. Performance is defined as 12-month total return (including dividends).

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