

**Marine...Almost
Recommendation
BUY****Price
S\$0.325****Share Statistics**

Shares (mil)	82.762
Mkt Cap (\$mil)	26.9
P/E	7.85
P/NTA	1.59
52-Week Range (Price)	0.255 - 0.34
Substantial Shareholders at May 2001.	Yap Family 76%
(Total direct and deemed interest)	

Company Profile

Qian Hu Corporation Limited imports, exports, and distributes ornamental fish, breeds Dragon Fish, markets and distributes aquarium and pet accessories, and manufactures And distributes plastic bags to the ornamental fish, food and electronics industries. It has operations in Singapore, Thailand, Malaysia and China.

Phillip Securities Research

95 South Bridge Road
#11-00 Pidemco Centre
Singapore 058717
General: +65 5335 480
Fax: + 65 5364 435/ 538 9343
www.phillip.com.sg/research

Julian Wong

+65 5311 249
jwong@phillip.com.sg

Qianhu Corporation Limited*Like a Salmon*

- 21.7% rise in turnover, 8.4% rise in earnings
- Ready to capitalise in the ornamental fish capital of the world.
- Growth prospects bright.
- Target price of 39 cents (35.5 cents after bonus issue dilution)

Full Year Results

FY Ends Dec 31

Indicators	97	98	99	00	01
Turnover (S\$'000)	23,146	22,863	25,151	33,903	41,249
Operating Profit	-281	714	1,958	4,287	4,140
Profit Before Tax	-218	714	1,802	4,137	4,239
Net Profit	-283	525	1,314	3,160	3,424
Net Profit Margin (%)	-1.22	2.30	5.22	9.32	8.30
EPS (cts)	-0.34	0.63	1.59	3.44	4.14
ROE (%)	-12.3	15.6	27.3	23.3	19.9
Current Ratio (x)	0.77	0.86	1.00	1.81	2.09
Cash Ratio (x)	N.A.	N.A.	0.09	0.33	0.20
Debt/Assets (x)	N.A.	N.A.	0.14	0.03	0.04
Tot Debt/Eq (x)	N.A.	N.A.	0.41	0.06	0.07
LT Debt/ Eq (x)	0.00	0.00	0.16	0.04	0.02
NTA/sh (\$)	N.A.	N.A.	8.66	15.60	20.43
Dividend Yield (%)	-	-	-	1.54	1.85

All activities grew, fuelled by its expansion into the Thai, Malaysian and Chinese operations and overseas customer base. Segmental review:

Ornamental fish: Turnover up \$1.8m or 11.2% due to increase sales of Dragon Fish and in-house retail outlet set up in Aug'00. Operating profit flat at \$2.1m due to decline in margins of some species.

Aquarium accessories: Turnover up \$4.7m or 38.9% contributed by Thai and Malaysian subsidiaries and enlarged overseas customer base, offset by higher purchasing costs in first half, and operating costs (relating to compliance issues) of Thai subsidiary, leading to operating profit up \$540,000 or 26.3%,

Plastics and Others: Turnover up \$0.8m or 15.5% due to shift of Singapore factory in May '01, which led to increased production capacity and expansion of distribution network. Full year contribution of China subsidiary also boosted turnover. Operating profit dropped by \$24,000 or 5.4% due to increased operating costs.

Management declared a 0.6 cents full year dividend and a 1-for-10 bonus issue.

Ornamental Fish Industry

Cast away your prejudices! Ornamental fish is not fishy business. In fact, Qianhu Corp. can testify that it can be very profitable, even in



the face of adverse macroeconomic environments. In a weak 2001, for example:

- Local retail sales increased by 26%
- Export sales ex-Singapore grew by 26%
- Dragon Fish sales grew by 27%
- Turnover contributions from overseas increased by 68%

Did you know that Singapore is the ornamental fish capital of the world? I didn't. According to the Agri-food & Veterinary Authority of Singapore (AVA), Singapore is the world's leading exporter of ornamental fish with a 30% global market share. In 1999, Singapore exported \$72 million worth of ornamental fish to 72, mainly in the USA, European Union and Japan. A 1999 report in Ornamental Fish International Journal says Singapore is the world's leading fish supplier to the European Union, contributing 25% of EU imports. Thailand is fifth at 7%, China seventh at 6%, and Malaysia tenth at 4%.

Singapore has developed into a "One-Stop Shop" for global ornamental fish business. Exporters deal with 500 varieties and species of ornamental fish, buying from the local farms, which account for about 40% of the sales, as well as from farms in the region, especially Thailand, and elsewhere for re-exporting.

There are currently 60 ornamental fish farms occupying 127.4 ha in the Agrotechnology Parks producing mainly guppy and other Poecilids, discus, goldfish, Tetra, and Dragon Fish.

Ornamental fish accessories represent a lucrative market opportunity, and is very synergistic with the sale of fish alone. Statistics show that for every \$1 spent on ornamental fish, \$5 is spent on accessories.

