

SGX Research Incentive Scheme

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Qian Hu Corporation

 QIAN SP
 BUY: TP: S\$0.16

 Price @20/04/09: S\$0.095
 52-week range (SGD): 0.075 – 0.175
 Market cap – S\$39.9m

1Q09 Result Review

FYE Dec (S\$ m)	1QFY09	1QFY08	yoy % chg	4QFY08	qoq % chg
Revenue	23.2	23.0	0.6	22.9	1.3
Operating costs	(20.2)	(20.1)	0.5	(19.7)	2.7
EBITDA	2.9	2.9	1.2	3.2	(7.7)
<i>EBITDA margin (%)</i>	<i>12.7</i>	<i>12.6</i>	<i>12.4</i>	<i>13.9</i>	<i>6.0</i>
Deprn & amort.	(0.7)	(0.6)	nm	(0.6)	(11.0)
EBIT	2.3	2.3	nm	2.6	(66.7)
Interest expense	0.0	0.0	(90.0)	0.0	nm
Interest & invt inc	(0.2)	(0.2)	(14.9)	(0.2)	nm
Associates' contrib	0.0	0.0	(96.8)	(0.0)	111.1
Exceptionals	-	-	-	-	-
Pretax profit	2.1	2.1	(1.9)	2.3	(11.0)
Tax	(0.4)	(0.5)	(21.4)	(0.3)	40.3
Tax rate (%)	19.5	24.4	12.4	12.4	
Minority interests	(0.3)	(0.3)	(18.4)	(0.3)	(11.7)
Net profit	1.4	1.3	10.5	1.7	(19.4)
EPS (cts)	0.3	0.3	9.5	0.4	(19.9)

- 1Q09 result was in-line of our expectation. 1Q09 net profit of S\$1.4m (+ 10.5% yoy) formed 22% of our FY09 estimates.
- Although the revenue from ornamental fish segment registered healthy growth in 1Q09 yoy, the decrease in accessories and plastic revenue totaling S\$1.1m only translated into a marginal 1.3% yoy increase in group's revenue to S\$23.2m.
- While operating profit, pre-tax profits are also largely down as a result of weaker gross profit due to cost, the group managed to delivered bottom-line growth on the merit of lower absolute tax (despite higher effective tax rate) and minorities sharing.
- Overall, not the best set of result Qian Hu has shown. Nonetheless, the recessionary resilient business model shines once again, as the group was on track for another profitable year.
- It is also vital to note that the operating profit from Ornamental Fish, which dipped 23.1% was due to lower sales from group's self-bred Dragon Fish. However, production of self-bred Dragon Fish has only resumed in 1Q09 and would require between three to six months for the fry to grow into a marketable size. As such, the result would be more telling in 3Q to 4Q09.

Highlight – JV in India

- The group also announced the signing of a JV agreement with M/S Star Agencies, a Chennai-based distributor of aquarium accessories.
- Qian Hu has injected S\$400k into the 50/50 JV, and will primarily focus in manufacturing, distribution and export of aquarium accessories such as fish food, tanks and lamps under Qian Hu's house brands, as well as other third party brands.
- It also has plans to engage in the import and export, as well as domestic distribution of ornamental fish in India, in the near future.
- This JV is Qian Hu's second manufacturing facility for aquarium accessories. The group currently has a manufacturing plant in Guangzhou that produces aquarium and pet accessories for domestic distribution and export to regional and international markets.

Recommendation – maintain BUY

- Qian Hu trades at 6.1x CY10 P/E and 3.5x EV/EBITDA, which are not lofty given its almost recessionary proof business model and strong brand equity, in our opinion. Maintained our estimates and target price of S\$0.16, still pegged at 7x CY09 P/E.
- Given resilient outlook by the group, we reiterate our **Buy** recommendation.

Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (S\$ m)	92.1	93.1	100.0	107.5	115.7
EBITDA (S\$ m)	10.1	11.5	12.8	14.0	15.2
EBITDA margins (%)	11.0	12.3	12.8	13.0	13.1
Pretax profit (S\$ m)	4.3	9.2	10.3	11.4	12.3
Net profit (S\$ m)	4.8	6.0	6.5	7.1	7.8
EPS (S cts)	1.3	1.5	1.6	1.7	1.9
EPS growth (%)	+78%	+11%	+7%	+10%	+9%
P/E (x)	7.3	6.5	6.1	5.5	5.1
Core EPS (cts)	1.3	1.5	1.6	1.7	1.9
Core EPS growth (%)	+78%	+11%	+7%	+10%	+9%
Core P/E (x)	7.3	6.5	6.1	5.5	5.1
FD EPS (cts)	1.2	1.4	1.5	1.6	1.7
FD P/E (x)	7.7	7.0	6.5	5.9	5.4
Gross DPS (S cts)	0.2	0.0	0.3	0.3	0.4
Dividend yield (%)	2.1	0.5	3.3	3.6	3.9
P/NTA (x)	0.8	0.8	0.7	0.6	0.6
ROE (%)	13.7	11.9	11.6	11.6	11.6
Net gearing (%)	3.4	7.2	4.6	3.2	1.9
P/CF (x)	5.0	4.6	4.3	4.0	3.6
EV/EBITDA (x)	4.4	3.9	3.5	3.2	2.9

Technical Chart



- **Technical BUY**
- The stock is still in its long term downtrend. The only positive is that it is trading very near the downtrend channel support.
- MACD is also showing some signs of a potential rebound taking place soon. There is a bullish divergence on its MACD while its RSI is also slowly turning positive.
- Aggressive buyers may want to accumulate near the S\$0.08-0.085 support. Resistance is seen at S\$0.10 and S\$0.12. A breakout above the S\$0.12 resistance could see the stock kick on higher

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