

Neutral**Current Price** S\$0.085Fair Value S\$0.10
Up / (downside) +11%**Stock Statistics**

Market cap	S\$40.9m
52-low	S\$0.073
52-high	S\$0.12
Avg daily vol	142,435
No of share	454.1m
Free float	50%

Key Indicators

ROE 12F	-9.7%
ROA 12F	-6.8%
P/BK	0.56x
Net gearing	15%

Major Shareholders

Qian Hu Holding	24.0
Yap Family	20.2%

Historical Chart

Source: Bloomberg

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- **Maintain Neutral.** Qian Hu's 2Q12 net profit of S\$0.5m came in 12% below our S\$0.6m estimate due to slightly lower-than-expected sales. After factoring in one-time exceptional loss due to its disposal of the loss making subsidiary in Malaysia, we have reversed our FY12 profit forecast of S\$2.7m to S\$6.4m net loss. However, we raised our FY13-14 forecast by 6-8% to factor lower depreciation cost. As a result, our fair value has risen from S\$0.094 to S\$0.10, still pegged at 10x FY13 PER.
- **A special dividend of 0.5 cents proposed for next year,** after receipt of second tranche of cash proceeds from the disposal. As we understand from management, the special dividend will not affect its normal dividend pattern over the past years, as we expect Qian Hu will continue paying dividend for its FY12 despite making its first net loss since IPO. Nevertheless, we lower our dividend estimates from 0.6 cents to 0.4 cents in FY12 but raise our FY13 dividend to 1 cent (including the special dividend).
- **Disposal of 65% stake in loss making Kim Kang,** a dragon fish farmer subsidiary in Malaysia. After three consecutive quarters of losses from this division due to intensive competition of mass market varieties of Dragon Fish in Malaysia, management now believes the value chain of the Dragon Fish business has shifted from breeders to distributors, therefore Qian Hu has decided to stop its breeder business in Malaysia but will continue its high premium Dragon Fish in Singapore. After the disposal, the group will put more efforts to expand its distribution network so as to increase the Dragon Fish sales to the Asian markets, especially China. As the selling price is below Kim Kang's book value, Qian Hu expects that the divestment in Kim Kang will give rise to a one-off loss of approximately S\$9.2m, which will be reflected in the next quarter.
- **2Q12 revenue dropped 4% yoy to S\$22.4m,** affected by a significant drop in the Dragon Fish selling prices. Ornamental fish revenue declined by 19% yoy as a result of intense price competition caused by the oversupply of Dragon Fish. However, this is larger offset by 16% yoy growth from its accessories business.
- **Net gearing remained healthy.** Despite Qian Hu generating S\$0.47m positive free cash flow in 2Q after improving its working capital requirement, including a S\$2.7m dividend payout, its net gearing has gone up from 10.5% in the previous quarter to 14.6%.

Key Financial Data

(S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Sales	91.2	88.3	85.4	89.1	91.7
Gross Profit	29.2	27.3	26.5	27.6	28.0
Net Profit	4.2	3.5	(6.4)	4.5	4.8
EPS (cents)	0.9	0.8	(1.4)	1.0	1.1
EPS growth (%)	(40.2)	(17.7)	(284.9)	170.4	6.7
PER (x)	9.4	11.4	nm	8.8	8.2
NAV/share (cents)	16.1	16.2	14.6	14.0	15.1
DPS (cents)	0.5	0.6	0.4	1.0	0.5
Div Yield (%)	5.7	6.9	4.6	11.5	5.7

Source: Company, NRA Capital estimates

Qian Hu Corporation

Results comparison

FYE Dec (\$\$ m)	2Q12	2Q11	yoy % chg	1Q12	QoQ % chg	Prev. 2Q12F	Comments
Revenue	22.4	23.3	(4)	20.6	9	23.4	4.5% below expectation
Operating costs	(21.0)	(21.1)	(0)	(19.2)	10	(21.7)	In line
EBITDA	1.3	2.2	(40)	1.4	(6)	1.7	Below, lower-than-expected sales
<i>EBITDA margin (%)</i>	5.9	9.4		6.8	(14)	7.1	1.3% pt below expectation
Depn & amort.	(0.7)	(0.7)	5	(0.7)	0	(0.7)	In line
EBIT	0.6	1.5	(61)	0.7	(13)	0.9	Below, lower-than-expected sales
Interest expense	(0.1)	(0.1)	7	(0.1)	(4)	(0.1)	In line
Interest & invt inc	0.1	(0.0)	nm	0.1	61	0.1	In line
Associates' contrib	0.0	(0.0)	nm	(0.0)	160	(0.0)	In line
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	0.6	1.4	(55)	0.6	4	0.9	Below, lower-than-expected sales
Tax	(0.1)	(0.3)	(60)	(0.1)	(19)	(0.2)	
Tax rate (%)	17.7	20.1		22.8	(23)	20.0	
Minority interests	0.0	(0.1)	126	0.1	(64)	(0.1)	
Net profit	0.5	1.0	(47)	0.5	2	0.6	12% below expectation
EPS (cts)	0.1	0.2	(47)	0.1	2	0.1	

