

29 March 2010

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

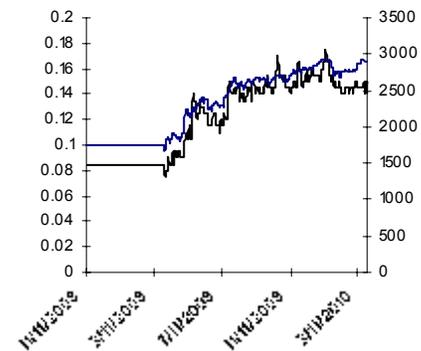
**Buy
(Upgrade)**

Closing Price
S\$0.14
12-month Target Price
S\$0.18 (+28.5%)

Price
Last Price **0.140**
52w k High (11/24/2009) 0.18
52w k Low (3/26/2009) 0.08
Shares Outstanding (mil) 448.0354
Market Cap (S\$ mil) 62.72
Avg. Daily Turnover (mil) 0.08
Free float (%) 52.86
PE (X) 8.97
PB (X) 1.00

Price performance %

	1M	3M	6M
Absolute	-3.4%	-9.7%	-6.7%
Relative	-9.1%	-12.1%	-15.8%



Major Shareholders

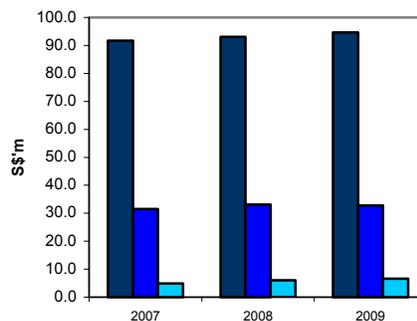
1	Qian Hu Holdings	24.33%
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- Net profit growth outpaced revenue growth
- Continues focus on expansion through JV with local partners
- Reducing debt gradually, aims to be a high dividend yield company
- Upgrade recommendation with target price of \$0.18

Commendable results in a recession year

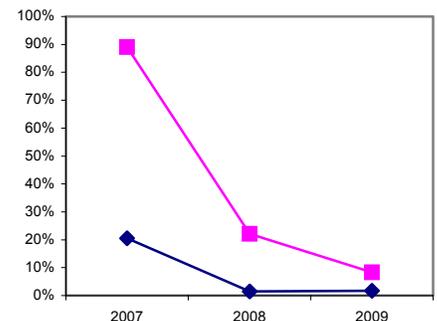
Qian Hu had maintained its revenue and profit growths quite steadily in the last three years. Net profit also grew at a much faster pace than revenue. Revenue growth was due to the expansion of the company's products to a wider geographical reach while net profit growth was attributed to management's effort to contain costs and expenses. In the 2009 annual report, Group Chairman Kenny Yap said that Qian Hu would continue to explore overseas joint ventures with local partners as a strategy to grow revenue. He has identified opportunities in Indonesia and Vietnam and expects such investments to be funded internally. Currently Qian Hu exports ornamental fish to over 80 countries and accessories to 50 countries. For 2009, Qian Hu declared a 150% increase in dividend per share of 0.5 SG cents. We interpret this as a signal management wants to send out that the company is generating good cash flow and as such, faithful shareholders are to be rewarded. Going forward, Kenny hopes that Qian Hu will be a high dividend company and becomes debt free.

Exhibit 1. Revenue, profit



■ Revenue ■ Gross Profit ■ Attributable to shareholders

Exhibit 2. Gross margin, net margin



◆ Sales growth rate ■ Net income growth rate

Source: Company, Phillip Securities Research

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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	10.45	61.00	1.04
12/08 A	6.04	1.46	0.20	0.15	11.80	9.59	1.43	0.93
12/09 A	6.54	1.64	0.50	0.16	11.05	8.97	3.57	0.85
12/10 E	7.02	1.64	0.49	0.18	10.81	8.55	3.51	0.80
12/11 E	7.74	1.78	0.53	0.19	10.89	7.89	3.80	0.74

Debt-free, high dividend?

We analyzed Qian Hu's financial to gain insight into the Chairman's views.

