

Qian Hu Corporation

3Q11 results update

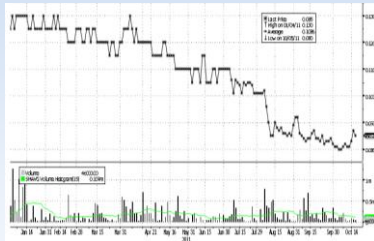
Overweight

Current Price **S\$0.085**
18 October 2011

Fair Value **S\$0.125**

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Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$38.6m
52-HI	S\$0.14
52-LOW	S\$0.08
Avg Vol (1 yr)	190,750
Shares Outstanding	454.1m
Free Float	253.4m

Key Indicators

ROE 11F	5.3%
ROA 11F	3.7%
P/BK	0.6x
Net gearing	4.4%

Major Shareholders

Qian Hu Holding	24.0%
Yap family	20.2%

Bottom fishing

- **Below expectations.** 3Q11 net profit of S\$0.6m came in 40% below our S\$0.95m expectation mainly due to lower-than-expected sales, higher-than-expected operating expenses and effective tax rate. However, this is slightly offset by better GP margins and forex gain. 9M result represents 52% of our full-year forecast.
- **3Q11 revenue decreased by 6% yoy to S\$21.5m** due to weakening demand across all its product segments. Its fish, accessories and plastics sales decreased by 5.7%, 5.7% and 9.6% yoy respectively. Due to the sluggish European economy, its Europe sales contribution has fallen from 15% in 9M10 to 11% year to date. As a result, the negative impact from the European markets is also reduced.
- **EBITDA margins declined 3.9% pts yoy to 6.4%** due to lower revenue contribution and higher operating cost, mainly due to higher wage cost in China. Including the lower financial costs, forex gain and higher taxation, pretax and net profit decreased by 44% and 55% yoy respectively.
- **Net gearing remained healthy.** Despite increasing its cash conversion cycle days by 13 days qoq to 213 days, Qian Hu managed to generate \$0.24m of positive free cash flow in 3Q11 after lowering its capex spending. Its net gearing decreased slightly from 4.6% in the previous quarter to 4.4%.
- **Impact from Europe limited.** Over the last two years, Qian Hu suffered from the weaker demand from European markets, since the onset of the financial crisis with no sign of recovery. Europe sales contributed as much as 22% in 2009 to about 10% currently. Qian Hu has also been aggressively developing its own proprietary products which include LED lightings, filtration systems and fish tanks since early this year to diversify its business model.
- **Cutting forecast...** Given the weaker industry outlook, we have cut our FY11-FY13 earnings by 20% to factor in the lower sales projection. As a result, our fair value has been reduced from S\$0.16 to S\$0.125, still applying 10x FY12 PER, or 0.8x PBR FY11, nevertheless, we believe downside could be limited as its current price was trading as its lowest range of its 10-year rolling forward PBR and PER.
- **..but maintain Overweight.** Given the group's long term goal is to be debt-free with a high dividend payout, we believe the group will continue to focus on its balance sheet and cash flow in the short-term. Management expects to remain profitable in 4Q. Coupled with the attractive 5.9% yield and good track record, we maintain **Overweight** rating.