Source: NRA Capital estimates

Qian Hu Corporation

Profit & Loss (S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Revenue	91.2	88.3	85.4	89.1	91.7
Operating expenses	(83.1)	(82.5)	(80.4)	(81.7)	(84.6)
EBITDA	8.0	5.8	5.0	7.4	7.1
Depreciation & amortisation	(2.8)	(2.9)	(2.0)	(2.0)	(2.0)
EBIT	5.3	2.9	3.0	5.4	5.1
Net interest & invt income	0.1	1.3	(0.1)	(0.1)	(0.0)
Associates' contribution	(0.1)	(0.1)	0.0	0.2	0.8
Exceptional items	0.0	0.0	(9.2)	0.0	0.0
Pretax profit	5.3	4.2	(6.3)	5.5	5.9
Tax	(0.8)	(0.6)	(0.1)	(0.9)	(1.0)
Minority interests	(0.3)	(0.1)	(0.1)	(0.1)	(0.1)
Net profit	4.2	3.5	(6.4)	4.5	4.8
Wt. shares (m)	454.1	454.1	454.1	454.1	454.1
Shares at year-end (m)	454.1	454.1	454.1	454.1	454.1
Balance Sheet (S\$ m, as at Dec)	2010	2011	2012F	2013F	2014F
Fixed assets	44.0	42.0	39.5	37.1	39.7
Intangible assets	2.3	2.3	2.3	2.3	2.3
Other long-term assets	1.1	1.0	1.0	1.0	1.0
Total non-current assets	47.4	45.2	42.8	40.4	42.9
Cash and equivalents	11.7	8.6	8.1	7.3	8.6
Stocks	24.1	19.6	17.7	18.5	19.1
Trade debtors	21.5	31.5	24.8	25.8	26.6
Other current assets	2.7	1.1	1.1	1.1	1.1
Total current assets	60.0	60.7	51.6	52.7	55.4
Trade creditors	12.9	11.6	10.6	11.1	11.5
Short-term borrowings	16.0	15.7	12.8	12.9	12.8
Other current liabilities	0.7	0.6	0.1	0.9	1.0
Total current liabilities	29.7	27.8	23.5	24.9	25.3
Long-term borrowings	0.4	0.3	0.2	0.2	0.2
Other long-term liabilities	4.3	4.2	4.2	4.2	4.2
Total long-term liabilities	4.7	4.5	4.4	4.4	4.4
Shareholders' funds	62.7	63.4	56.1	53.4	58.2
Minority interests	10.3	10.2	10.3	10.4	10.5
NTA/share (S\$)	0.13	0.13	0.12	0.11	0.12
Total Assets	107.4	105.9	94.3	93.1	98.3
Total Liabilities + S'holders' funds	107.4	105.9	94.3	93.1	98.3
Cash Flow (S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Pretax profit	5.3	4.2	(6.3)	5.5	5.9
Depreciation & non-cash adjustments	3.6	0.1	(0.7)	(1.5)	3.5
Working capital changes	(3.7)	(2.1)	7.6	(1.4)	(1.0)
Cash tax paid	(1.1)	(0.5)	(0.5)	(0.1)	(0.9)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	4.1	1.7	0.1	2.5	7.5
Capex	(1.3)	(2.0)	5.4	(1.1)	(1.1)
Net investments & sale of FA	1.7	0.3	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	0.4	(1.7)	5.4	(1.1)	(1.1)
Debt raised/(repaid)	(0.5)	(0.4)	(2.9)	0.1	(0.1)
Equity raised/(repaid)	1.1	0.0	0.0	0.0	0.0
Dividends paid	(2.2)	(2.3)	(2.7)	(1.8)	(4.5)
Cash interest & others	(1.1)	(0.4)	(0.4)	(0.4)	(0.4)
Cash flow from financing	(2.7)	(3.1)	(6.1)	(2.2)	(5.1)
Change in cash	1.8	(3.1)	(0.6)	(0.8)	1.3
Change in net cash/(debt)	2.3	(2.7)	2.4	(0.8)	1.4
Ending net cash/(debt)	(4.7)	(7.4)	(5.1)	(5.9)	(4.5)
KEY RATIOS (FYE Dec)	2010	2011	2012F	2013F	2014F
Revenue growth (%)	(3.6)	(3.1)	(3.3)	4.4	2.9
EBITDA growth (%)	(34.2)	(28.0)	(13.4)	48.4	(4.3)
Pretax margins (%)	5.8	4.7	(7.3)	6.2	6.4
Net profit margins (%)	4.6	3.9	(7.5)	5.1	5.2
Interest cover (x)	11.6	11.1	(15.0)	15.1	16.2
Effective tax rates (%)	14.8	13.2	(1.0)	17.0	17.0
Net dividend payout (%)	54.0	78.6	(28.3)	100.6	47.2
Debtors turnover (days)	86.0	130.0	105.9	105.9	105.9
Stock turnover (days)	142.0	117.1	109.5	109.5	109.5
Creditors turnover (days)	76.3	69.3	65.7	65.7	65.7

Source: Company, NRA Capital estimates

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