

Qian Hu Corporation Ltd – Results

Phillip Securities Research Pte Ltd

20 April 2010

Exchange Singapore Stock Exchange
Sector Livestock
Reuters QIAN SI
Bloomberg QIAN SP

Buy (Unchanged)

Closing Price
S\$0.15
12-month Target Price
S\$0.18 (+20.0%)

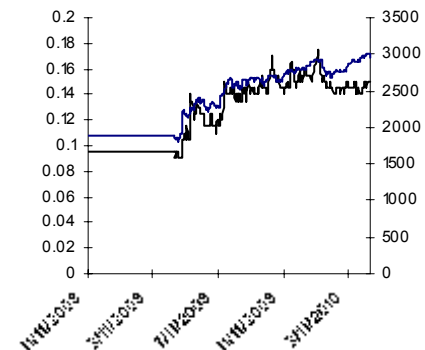
Price

Last Price	0.15
52w k High (11/24/2009)	0.18
52w k Low (4/21/2009)	0.09
Shares Outstanding (mil)	448,5386
Market Cap (S\$ mil)	67.28
Avg. Daily Turnover (mil)	0.10
Free float (%)	52.91
PE (X)	9.87
PB (X)	1.07

- 1Q10 Revenue \$23.2 million (+0.37% y-y, -2.64% q-q)
- 1Q10 net profit attributable to shareholder \$1.4 million (+0.93% y-y, -21.5% q-q)
- Cash balance increased, debt reduced
- Maintained Buy

Price performance %

	1M	3M	6M
Absolute	3.4%	-3.2%	-11.8%
Relative	1.9%	-4.9%	-21.0%



Major Shareholders	%
1 Qian Hu Holdings	24.3

Product segments analysis. The first quarter is the traditional lower recorded revenue period, due to the Chinese New Year holidays. 1Q10 revenue and profitability registered slight y-y increase, however results were not encouraging on a q-q basis. Revenue from ornamental fish was higher at \$12.3 million (+4.2% y-y, +10.9% q-q) and contributed 53% to total revenue. Accessories sales decreased 9.1% y-y at \$8.1 million (-9.1% y-y, -18.2% q-q) and contribution dropped to 35%. Main reason was because of the Guangzhou factory shutdown for the holidays and also delays from suppliers. The plastic business recorded revenue of \$2.8 million (+16.7% y-y, -1.7% q-q) and accounted for 12% of total revenue.

Exhibit 1. Quarterly breakdown by segment

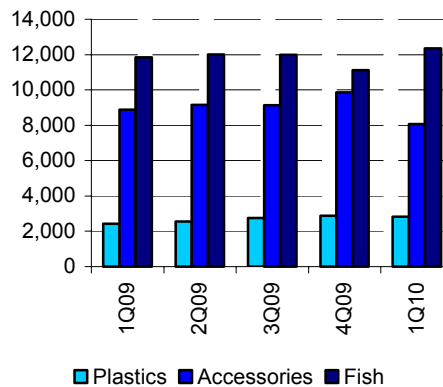
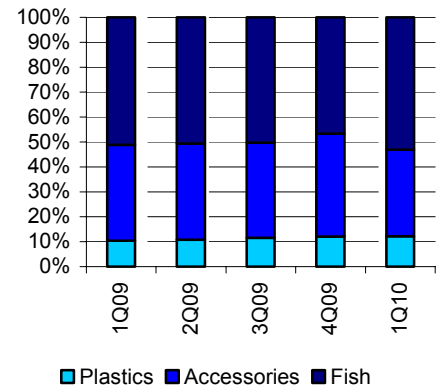


Exhibit 2. % breakdown



Source: Company, Phillip Securities Research

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MICA (P) 153/01/2010
Ref No: SG2010_0118

Conso' Ending	Profits (SG\$m)	EPS SG cents	DPS SG cents	BV (SG\$)	ROE (%)	P/E (X)	Yield (%)	P/BV (x)
12/07 A	4.95	1.34	8.54	0.14	11.35	11.19	56.93	1.11
12/08 A	6.04	1.46	0.20	0.15	11.80	10.27	1.33	0.99
12/09 A	6.54	1.64	0.50	0.16	11.05	9.62	3.33	0.91
12/10 E	7.02	1.64	0.49	0.18	10.81	9.17	3.27	0.85
12/11 E	7.74	1.70	0.51	0.18	10.80	8.81	3.40	0.82

Profit margins. Gross profit margin and net profit margin were 31.9% and 6.6% in 1Q10 respectively. The trend for gross profit margin is sloping downwards. The reasons are due to higher raw material costs for the accessories business and also lower sales of self-bred dragon fish. This came as a disappointment to us as we had expected higher sales of self-bred dragon fish from the Malaysia farms. As the ornamental fish revenue contributes almost half of total revenue, overall profitability hinges on the high profit margin self-bred dragon fish.