Qian Hu's Business

Qian Hu aims to be a one-stop shop for ornamental fish, supplying not just the fish itself, but also accessories, foods, medicines to local and overseas customers. In being a total 'solutions' provider, it engages in the total ornamental fish process, which includes import-export, breeding, quarantine, farming, wholesale and distribution activities. As far as it's known, Qian Hu is the only fish farm in Singapore that provides such a complete range of services.

Qian Hu's main business activities can be classified as

1. Ornamental fish:

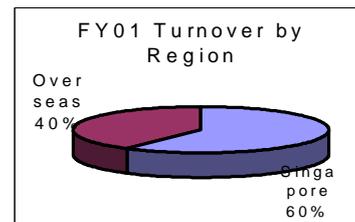
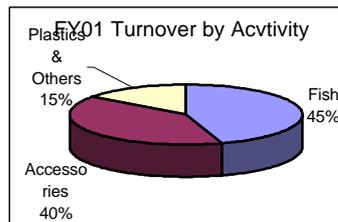
a) Import and local sourcing: Over 500 species to 200 retailers and 50 exporters in Singapore, and more than 50 countries.

b) Breeding: Only Dragon Fish, the only species that accounts for more than 5% of sales (6.5% in FY01). Endangered species protected by Convention of International Trade of Endangered Species (CITES), and highly prized by Chinese as a symbol of luck and prosperity, hence high margins (priced up to \$50,000 per fish!) and requires highly specialized care. Supplies to 40 retail outlets (which all require licenses from AVA) in Singapore.



2. Accessories: Distributes 5,000 types of aquarium and pet accessories for almost 30 principals. Also developed own brand of accessories and fish medication under 'Ocean Free' brand, and other cat and dog food under own brands. Distribution network is over 200 retailers, including major supermarkets like NTUC FairPrice and Cold Storage.

3. Plastic bags and others: Manufacture of high-grade plastic bags for own business, as well as to electronics, IT and food industries



Currently, the company estimates its Singapore market share for ornamental fish to be 40 to 50%, and for accessories to be 50 to 60%.

The most important thing to understand is the high degree of knowledge and care that is needed in the breeding, quarantine, farming, and transportation process. The fish are delicate, and scientific methods are required to maintain the right environments, in terms of water quality, food, and medication. Hence, Qian Hu sees itself as a knowledge-based company.

Ten Reasons to Invest in Qian Hu

1. *Sound fundamentals*

The numbers say it best. Declining debt, robust current ratios, earnings margins and ROE. With imminent growth (see point 6. below), things can only get better.

2. *Track record*

Being in a knowledge-based industry, experience counts. The core management has been running the business for more than a decade now. Perhaps a telling tale is the failures they have had to overcome in order to get where they are now. They started with breeding guppies, but a thunderstorm wiped it out. Then they went into high-fin loaches, but because they went in without the know-how, they lost all 4,000 specimens. They learnt their lesson and have since invested some \$6 million in what is today a profit-yielding, 4.2 ha, 19 building high-tech fish farm, within the Sungei Buloh Agrotechnology Park. Their lessons in their failed ventures were so valuable that they have chosen to retain the high-fin loach as its corporate logo.



3. Quality Awards

Possibly the first fish farm in the world to be awarded ISO 9002 certification, according to AVA. Other quality standards achieved: Accredited Ornamental Fish Exporters Scheme, International Europe Award for Quality 1999, Singapore Quality Class member (under Productivity and Standards Board), ISO 14001 for its environmental management system, one of 18 case studies of local businesses selected by NUS Business School's publication "Best Practices: Experiences of Successful Local Enterprises." They are able to achieve a 97% survival rate of their fish upon delivery to their customers. Technology matters. As a more direct testimony to the quality of the fish they breed, one only needs to look at the numerous prizes for its Dragon Fish and Goldfish it fetched at the Aquarama 2001 competition.

4. Recession Proof

How do we explain Qian Hu's salmon-like resilience against the currents of recession? Do you believe that people tend to stay home more in economic downturns, get better acquainted with the interior décor of their houses, and feel a compelling need to liven the atmosphere up with some pets? That theory may not be as ridiculous as one might think. If you think of ornamental fish as an extension of home furnishings, then you will not be surprised about Qian Hu's success. In recessive periods, interest rates are slashed, making mortgage rates attractively low to build or buy new homes. Correspondingly, the home furnishing industry will thrive. This trend has been observed in Europe and US as of late (see my IPO report on Koda dated Jan 10, 2002), which Qian Hu has a growing business with, although less so for Asia, with which Qian Hu still conducts most of their business with. Regardless, Qian Hu has proven this past year that an economic downturn has not slowed it down.

