

Qian Hu Corporation

3Q09 results update

BUY

Current Price **S\$0.16**
20 October 2009

Fair Value **S\$0.19**

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Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$67.4m
52-HI	S\$0.17
52-LOW	S\$0.075
Avg Vol (1 yr)	349,395
Shares Outstanding	421.39m
Free Float	185.4m

Key Indicators

ROE 09F	9.5%
ROA 09F	6.2%
P/BK	1.2x
Net gearing	0.08x

Major Shareholders

Qian Hu Holding	26.3%
Yap family	29.8%

Adding more ponds to spur growth

- **Results within expectations.** 3Q09 net profit of S\$1.68m was in line with our net profit forecast of S\$1.64m. 9M09 results represent 73% of our full-year forecasts. Traditionally, Qian Hu's result is strongest in the 4Q.
- **Sales inched up 1.1% yoy to S\$23.9m** as both fish and accessories grew 1.5% and 6.9% yoy, respectively. However the gains were offset by a 16% decline yoy for plastics business due to lower selling prices following the significant reduction in the raw material costs.
- **EBITDA margins decreased 0.6% pts yoy to 12.8%** due to lower gross margins from fish and accessories, this mainly due to the higher operating cost of the fish division due to new expansion in both Malaysia and Singapore. However, the margins were relatively stable compared to the previous quarter.
- **Net gearing remains comfortable at 8%.** Qian Hu generated S\$1.1m positive free cash flow in 3Q09 as a result of improvement in working capital by shortened cash conversion cycle (-2 days qoq).
- **New fish farm will be fully operational next year.** We visited its fish farm recently and were impressed by the fully underground recycle filter system with a rain collection reservoir (This reservoir is more than enough to supply water to its new farm as well as to the old farm). We believe this S\$3m (S\$1m land cost + S\$2m construction cost) new farm will eventually help to save on operating costs.
- **Improve its cash flow and dividend yield for next.** We understand from the management that there will be no more major capex for the fish sector. Its Malaysia and Singapore fish farms combined are enough to support the fish division's growth for the next ten years. As such, we believe the group should be able to improve its free cash flow and dividend payout for the next few years.
- **Forecasts unchanged; maintain Buy.** We are keeping our FY09-11 earnings estimates intact and our fair value of S\$0.19, applying 1.3x FY10 P/BV. We believe Qian Hu trades currently at 9.6x FY10 fully diluted P/E and 5.6x EV/EBITDA, which is not demanding given its rather unique business and strong brand name.

Key Financial Data

(S\$ m, FYE Dec)	2007	2008	2009F	2010F	2011F
Sales	91.7	93.1	96.2	102.4	109.1
Gross Profit	31.5	33.1	33.8	36.2	38.7
Net Profit	4.9	6.0	6.5	7.6	8.6
Fully Diluted EPS (cents)	1.3	1.5	1.4	1.7	1.9
EPS growth (%)	77.9	8.4	(1.9)	16.5	13.2
Fully Diluted PER (x)	11.9	11.0	11.2	9.6	8.5
NTA/share (cents)	12.5	12.4	13.3	14.7	15.0
DPS (cents)	2.5	0.2	0.4	0.4	0.5
Div Yield (%)	15.4	1.3	2.4	2.8	2.9
EV/EBITDA (x)	7.5	6.5	6.5	5.6	5.1

Source: Company, NRA Capital estimates

Results comparison

FYE Dec (S\$ m)	3Q09	3Q08	yoy % chg	9M09	9M08	yoy % chg	Prev. 3Q09F	Comments
Revenue	23.9	23.6	1	70.7	70.2	1	24.2	In line
Operating costs	(20.8)	(20.4)	2	(61.4)	(61.0)	1	(21.0)	In line
EBITDA	3.1	3.2	(4)	9.3	9.2	1	3.3	Slightly below
EBITDA margin (%)	12.8	13.4		13.2	13.1		13.5	Slightly lower-than-expected margins
Depn & amort.	(0.7)	(0.6)	6	(2.0)	(1.8)	9	(0.7)	In line
EBIT	2.4	2.6	(6)	7.4	7.4	(1)	2.6	
Interest expense	(0.2)	(0.2)	(23)	(0.6)	(0.7)	(16)	(0.2)	In line
Interest & invt inc	0.0	0.1	(60)	0.1	0.1	(36)	0.0	In line
Associates' contrib	(0.0)	(0.0)	(31)	(0.0)	(0.0)	(18)	0.0	In line
Exceptionals	0.0	0.0	0	0.0	0.0	0	0.0	
Pretax profit	2.2	2.4	(5)	6.9	6.8	0	2.5	10% below expectation
Tax	(0.4)	(0.5)	(24)	(1.3)	(1.5)	(15)	(0.5)	Below, lower-than-expected tax rate
Tax rate (%)	15.9	19.7		18.6	21.9		18.9	
Minority interests	(0.2)	(0.4)	(46)	(0.8)	(1.0)	(19)	(0.4)	Below
Net profit	1.7	1.5	10	4.7	4.3	10	1.6	In line
EPS (cts)	0.4	0.4	8	1.1	1.0	9	0.4	

