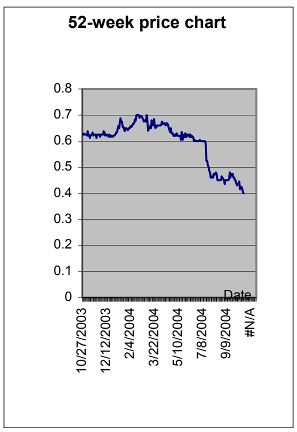
Recommendation:
HOLD

Price (25/10/04)
S$0.39

Share Statistics

Shares	128.2m
Market Cap.	S$51.3m
Trailing PER	15.6X
Forward PER	12.3X
P/NTA	1.2X
52-week Price Range	S$0.39 – S$0.70
52-week PER Range	7.3x –12.6x
Listing Bourse	Mainboard
Substantial Shareholders	Yap Family (51.8%)

Source: Bloomberg; Phillip Securities Research



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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Previous call: HOLD on 20 July 2004 at S$0.59

Qian Hu Corporation Ltd

Down under…

Qian Hu issued a profit warning last Friday announcing that the company will not be profitable for the third quarter ended 30 September 2004. The results were below our expectation. Sales were down by 11.7% yoy to S$15.7m from S$17.8m while net profit slid more than 130% yoy to show a loss of S$0.68m.

The company attributed this to lower demand from local retailers coupled with keen competition. Its subsidiary in Malaysia also recorded lower sales during this quarter as compared to its corresponding period in 2003. The losses were also partly due to the costs incurred in setting up its own chain of pet shops and accessories in the region in a bid to transform the company from a purely fish farming business.

The earnings prospect remains poor in the short-term. In light of this, we have revised downward both our projections for FY04 and FY05. Nevertheless, we believe that the downside risk for Qian Hu's share price is limited and as such, we maintain our HOLD recommendation, based with 10x PER of FY05 earnings. New target price is now S$0.35

1. Key Financial Data

(Financial Year Ended 31 December)

	3Q03	3Q04	%CH	FY03	FY04F	FY05F
Turnover (S$ m)	51.0	50	-2.0	67.7	66.1	72.1
EBITDA (S$ m)	18.8	17.2	-8.1	11.5	6.1	7.9
EBIT (S$ m)	6.7	2.8	-58.0	9.8	3.2	5.0
Net Profit (S$ m)	5.6	2	-65.3	7.0	2.5	4.5
Net Profit Margin (%)	10.4	3.0	-71.1	10.4	3.75	6.2
ROE (%)	20.3*	5.2*	-74.4	19.2	6.4	10.3
Earnings per Share (cents)	4.25	1.16	-72.7	5.5	1.96	3.52
Diluted Earnings per Share (cents)	4.23	1.16	-72.6	5.3	1.93	3.46
NTA per Share (cents)	36.6	33.2	-9.29	31.2	33.9	37.9

Source: Company; Phillip Securities Research
**Based on annualised basis*

2. 3Q04 Results Review

- **Profitability**

There was a dip in the fish turnover by approximately $2.4 mil or 24.9% in the third quarter as compared to the previous quarter. This is mainly due to a reduction in Dragon Fish sales coupled with a low ornamental fish export season from July to September as a result of the summer holidays in Europe.

The accessories business recorded a loss of S$0.9m dragging 3rd quarter results into red

The accessories business fell sharply by over 320% to register a loss of about S$0.9m on quarter-to-quarter basis and as a result, dragged the third quarter financial results into red. The main causes are lower accessories turnover, coupled with the write off of pre-operational expenses and the initial operating losses incurred by the newly set-up retail chain stores during the current quarter.

On the other hand, the plastics turnover managed to show improvement through generating more sales for high value items and by expanding distribution channel.

- **Inventory**

Inventory balance jumped 35% yoy to S$19.9m from S$14.8m

Inventory balance increased significantly by 35% yoy to S$19.9m from S$14.8m. This increase is due to additional inventory purchases made for retail chain stores business. In addition, the efficiency of the Guangzhou factory has not been fully reinstated, resulting in the temporary piling up of raw materials.

- **Group Borrowings**

Short-term bank loans shot up to S$6.3m causing concerns over cash flow problems

Short-term bank loans ballooned to S$6.3m YTD compared to a mere S$0.86m last financial year ended 31 Dec 2003. The increase in bank borrowings is to finance the Group's overseas expansion. Going forward, we may see continued deterioration in its cash flow position especially with the retail chain stores not expected to be profitable anytime soon.

3. Outlook

Qian Hu continues to rely heavily on the export of ornamental fish to overseas markets as well as positive growth in dragon fish breeding as its main drivers. Realising their dependency on traditional business, the management is aggressively trying to diversify into retail chain stores both locally and regionally. However, in view of the huge capital expenditure and gestation period required, we do not expect the company to deliver exceptional profits in the short term.

4. Valuation & recommendation

Maintain HOLD. New target price of S$0.35

In light of the poor earning visibility, we have revised downward both our projections for FY04 and FY05. We expect Qian Hu to post a lower net profit of S$2.5m in FY04. Given that the stock is now trading at near NTA level, we believe that the downside risk is limited.

Hence, we maintain our HOLD recommendation, based on 10x PER on FY05 earnings with a revised target price of S$0.35

By Research Team

Phillip Research Stock Selection System

BUY	>15% upside from the current price
HOLD	Trade within ± 15% from the current price
SELL	>15% downside from the current price

Note: With effect from 1st April 2004, we have streamlined our stock selection system to three primary recommendations of Buy, Hold and Sell. In the previous stock selection system, "SELL" was defined as >35% downside from the current price. We have also removed our "Strong Buy" & "Take Profit" recommendations.

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