

## Qian Hu Corporation Ltd – Not A Typical Year

Phillip Securities Research Pte Ltd

14 January 2011

Sector Livestock  
Reuters QIAN SI  
Bloomberg QIAN SP

### Cease Coverage

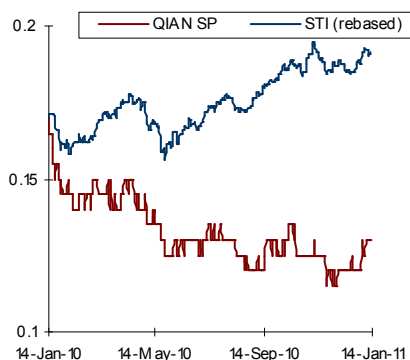
Closing Price  
S\$0.13

#### Price

Last Price **0.130**  
52w k High (1/13/2010) 0.17  
52w k Low (11/24/2010) 0.12  
Shares Outstanding (mil) 454.11  
Market Cap (S\$ mil) 59.03  
Avg. Daily Turnover (mil) 0.03  
Free float (%) 53.73  
PE (X) 13.83  
PB (X) 0.94

#### Price performance %

	1M	3M	6M
Absolute	8.3%	-3.7%	-3.7%
Relative	6.0%	-5.4%	-14.9%



Major Shareholders	%
1 Qian Hu Holdings	24.0

- 4Q10 revenue \$22.2m (-6.8% y-y), net profit \$0.6m (-64.8% y-y)
- FY10 revenue \$91.2m (-3.6% y-y), net profit \$4.2m (-35.7% y-y)
- Propose 0.5 cents dividend
- Ceasing coverage

Notwithstanding the recovery in world economy, Qian Hu profitability was markedly lower than during the recession period. The company registered growth in 2008 and 2009 versus decline in 2010. For 4Q10, revenue came in at \$22.2m (-6.8% y-y, -3.1% q-q), net profit came in at \$0.6m (-64.8% y-y, -47.7% q-q). Full year revenue was \$91.2m (-3.6% y-y) and net profit was \$4.2m (-35.7% y-y). Revenue and net profit were 4.6% and 19.2% lower than our estimates respectively. Management attributed the dismal performance in 4Q10 to the airport closure due to adverse weather in Europe and North America which affected export activities. During the year of 2010, a drought in Malaysia during the first quarter affected the supply of dragon fish fries for sale in subsequent quarters, airport closure in Europe due to the volcanic ash and a riot in Bangkok in the 2<sup>nd</sup> quarter, the World Cup drawing consumers' attention away from their usual hobbies in the third quarter, and the generally weak purchasing sentiment in the European region.

Gross profit margin dropped 2.5 ppt to 32.1% while net profit margin dropped 2.3ppt to 4.6%. Net profit was affected partly due to a higher allowance for trade receivables of \$0.6 million compared to \$0.3 million in 2009.

Fig 1. Revenue and profit (\$'m)

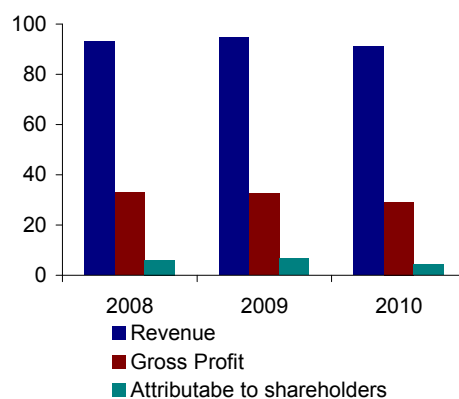
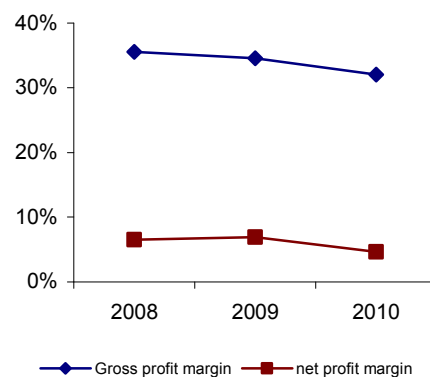