Exhibit 3. Gross, Net profit margins

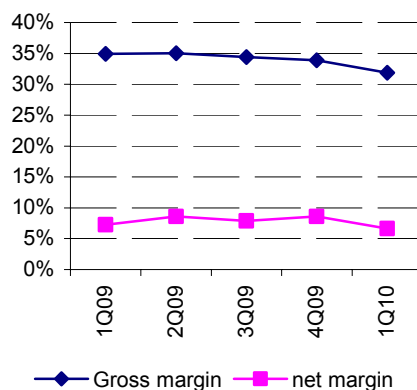
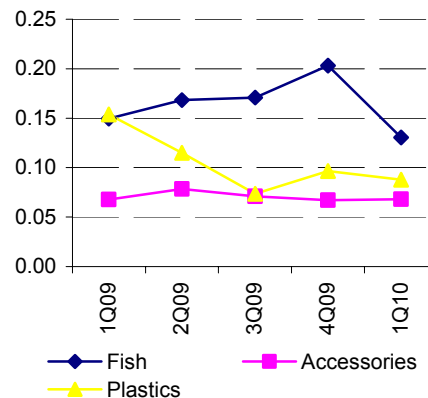


Exhibit 4. Profitability margins



Source: Company, Phillip Securities Research

Geographical analysis. All the sales region registered growth except for Other Asian Countries, which fell 24%. Europe region has shown growth over the last two quarters, this proved that Qian Hu in-road into the Europe region is starting to bear fruits. Sales in Singapore are still strong. The last phase of Qian Hu expansion is in Vietnam and Indonesia, therefore we expect to see better growth in the Other Asian Countries.

Exhibit 5. Revenue breakdown by regions

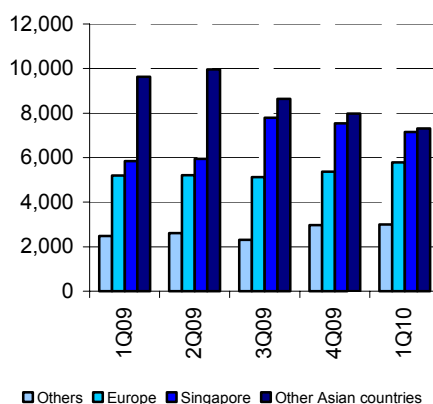
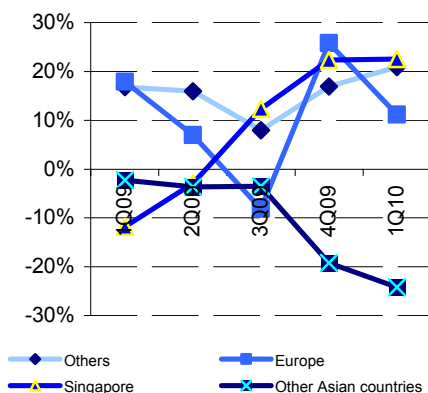


Exhibit 6. Y-Y growth



Source: Company, Phillip Securities Research

Healthy balance sheet. During the quarter, Qian Hu continues to pare down its debt. Despite doing so, it has managed to increase its cash balance to \$11.4 million, raising \$0.9 million from warrant conversion.

We were slightly disappointed with the 1Q10 results. We had expected the completion of the Malaysia and Singapore fish farms to contribute positively. As mentioned in the results release, a drought had affected the supply of the dragon fish fries, and could affect sales into the second quarter. We maintained our revenue forecast for now and peg our fair value to FY10E book value of \$0.18.

Financials

Profit model (\$ mil)	2007	2008	2009	2010E	2011E
Revenue	917	93.1	94.6	97.7	100.8
COGS	(60.2)	(60.0)	(61.9)	(64.3)	(65.9)
Gross Profit	315	33.1	32.7	33.4	34.9
Other operating income	0.2	0.2	0.1	0.1	0.1
Selling & Distribution expenses	(2.8)	(2.7)	(1.8)	(1.9)	(2.0)
General & administrative	(20.2)	(20.4)	(20.9)	(21.0)	(21.5)
Financial income	0.0	0.0	0.0	0.0	0.0
Financial expenses	(0.8)	(0.9)	(0.7)	(0.6)	(0.6)
Profit before tax	7.9	9.2	9.5	10.0	11.0
share of profit/(loss) from associates	0.0	(0.0)	(0.0)	0.1	0.1
tax expenses	(1.6)	(1.8)	(1.8)	(1.9)	(2.1)
net profit	6.3	7.4	7.6	8.2	9.0
Attributable to shareholders	4.9	6.0	6.5	7.0	7.7
Attributable to minority interest	1.4	1.4	1.1	1.1	1.3
EPS basic (Cents)	134	146	156	164	170
EPS diluted (Cents)	123	136	148	158	175
Dividend (cents)	8.5	0.2	0.5	0.5	0.5

Growth & margins (%)	2007	2008	2009	2010E	2011E
Revenue growth	20.5%	15%	17%	3.3%	3.2%
Gross profit growth	20.5%	15%	17%	3.3%	3.2%
Net profit growth	89.1%	22.1%	8.3%	7.3%	10.2%
Gross profit margin	34.4%	35.5%	34.6%	34.2%	34.6%
Net Profit margins	5.4%	6.5%	6.9%	7.2%	7.7%
ROA	8.1%	8.2%	8.0%	8.0%	8.1%
ROE	114%	118%	110%	10.8%	10.8%

