



**Recommendation:**  
**BUY (Maintained)**

**Previous call: BUY on 3 Jul at \$0.76**

**Price (21/07/2003)**  
**S\$0.79**

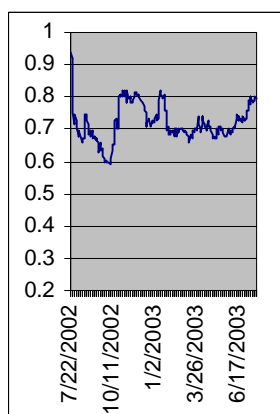
## Qian Hu Corporation Limited

### Share Statistics

Shares (mil)	103.1
Mkt Cap (\$mil)	81.4
PER*	13.2
P/NTA*	2.7
52-Week Range (Price)	\$0.59 -0.935
52-Week Range (PER)	9.8 – 15.6
Substantial Shareholders	Qian Hu Holdings (29.4%)

\*FY2002

Price over the last 52 weeks



Source: Bloomberg

### Company Profile

Qian Hu engages primarily in the import, export and distribution of ornamental fish, the breeding of Dragon Fish, as well as the manufacturing and distribution of aquarium and pet accessories.

### Phillip Securities Research

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## 1H FY03 Results Updates

*Qian Hu registered 19.4% growth in turnover and 11.5% growth in net profit for 1HFY03. The drop in profit margin was mainly due to the lower gross profit margin from accessories segment resulting from the keen competition within the industry and more promotions during the SARS period. We expect higher profit margin for 2HFY03 as Qian Hu will sell more high value ornamental fish. We maintain our BUY recommendation with revised target price of 93 cents.*

### 1H FY03 Financial Results

(Ended 31<sup>st</sup> December)

INDICATORS	1H 02	1H 03	Change (%)	FY03F
TURNOVER (S\$'mil)	27.8	33.2	19.4	78.4
PROFIT BEFORE TAX (S\$'mil)	3.7	4.2	15.0	10.6
PROFIT AFTER TAX (S\$'mil)	2.9	3.3	11.5	8.5
NET PROFIT MARGIN (%)	10.5	9.8	(6.7)	10.8
GEARING (x)	0.1	0.1	0.0	0.1
EARNINGS PER SHARE (CENTS)	3.2	3.1	(0.3)	7.8
NTA PER SHARE (CENTS)	27.4	29.7	8.4	33.0

Source: Company, Phillip Securities Research

### Segmental review:

**Ornamental fish.** Compared to the corresponding period in the previous financial year, turnover in 1HFY03 increased by 9.0% while profit increased by 19.4%. Increase of sales was mainly contributed by improved sales in Malaysia and Thailand. Net profit margin has improved from 13.7% to 15.0% as Qian Hu sold more own-bred Dragon Fish which fetches higher margin.

**Accessories.** Sales jumped 34.4% while profit increased by 7.6%. Increase of export from Singapore to more countries, coupled with contribution from Wan Jiang which became Qian Hu's subsidiary in 4Q2002, have contributed to the increase in turnover. However, this was partially offset by lower turnover from the Singapore domestic market due to lower demand during the SARS period. Net profit margin dropped from 20.2% to 16.8%, mainly due to keener competition and more promotions during the SARS period.

**Plastic.** Sales in 1H FY03 were flat compared to the corresponding period in the same financial year while operating profit increased by 21.5%. The competition in the local market remained keen but Qian Hu managed to sell



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more high yield items and contain operating costs. As the results, profit margin has improved from 5.0% to 6.0%.

### Prospects

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**Increase sales of higher value fish.** With the completion of acquisition of King Kang, Qian Hu will be able to tap on the growth of demand for Dragon Fish in Asia and expand its sales in the region. On the other hand, Qina Hu has obtained a CITES II licence for successfully breeding the second generation of Arapaima, the world's largest freshwater fish. Increased sales of own-bred Dragon Fish, coupled with the expected contribution from Arapaima, Qina Hu will be able to achieve a higher profit margin in 2H FY03.

**Expansion of distribution network.** Sales of ornamental fish will continue to grow as the company steps up its export to overseas markets. Subsidiary in Malaysia will commence export of fish this year while subsidiary in Thailand will export more fish to increasing number of countries. As for the sales of accessories, Qian Hu is going to deepen its penetration in Malaysian, Thailand and PRC markets. The joint venture with The Pet Safari in Malaysia will serve as an attempt towards forward integration for Qian Hu. Its subsidiary in Malaysia, Guan Guan will continue to expand its distribution network in Malaysia while King Kang will help Qian Hu in further penetrating the market in Southern Malaysia. In Jun 2003, Qian Hu has also started a retail cum wholesale concept in Bangkok by setting up a show room in Jautijak center. With the establishment of an accessories marketing and distribution centre in Shanghai, Qian Hu will be able to increase sales of accessories in PRC.

### Recommendation

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Qian Hu has attained IHQ status whereby it will be able to enjoy concession tax rate for the export. In view of the expected lower tax expense resulted from the IHQ status, we have raised our estimated EPS for FY03 from 7.5 cents to 7.8 cents. We thus maintain our **BUY** recommendation with revised target price of 93 cents.

Signed

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