Fig 2. Profit margins



Source: Company, Phillip Securities Research

Conso' Ending	Profits (SG\$m)	EPS SG cents	DPS SG cents	BV (SG\$)	ROE (%)	P/E (X)	Yield (%)	P/BV (x)
12/08 A	6.04	1.46	0.20	0.15	11.8	8.90	1.5%	0.86
12/09 A	6.54	9.40	0.50	0.16	11.0	8.33	3.8%	0.79
12/10 A	4.21	9.40	0.50	0.16	6.2	1.38	3.8%	0.81

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**Revenue breakdown**

Revenue from the ornamental fish segment remains the major revenue contributor at 49%, while accessories segment contributed 38% and plastics segment accounted for 13%. Revenue from both ornamental fish and accessories declined due mainly to the drop in export to the Europe region. As explained earlier, the general weak purchasing sentiment coupled with the airport closures were the main factors. Correspondingly, revenue from the Europe region registered a 35% decrease.

Fig 3. Breakdown by segments

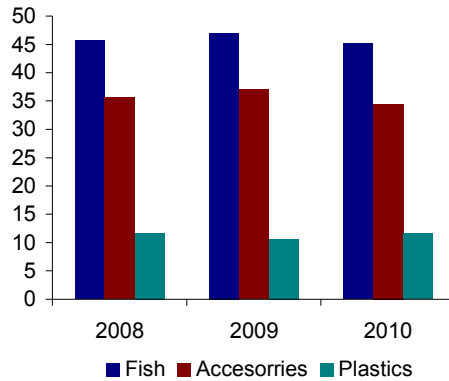
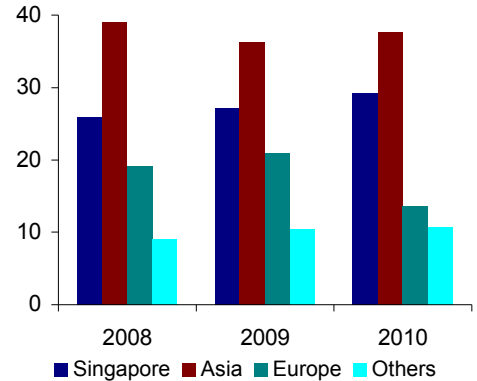


Fig 4. Breakdown by regions



Source: Company, Phillip Securities Research  
Fig 5. % breakdown by segments

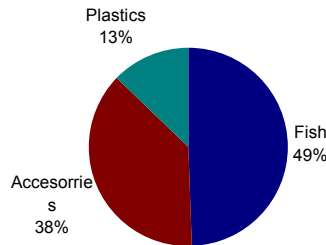
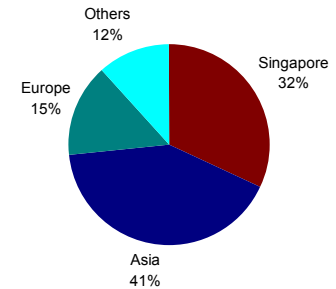


Fig 6. % breakdown by regions



Source: Company, Phillip Securities Research

**FY2010 quarterly results review**

4Q10 profitability margins were disappointing. 3Q10 had shown a rebound as the sales of self-bred dragon fish resumed in the quarter. We had expected this trend to persist into 4Q10. Ornamental fish has recorded very healthy margins in FY09 before the drought affected the supply. In 4Q10, the profit margin for ornamental fish dropped to 3%. The plastics segment maintained a healthy margin at 11% while the accessories segment margin dropped slightly.

Fig 3. Gross, Net profit margins

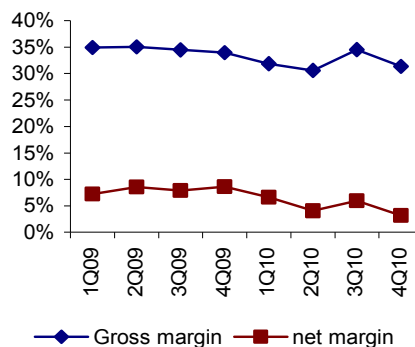
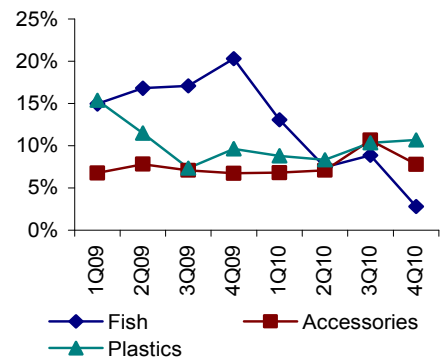