Key Financial Data

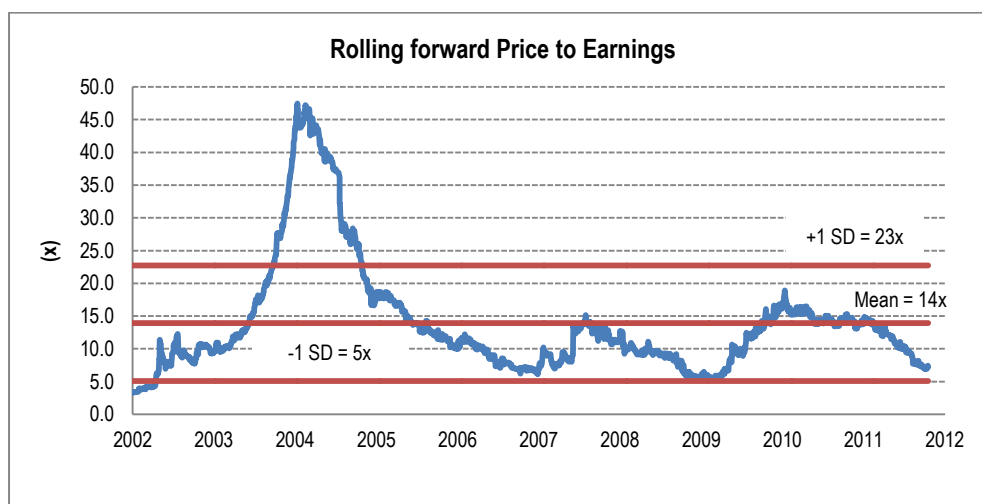
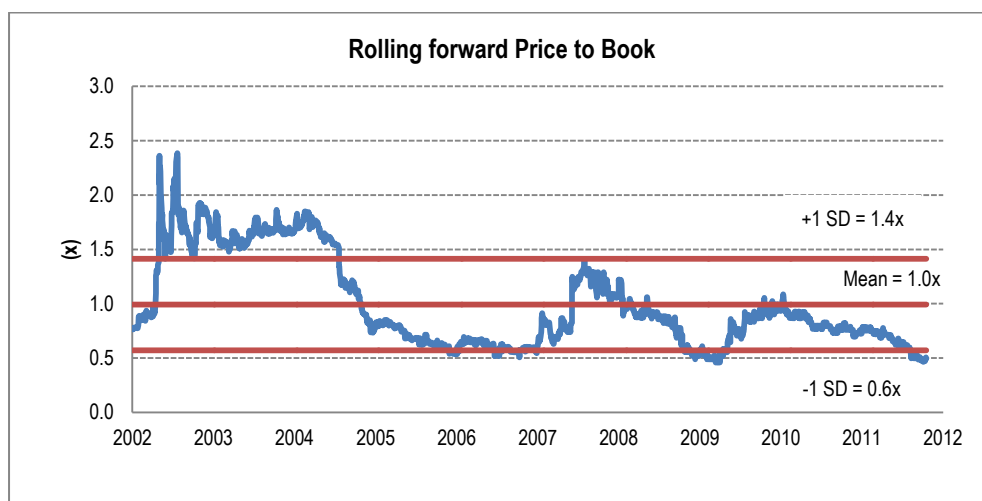
(S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Sales	94.6	91.2	93.1	98.4	104.6
Gross Profit	32.7	29.2	29.8	33.5	35.6
Net Profit	6.5	4.2	4.0	5.7	6.1
EPS (cents)	1.6	0.9	0.9	1.3	1.3
EPS growth (%)	6.3	(40.2)	(5.9)	43.3	6.8
PER (x)	5.5	9.2	9.7	6.8	6.4
NAV/share (cents)	16.4	16.1	16.5	17.4	18.3
DPS (cents)	0.5	0.5	0.5	0.5	0.5
Div Yield (%)	6.2	5.9	5.9	5.9	5.9

Source: Company, NRA Capital estimates

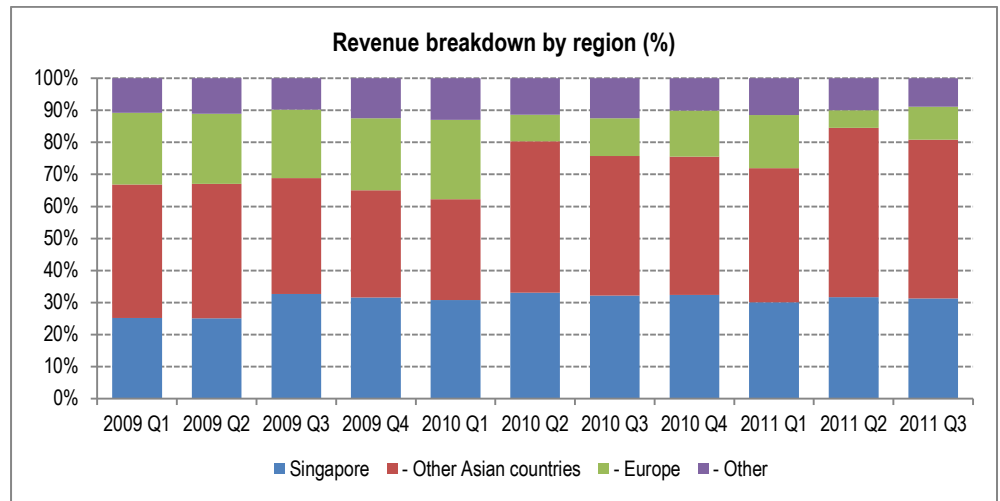
Results comparison

FYE Dec (\$\$ m)	3Q11	3Q10	yoy % chg	2Q11	QoQ % chg	Prev. 3Q11F	Comments
Revenue	21.5	23.0	(6)	23.3	(8)	22.5	4.5% below expectation
Operating costs	(20.1)	(20.6)	(2)	(21.1)	(5)	(20.5)	In line
EBITDA	1.4	2.4	(42)	2.2	(37)	2.0	Below, higher-than-expected OPEX
EBITDA margin (%)	6.4	10.4		9.5	(32)	9.0	2.5% pt below expectation
Depn & amort.	(0.7)	(0.7)	(4)	(0.7)	(2)	(0.7)	In line
EBIT	0.7	1.7	(58)	1.5	(54)	1.3	Below, higher-than-expected OPEX
Interest expense	(0.1)	(0.1)	(15)	(0.1)	12	(0.1)	In line
Interest & invt inc	0.3	0.0	nm	(0.0)	2,194	0.0	Above due to forex gain
Associates' contrib	(0.0)	(0.0)	nm	(0.0)	36	(0.0)	In line
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	0.9	1.6	(44)	1.4	(36)	1.2	Below, higher-than-expected OPEX
Tax	(0.2)	(0.2)	19	(0.3)	(11)	(0.2)	In line
Tax rate (%)	27.7	13.1		20.1	38	15.0	Above, higher-than-expected effective tax rate
Minority interests	(0.1)	(0.1)	(59)	(0.1)	(35)	(0.1)	
Net profit	0.6	1.2	(53)	1.0	(42)	1.0	40% below expectation
EPS (cts)	0.1	0.3	(53)	0.2	(42)	0.2	