Cash flow statement (\$ mil)	2007	2008	2009	2010E	2011E
Profit before tax	7.9	9.2	9.4	10.1	11.1
adj for					
Depreciation and amortisation	2.2	2.4	2.6	3.5	2.9
Others	0.8	0.4	0.5	0.0	0.0
Share of profit of asso ciates	(0.0)	0.0	0.0	(0.1)	(0.1)
Interest income	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Finance expenses	0.8	0.9	0.7	0.6	0.6
Operating cash flow before WC changes	11.8	12.9	13.3	14.1	14.5
WC changes	(3.1)	(3.1)	(1.1)	(3.7)	(3.1)
Net cash flow from operating activities	8.7	9.8	12.2	10.3	11.4
Capex	(9.7)	(10.9)	(7.2)	(5.9)	(6.8)
Interest received	0.0	0.0	0.0	0.0	0.0
Others	0.1	0.1	0.1	0.0	0.0
Net cash flow from investing activities	(9.6)	(10.8)	(7.2)	(5.9)	(6.8)
Net increase/(decrease) in bank term lo:	1.7	3.5	(0.2)	(0.3)	(0.4)
Net increase/(decrease) in finance lease	(0.2)	(0.3)	(0.2)	(0.5)	0.0
payment of dividends	(0.6)	0.0	(0.8)	(2.1)	(2.1)
Interest paid	(0.8)	(0.9)	(0.7)	(0.6)	(0.6)
Others	0.9	(0.1)	0.0	0.2	0.9
Net cash flow from financing activities	0.9	2.2	(1.9)	(3.3)	(2.2)
Net Increase/decrease in cash	(0.0)	1.2	3.1	1.2	2.4
cash at beginning	7.5	7.0	6.7	9.8	11.0
effects of exchange rate changes	0.0	0.0	0.0	0.0	0.0
cash at end	7.5	8.3	9.8	11.0	13.5

Source: Company, Phillip Securities Research

Balance sheet (\$ mil)	2007	2008	2009	2010E	2011E
PPE	12.4	14.6	15.9	14.2	13.2
Brooder stocks	214	26.7	30.3	34.5	39.3
investment in associate	0.8	0.8	1.2	1.2	1.3
Intangibles assets	2.1	2.2	2.3	2.3	2.3
total non current assets	36.8	44.4	49.7	52.2	56.1
Current assets					
Inventories	22.0	22.4	21.0	22.2	22.9
Breeder stocks	1.4	1.6	1.5	1.5	1.5
Trade and other receivables	19.4	23.3	20.4	21.4	22.1
Due from fixed deposits	0.0	0.0	0.0	0.0	0.0
Due from associate	1.7	1.4	1.3	1.3	1.3
Cash and bank balances	7.5	8.3	9.8	11.0	13.5
total current assets	52.0	57.1	54.0	57.5	61.3
Total assets	88.8	100.5	103.8	109.7	117.5
Trade and other payables	17.1	18.5	16.7	17.2	17.5
Due to minority shareholders	0.9	0.1	0.0	0.0	0.0
Finance lease obligations	0.2	0.2	0.2	0.0	0.0
Bank term loans	7.4	10.3	10.3	10.3	10.2
Provision for taxation	0.8	1.1	1.3	1.2	1.4
Bank overdraft	2.1	1.6	0.0	0.0	0.0
total current liabilities	28.4	31.8	28.4	28.7	29.1
Finance lease obligations	0.3	0.4	0.3	0.0	0.0
Bank term loan	1.5	2.1	1.7	1.4	1.0
Deferred tax	2.9	3.6	4.1	4.1	4.1
total non current liabilities	4.8	6.0	6.1	5.5	5.1
Total liabilities	33.2	37.8	34.5	34.2	34.2
Total equity	55.6	62.7	69.2	75.5	83.3
Total liabilities and equity	88.8	100.5	103.8	109.7	117.5
NAV/shr	0.14	0.15	0.16	0.18	0.18

Key Ratios	2007	2008	2009	2010E	2011E
Gross Gearing	0.18	0.18	0.16	0.15	0.13
Net Gearing	0.10	0.10	0.06	0.05	0.02
Interest Coverage	10.39	11.52	14.75	17.50	20.43
Debt-equity ratio	0.60	0.60	0.50	0.45	0.41
Current ratio	1.83	1.77	1.90	2.00	2.11
Cash ratio	0.26	0.26	0.35	0.39	0.46
Receivables turnover	5.47	4.86	4.88	5.31	5.31
Inventory turnover	2.73	2.70	2.86	2.98	2.92
Payables turnover	9.01	7.25	7.35	8.23	8.18

Valuation	2007	2008	2009	2010E	2011E
P/E basic (X)	11.19	10.27	9.62	9.17	8.81
P/B (X)	1.11	0.99	0.91	0.85	0.82
Dividend yield (%)	56.93	133	3.33	3.27	3.40

Ratings History

Qian Hu Corporation Ltd

Rating	Date	Closing price (S\$)	Fair value (S\$)	Remarks
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

Phillip Research Stock Selection Systems	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
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