Exhibit 3. Selected financial data

	2007	2008	2009	2010E
Cash generated from operating activities (S\$m)	8.65	9.82	12.24	10.35
Cash used in investing activities (S\$m)	(9.6)	(10.79)	(7.19)	(5.85)
Cash generated from financing activities (S\$m)	0.92	2.21	(1.93)	(3.28)
Net increase in cash (S\$m)	(0.03)	1.24	3.12	1.21
Total borrowings (S\$m)	16.47	18.63	16.86	16.04
Borrowing/equity	0.29	0.29	0.24	0.21
Dividend per share (cents)	8.54	0.20	0.50	0.49
Dividend paid out (S\$m)	9.09	0.84	2.11	2.11
Payout ratio (%)	184	14	32	30
*Dividend yield (%)	50.2	2.2	3.3	-

Source: Company, Phillip Securities Research

*calculated based on closing price on last trading day in the respective year

Qian Hu generated healthy cash flow from its operations. Substantial capital expenditure was on increasing its brooder stocks of dragon fish as well as overseas joint ventures and expansion of fish farms. The company has started reducing its debt last year. For any investment in joint venture this year, the company will be funding it from its internal resources. As the expansion of fish farm has been completed, we do not expect any major capital investment except for the purchase of brooder stocks. The only other investment spending will probably be the possible joint ventures in Indonesia and Vietnam. As such, we believe Qian Hu should be able to reduce its debt gradually.

Qian Hu does not have a fix dividend policy, however it has paid out a dividend every year. The dividend payout ratio ranged from 14% to 184% of net profit attributable to shareholders. In 2007, the company paid out a special dividend of 8.54c to take advantage of a tax credit. Last year, the company paid out 0.5c per share which was the highest absolute cash amount of dividend. In our projections, we estimate that Qian Hu while reducing its debt, is still able to maintain a similar payout to 2009 at 30% of net profit, without compromising its financial health.

Operation efficiency

	2007	2008	2009
Inventory turnover (days)	133	135	128
Trade receivables turnover (days)	67	75	75
Trade payables turnover (days)	41	50	50

Source: Phillip Securities Research

Qian Hu has maintained its operational efficiency quite constant. Inventory turnover remained quite constant with slight changes, a sign that the company is managing its stocks well with no excess buildup. There was an increase in trade receivables turnover from 2007 to 2008 while the turnover was maintained in 2009. We think that the slight increase could be due to the expansion into new markets and after the gestation period, things have stabilized.

Valuation

We think the management of Qian Hu has shown a good track record of steering the company in the right direction. It managed to achieve a commendable growth in 2009 in the face of recession. The company's growth plan consists of venturing into the overseas market via joint ventures with local partners. It has formed JV in the UK and India, Indonesia and Vietnam are the remaining two countries on its list. The long-term plan is to build the company into a debt-free company that is able to give out high dividend to shareholders. We think that historical performance had shown Qian Hu is on the right track. The uncertainty now is on how the overseas JVs pan out and we will continue to monitor that. We continue to peg our fair value to 1x FY2010E book value at a fair value of \$0.18. We upgrade our recommendation to Buy.

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	178
EPS diluted (Cents)	123	136	148	166	183
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%	8.2%
ROE	114%	118%	110%	10.8%	10.9%

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 associates	(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 loans	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	0.2
Net cash flow from financing activities	0.9	2.2	(1.9)	(3.3)	(2.8)
Net Increase/decrease in cash	(0.0)	1.2	3.1	1.2	1.8
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	12.8

Balance sheet (\$ mil)	2007	2008	2009	2010E	2011E
PPE	12.4	14.6	15.9	14.2	13.2
Brooder stocks	21.4	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	12.8
total current assets	52.0	57.1	54.0	57.5	60.7
Total assets	88.8	100.5	103.8	109.7	116.8
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	82.7
Total liabilities and equity	88.8	100.5	103.8	109.7	116.8
NAV/shr	0.14	0.15	0.16	0.18	0.19

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	2.09
Cash ratio	0.26	0.26	0.35	0.39	0.44
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)	10.45	9.59	8.97	8.55	7.89
P/B (X)	1.04	0.93	0.85	0.80	0.74
Dividend yield (%)	61.00	14.3	3.57	3.51	3.80

Source: Company, Phillip Securities Research

Ratings History

Qian Hu Corporation Ltd

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

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	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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