5. Barriers to Entry

As mentioned above, Qian Hu involves itself in the whole process of ornamental fish farming. Being a one-stop provider in itself poses as a barrier for new market entrants. Qian Hu's failings in its early history clearly show that fish farming is a knowledge-based business, heavily reliant on science and technology to maximise survival rates. Fish have to be nurtured, groomed and monitored under very strict environmental conditions. Furthermore, the Dragon Fish market poses unique entry barriers in that because it is a protected species, only licensed vendors are allowed to engage in commercial import-export activities of Dragon Fish. Furthermore, under CITES requirements, only second generation Dragon Fish can be commercially sold from a farming stock. Dragon Fish have to be 4 years old before it can have young. Qian Hu has been breeding Dragon Fish for the last 6 years, and has capitalised 350 Brooder Stock at \$1.5 million in fixed-assets (yes, these fish have a life span of 100 years). Qian Hu believes it's one of the first few Singapore farms to successfully breed and sell these fish on a commercial basis. There are less barriers to entry in its distribution and accessories business, but what Qian Hu has that most of its competitors (which tend to be very small, and mostly sole proprietors) does not is an extensive network of around 30 suppliers



and a distribution network of 200 retailers. It deals with 500 different species (40 to 50% Singapore market share) and 2,000 accessories (50 to 60%); this broad-based integration means that its risks are well-managed. Only Dragon Fish, which is the most lucrative commercial species, accounted for more than 5% of its turnover. To the best of the company's knowledge, it Qian Hu is the only completely integrated fish farm in Singapore.

6. Growth potential:

Count on organic growth in Singapore, and especially stronger organic growth in Malaysia, Thailand and China. The Thai subsidiary will post much better results as it suffered operating costs and only operated for half a year last FY. Qian Hu plans to increase (from 50% to 60%) stake in Guangzhou-based associate company, Wan Jiang (a JV with a Taiwanese company specialising in manufacture of accessories), converting it into a subsidiary. This means Wan Jiang's accounts will be consolidated to the Group. The Taiwanese market for Dragon Fish has opened up since its government has finally allowed its import from Jan 1, 2002. No other restructuring or start-up costs should be incurred in this FY.

7. Commitment to shareholder value

A 6% gross dividend (translating to 1.85% dividend yield before tax) might be modest, and a 1-for-10 bonus issue might seem inconsequential. But in light of the economic climate, it is remarkable that such a small company barely after a year of going public can make such offers to its shareholders. Qian Hu's mission statement says it all: "We want to create shareholders' value by becoming a world class ornamental fish and accessories company through innovation and quality products and services." So far, so good.

8. Company loyalty

The Qian Hu Family is a happy family. The sense of a tight-knit community is hard to miss. Indeed, at the analyst briefing, their staff showed up in full force to support the event. I was not then, surprised to subsequently read in their Annual Report 2000 that in a company survey, 83% of the respondents said they were "very happy with the company." As they say, a happy worker is a productive worker. In this era of corporate streamlining, not too many corporations can boast of such high levels of employee satisfaction.

9. Transparency

Way ahead of other SGX-listed companies in terms of corporate disclosure. No fears of Enron here! Why would you be afraid of putting your money in an investment as transparent as the filtered water they use? Their annual reports and quarterly results reports are highly detailed and provide detailed balance sheet and cash flow statements. So much so they garnered the 'Most Transparent Company Award by the Securities Investors Association of Singapore, and among the top three most transparent as determined by The Business Times' Corporate Transparency Index 2001.

10. Kenny the Fish

Qian Hu's Executive Chairman and Managing Director, Kenny "the Fish" Yap, balances his high profile charisma with down-



Disclaimer

This publication is solely for information and private circulation only. It should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities mentioned herein. Whilst we have taken all reasonable care to ensure that the information contained in this publication is accurate, it does not guarantee the accuracy or completeness of this publication. Any advice contained in this publication is made only on a general basis and is subject to change without notice. We have not given any consideration to and have not made any investigation of the investment objectives, financial situation or particular needs of any specific person or group of persons as we are not in possession of any such information. Accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of any person or group of persons acting on such information and advice.

Disclosure of Interest

Statement Pursuant to S.50, Securities Industry Act. Phillip Securities Research Pte Ltd and its directors and employees may have interest in the securities recommended herein from time to time, and its associates may also have positions from time to time. Opinions and views expressed in this report are subject to change without notice.

to-earth humility and has played a big part in spearheading the company's commendable efforts in fostering employee satisfaction, corporate governance and transparency. He is no ordinary manager, as the coloured picture in the Money section of Straits Times (Jan 29) would suggest. His entrepreneurial achievements have garnered him much recognition, including being named finalist for Entrepreneur of the Year awards by Rotary-ASME in 1996, 1998 and 2000. He was also named by Business Week magazine as one of 50 "Stars of Asia – Entrepreneurs." You can bet on the man.

Conclusion

If you are a punter, forget about it. The lack of trading liquidity means that only medium to long term investors need apply, and even then, perhaps not in very large amounts. A look at the share price as compared to the STI reveals that the stock tracks the STI with remarkable consistency. This is odd, since we have ascertained that Qian Hu operates a recession proof business. This reflects a lack of understanding of the company's business, especially in terms of the barriers to entry and its competitive edge. A 15% to 20% rise in FY02 earnings is reasonable, and after the imminent dilution of the 1-for-10 bonus issue (which implies a current price of 29.5 cents), and assuming a P/E multiple at current levels, we are looking at a target price as high as 35.5 cents (or 39 cents before the bonus issue dilution). Take the plunge, and believe in the Dragon Fish.

Qian Hu Price vs. STI (52 wk)

