

Qian Hu

Reuters: QIAN.SI
Bloomberg: QIAN SP

Sector: Commerce

recommendation :
Price S\$0.895

 Maintain **Market Perform**

Y/E 31-Dec	1H01	1H02	% Chg	2002F	2003F	2004F
Net Profit (\$m)	1.6	2.9	+83	5.5	7.0	8.0
EPS (cts)	1.7	3.2	+81	6.0	6.9	7.8
EPS Growth (%)	-31	+81		+44	+16	+14
Consensus EPS	-	-		3.2	6.4	-
PER (x) @ S\$0.895	-	-		15.0	13.0	11.4
NTA (\$)	0.18	0.23		0.11	0.11	0.12

Performance (%)	1mth	3mth	12mth		
Absolute	+58	+88	+223	Market Capitalisation :	S\$90m
Relative against STI	+59	+99	+230	Issued shares :	102m
				Average daily volume ('000) :	7,083

Qian Hu's 1H results above expectations

Qian Hu reported a strong set of 1HFY02 results, which beat consensus by 50%. The 83% YoY growth in net profit was driven by continued growth in turnover and margin improvement. Going forward, the company should continue to grow healthily from a pick up in sales volume for most market segments. In addition, margin should also improve with the absence of further restructuring and start-up costs of its existing overseas subsidiaries. We have raised our FY02 earnings by 17% to S\$5.5m and FY03 earnings by 22.8% to S\$7.0m. We maintain our MARKET PERFORM call given its prospective FY02-FY03 PER of 15.0x and 13x.

1HFY02 results were above expectations. Qian Hu's 1HFY02 came in 49.6% above consensus estimate and beat our forecast by 24.1%. For the 6 months ended 30 June 2002, net profit rose 83% YoY to S\$2.9m on the back of a 40.0% increase in turnover to \$27.8m. The strong 1H performance was led by the increase in earnings contribution from the two core activities, fish (+50.5% YoY), and accessories (+135.3% YoY). In total, both divisions accounted for 88% of total turnover.

In geographical terms, Singapore remained the main market and contributed 56% to total turnover and posted a 34.4% YoY growth in turnover.

Its 2Q performance was also stronger than 1Q, as sales and net profit grew by 22.3% and 270%, respectively.

Sales of ornamental and accessories rose. During the first half, the turnover of its ornamental fish division rose 31% to S\$12.6m, and operating profit jumped 46.8% to S\$1.6m. The strong growth was due to several factors including improved sales from the China market, the rising numbers of local fish retail outlets and more customers patronising its in-house retail outlet. A subsidiary in Thailand and the newly set-up fish division in Malaysia, which commenced their operations in Jan 2002, also contributed to turnover growth in ornamental fish. In addition, the change in Taiwanese regulations, which now permitted the import of licensed Dragon Fish, also contributed to its improvement or a 26% rise in sales of ornamental fish in the 1H.

The accessories division posted a 131.5% increase in operating profit on the back of a 75.3% turnover growth. The stronger sales from its Malaysia & Thailand subsidiaries, as a result of the gain in market shares and continued expansion in the local market, boosted topline growth. The company has expanded its distribution network to more local retailers and supermarkets.

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The plastic and others segment experienced a slower turnover growth in 2Q due to the competitive local market. Operating margin also fell from 6.9% in 1H01 to 5.1% in 1H02 and offset the 34.5% YoY turnover growth.

Profit margin improvement boosted bottomline further. EBITDA margin gained by 3.4% to 15.8% and boosted net profit to S\$2.9m. The operating margin for fish and accessories improved by 1.7% and 3.8%, respectively, due to the growth in sales volume and stable operating expenses. The performance of its accessories division in 1H01 was affected by high purchase costs and operating losses due to set-up and restructuring costs incurred by a Thailand subsidiary (dealing with accessories), but this has since resumed operations from May 2001.

Outlook remains good. The company expects to see healthy growth in Singapore due to the growing domestic market and the rising exports of Dragon Fish

to the new markets such as Taiwan. However, the bulk of its growth will come from overseas operations such as the newly incorporated entity in Thailand, the new fish division in Malaysia and its growing presence in China. In addition, there should be no further restructuring and start-up costs at its existing overseas subsidiaries, and this should lead to positive contributions from its overseas operations in Malaysia, Thailand and China.

Earning upgraded by 17-23%. We have raised our FY02 earnings by 17% to \$5.5m and FY03 earnings by 22.8% to \$7.0m. At current share price, we believe Qian Hu's prospective FY02-FY03 PER of 15.0x and 13.0x would have already factored in most of the positives. We maintain **MARKET PERFORM**.

Technical: The stock broke below a upward trendline yesterday, and is down again today. This appears to be a trend reversal. Potential for a drop towards \$0.70.



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