Source: NRA Capital estimates



Source: NRA Capital Estimates



Source: NRA Capital Estimates

Profit & Loss (S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Revenue	94.6	91.2	93.1	98.4	104.6
Operating expenses	(82.0)	(82.6)	(84.5)	(87.8)	(93.5)
EBITDA	12.6	8.5	8.5	10.6	11.1
Depreciation & amortisation	(2.6)	(2.8)	(2.8)	(2.7)	(2.7)
EBIT	10.0	5.7	5.8	7.9	8.4
Net interest & invt income	(0.6)	(0.4)	(0.2)	(0.1)	(0.1)
Associates' contribution	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	9.4	5.3	5.5	7.6	8.1
Tax	(1.8)	(0.8)	(1.2)	(1.6)	(1.7)
Minority interests	(1.1)	(0.3)	(0.4)	(0.3)	(0.4)
Net profit	6.5	4.2	4.0	5.7	6.1
Wt. shares (m)	422.2	454.1	454.1	454.1	454.1
Shares at year-end (m)	422.2	454.1	454.1	454.1	454.1

Balance Sheet (S\$ m, as at Dec)	2009	2010	2011F	2012F	2013F
Fixed assets	46.3	44.0	44.5	43.0	41.5
Intangible assets	2.3	2.3	2.3	2.3	2.3
Other long-term assets	1.2	1.1	1.1	1.1	1.1
Total non-current assets	49.7	47.4	47.8	46.4	44.9
Cash and equivalents	9.8	11.7	10.6	14.4	17.1
Stocks	21.0	24.1	22.8	23.4	24.8
Trade debtors	18.1	19.2	19.5	20.4	21.6
Other current assets	5.1	5.0	5.5	6.0	6.7
Total current assets	54.0	60.0	58.3	64.2	70.3
Trade creditors	7.7	8.4	7.4	7.9	8.4
Short-term borrowings	12.2	11.7	9.3	8.9	8.4
Other current liabilities	10.3	9.6	9.9	10.6	11.1
Total current liabilities	30.2	29.7	26.6	27.3	27.8
Long-term borrowings	0.3	0.4	0.2	0.2	0.1
Other long-term liabilities	4.1	4.3	4.2	4.2	4.2
Total long-term liabilities	4.4	4.7	4.5	4.4	4.4
Shareholders' funds	59.2	62.7	64.4	67.8	71.6
Minority interests	10.0	10.3	10.7	11.0	11.4
NTA/share (S\$)	0.13	0.13	0.14	0.14	0.15
Total Assets	103.8	107.4	106.2	110.5	115.2
Total Liabilities + S'holders' funds	103.8	107.4	106.2	110.5	115.2

Cash Flow (S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Pretax profit	9.4	5.3	5.5	7.6	8.1
Depreciation & non-cash adjustments	3.9	3.6	6.0	7.3	7.2
Working capital changes	0.1	(3.7)	(0.5)	(1.4)	(2.7)
Cash tax paid	(1.2)	(1.1)	(5.0)	(4.8)	(5.0)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	12.2	4.1	5.9	8.8	7.6
Capex	(6.8)	(1.3)	(1.9)	(1.9)	(1.9)
Net investments & sale of FA	(0.3)	1.7	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	(7.2)	0.4	(1.9)	(1.9)	(1.9)
Debt raised/(repaid)	1.3	(0.5)	(2.5)	(0.5)	(0.5)
Equity raised/(repaid)	0.2	1.1	0.0	0.0	0.0
Dividends paid	(0.9)	(2.2)	(2.3)	(2.3)	(2.3)
Cash interest & others	(2.6)	(1.0)	(0.4)	(0.3)	(0.2)
Cash flow from financing	(1.9)	(2.7)	(5.2)	(3.0)	(3.0)
Change in cash	3.1	1.8	(1.1)	3.8	2.7
Change in net cash/(debt)	1.8	2.4	1.4	4.3	3.2
Ending net cash/(debt)	(2.8)	(0.4)	1.0	5.3	8.5

KEY RATIOS (FYE Dec)	2009	2010	2011F	2012F	2013F
Revenue growth (%)	1.7	(3.6)	2.1	5.7	6.3
EBITDA growth (%)	2.3	(32.5)	(0.0)	24.3	4.4
Pretax margins (%)	10.0	5.8	5.9	7.7	7.8
Net profit margins (%)	6.9	4.6	4.3	5.8	5.8
Interest cover (x)	14.7	11.6	14.4	25.1	28.3
Effective tax rates (%)	19.0	14.8	21.0	21.0	21.0
Net dividend payout (%)	34.3	54.0	57.3	40.0	37.4
Debtors turnover (days)	73.1	74.6	75.9	74.0	73.3
Stock turnover (days)	127.8	132.8	135.1	129.7	127.5
Creditors turnover (days)	32.5	32.2	31.2	28.4	28.3

Source: Company, NRA Capital Estimates

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