Source: NRA Capital estimates



Source: Bloomberg, NRA Capital

Profit & Loss (S\$ m, FYE Dec)	2007	2008	2009F	2010F	2011F
Revenue	91.7	93.1	96.2	102.4	109.1
Operating expenses	(81.0)	(80.7)	(83.8)	(88.0)	(93.3)
EBITDA	10.8	12.4	12.4	14.5	15.8
Depreciation & amortisation	(2.2)	(2.4)	(2.6)	(3.2)	(3.3)
EBIT	8.5	9.9	9.8	11.3	12.5
Net interest & invt income	(0.6)	(0.7)	(0.4)	(0.4)	(0.4)
Associates' contribution	0.0	(0.0)	0.1	0.1	0.1
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	7.9	9.2	9.5	10.9	12.2
Tax	(1.6)	(1.8)	(1.9)	(2.1)	(2.3)
Minority interests	(1.4)	(1.4)	(1.2)	(1.2)	(1.3)
Net profit	4.9	6.0	6.5	7.6	8.6
Wt. shares (m)	368.1	414.6	421.0	421.0	460.5
Shares at year-end (m)	368.1	414.6	421.0	421.0	460.5
Balance Sheet (S\$ m, as at Dec)	2007	2008	2009F	2010F	2011F
Fixed assets	33.8	41.4	45.6	49.8	54.1
Intangible assets	2.1	2.2	2.3	2.3	2.3
Other long-term assets	0.8	0.8	1.2	1.2	1.2
Total non-current assets	36.8	44.4	49.0	53.3	57.5
Cash and equivalents	7.5	8.3	8.7	9.7	10.6
Stocks	22.0	22.4	21.9	23.5	24.6
Trade debtors	17.6	20.9	19.3	20.5	22.8
Other current assets	4.9	4.5	5.3	6.0	6.8
Total current assets	52.0	56.1	55.1	59.7	64.9
Trade creditors	7.4	9.2	7.7	8.2	8.7
Short-term borrowings	7.5	10.4	10.6	11.5	12.0
Other current liabilities	13.5	12.1	11.5	12.1	12.8
Total current liabilities	28.4	31.8	29.7	31.8	33.5
Long-term borrowings	1.9	2.4	2.2	2.1	2.1
Other long-term liabilities	2.9	3.6	3.5	3.5	3.5
Total long-term liabilities	4.8	6.0	5.7	5.6	5.6
Shareholders' funds	48.0	53.6	58.4	64.0	70.5
Minority interests	7.6	9.1	10.3	11.5	12.8
NTA/share (S\$)	0.12	0.12	0.13	0.15	0.15
Total Assets	88.8	100.5	104.1	113.0	122.4
Total Liabilities + S'holders' funds	88.8	100.5	104.1	113.0	122.4
Cash Flow (S\$ m, FYE Dec)	2007	2008	2009F	2010F	2011F
Pretax profit	7.9	9.2	9.5	10.9	12.2
Depreciation & non-cash adjustments	3.9	3.3	2.7	4.5	4.6
Working capital changes	(2.0)	(1.6)	0.5	(3.2)	(3.8)
Cash tax paid	(1.1)	(1.1)	(4.7)	(4.5)	(4.6)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	8.7	9.8	8.0	7.8	8.4
Capex	(8.9)	(10.9)	(7.5)	(6.0)	(6.0)
Net investments & sale of FA	(0.7)	0.1	0.0	0.0	0.0
Others	0.0	0.0	0.5	0.0	0.0
Cash flow from investing	(9.6)	(10.8)	(6.9)	(6.0)	(6.0)
Debt raised/(repaid)	(0.2)	3.9	(0.1)	0.8	0.5
Equity raised/(repaid)	1.2	0.1	0.2	0.0	0.0
Dividends paid	(0.6)	0.0	(0.8)	(1.6)	(1.9)
Cash interest & others	0.5	(1.8)	0.0	0.0	0.0
Cash flow from financing	0.9	2.2	(0.7)	(0.8)	(1.4)
Change in cash	(0.0)	1.2	0.4	1.0	1.0
Change in net cash/(debt)	0.1	(2.7)	0.5	0.2	0.5
Ending net cash/(debt)	(1.9)	(4.6)	(4.1)	(3.9)	(3.4)
KEY RATIOS (FYE Dec)	2007	2008	2009F	2010F	2011F
Revenue growth (%)	20.5	1.5	3.4	6.5	6.5
EBITDA growth (%)	32.3	14.8	0.6	16.4	9.4
Pretax margins (%)	8.6	9.9	9.9	10.7	11.2
Net profit margins (%)	5.4	6.5	6.8	7.4	7.9
Interest cover (x)	10.4	11.5	17.6	18.9	20.3
Effective tax rates (%)	20.2	19.5	19.5	19.5	19.0
Net dividend payout (%)	183.8	13.7	27.3	27.3	25.0
Debtors turnover (days)	66.7	75.5	76.2	70.8	72.5
Stock turnover (days)	132.4	135.1	129.3	125.0	124.9
Creditors turnover (days)	26.6	32.4	32.0	28.3	28.3

Source: Company, NRA Capital Estimates



Source: NRA Capital

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