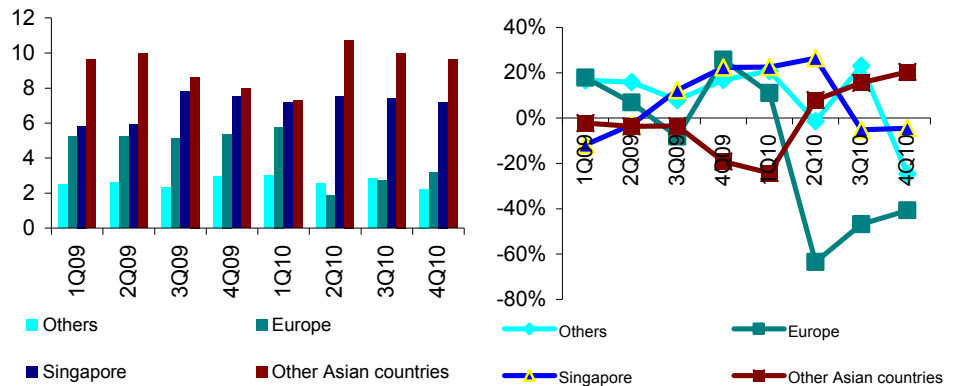
Fig 4. Profitability margins



Source: Company, Phillip Securities Research

**Geographical analysis.** Qian Hu has been carrying out its strategy of geographical expansion through merger and acquisition activities in the overseas market. In 2007, the company made invested in a 20% equity stake in Arcadia Products PLC, a manufacturer and distributor of aquarium lamp in the UK. In 2009, Qian Hu also set up a 50% joint venture company in India to undertake the manufacture of fish food and aquarium accessories. Together with the release of the financial results, Qian Hu announced the setting up of 55% owned subsidiary in Indonesia to focus in the breeding, rearing, trading, export and import of ornamental fish, as well as manufacture and export of aquarium accessories. We can see that the Asian countries region ex Singapore registering growth while all other regions shown a decline.

Fig 5. Revenue breakdown by regions (S\$'000) Fig 6. Y-Y growth



Source: Company, Phillip Securities Research

On the overall, we think Qian Hu has delivered on its strategy of geographical expansion and also on working towards being a debt-free and high dividend payout company. The company has managed to reduce its debt equity ratio from 0.44x in FY2009 to 0.41x in FY2010. It is also proposing a dividend of 0.5 cents per share for FY2010. This is similar to the payout in FY2009. FY2010 financial performance was affected by extraordinary factors which were beyond anyone's predictions. On a normalized basis, we believe results would have been better.

We are ceasing coverage on Qian Hu due to reallocation of resources.



## Ratings History

### Qian Hu Corporation Ltd

Rating	Date	Closing price (S\$)	Fair value (S\$)	Remarks
-	14 January 2011	0.13	-	FY10 results + cease coverage
HOLD	20 October 2010	0.135	0.14	3QFY10 results
BUY	21 July 2010	0.13	0.17	2QFY10 results
BUY	20 April 2010	0.15	0.18	1QFY10 results
BUY	29 March 2010	0.14	0.18	Update
HOLD	13 January 2010	0.175	0.18	FY2009 results
HOLD	20 October 2009	0.170	0.17	3QFY09 results
BUY	22 July 2009	0.135	0.17	1HFY09 results
BUY	14 January 2009	0.095	0.15	FY08 results
BUY	5 November 2008	0.095	0.15	3QFY08 results
BUY	23 April 2008	0.140	0.20	1QFY08 results
BUY	16 January 2008	0.165	0.20	FY07 results
BUY	23 October 2007	0.165	0.25	Update
BUY	25 July 2007	0.590	0.71	Resume coverage

<b>Phillip Research Stock Selection Systems</b>	TRADING BUY	Share price may exceed 10% on the upside over the next 3 months, however longer-term outlook remains uncertain
	BUY	>15% upside from the current price
	HOLD	-10% to 15% from the current price
	SELL	>10% downside from the current price
	TRADING SELL	Share price may exceed 10% on the downside over the next 3 months, however longer-term outlook remains uncertain
	We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation	

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