

## Qian Hu Corporation

3Q10 results update

## BUY

**Current Price** **S\$0.13**  
25 October 2010

**Fair Value** **S\$0.18**

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## Historical Chart



Source: Bloomberg

## Stock Statistics

<b>Market Cap</b>	S\$59.0m
<b>52-HI</b>	S\$0.18
<b>52-LOW</b>	S\$0.12
<b>Avg Vol (1 yr)</b>	1,059,822
<b>Shares Outstanding</b>	454.1m
<b>Free Float</b>	268.4m

## Key Indicators

<b>ROE 10F</b>	7.2%
<b>ROA 10F</b>	5.0%
<b>P/BK</b>	0.96x
<b>Net gearing</b>	3.9%

## Major Shareholders

<b>Qian Hu Holding</b>	24.0%
<b>Yap family</b>	20.2%

## Improvement QoQ but not YoY

- **Results below expectations.** 3Q10 net profit of S\$1.2 came in 40% below our S\$2m expectation mainly due to lower than expected sales and higher doubtful debt provision (excluding this S\$0.4m doubtful debt, net profit was 20% below our expectation). 9M results represent 51% of our full-year forecast.
- **Sales declined 4% yoy to S\$22.9m**, due to revenue from the fish division and accessories business dropping 5.5% and 3.5% yoy, respectively. The drop is partially due to the strengthening of the S\$ that resulted in certain export customers seeking alternative cheaper sources. Nevertheless, plastics revenue increased 8% yoy as the group managed to sell more varieties of plastic products.
- **EBITDA margins declined 2.6% pts yoy to 10.4%** due to 1) lower revenue of its self-bred Dragon Fish from Malaysia, 2) stronger S\$ which weakened purchasing power of the European markets, and 3) erosion in profit margin from plastics segment as a result of increasing raw material costs. However, its accessories profit margins show an improvement from the export of accessories.
- **Lowered its net gearing to 3.9% at end-Sep quarter.** Despite its cash conversion cycle increasing 7 days qoq to 187 day, after lowering its capex spending, Qian Hu still generated S\$0.5m positive free cash flow in 3Q. Given Qian Hu's results is traditionally strongest in the 4Q, we believe the group is still on track to turn net cash by the end of this year.
- **Entering the strongest quarter.** The group expects its business will continue to recover from the adverse situation in 2Q. Management will continue to build a resilient balance sheet and to be a debt-free and high dividend yield company for the long term prospects. We view the full resumption of the supply of self-bred Dragon Fish from Malaysia should lead to better margins in 4Q.
- **Cutting forecasts but maintain Buy.** We have cut our FY10-12 forecasts by 13-23% by assuming lower sales. We also roll forward our fair value 14x CY10 PER to 12x CY11 PER. As such, our fair value has been reduced from S\$0.21 to S\$0.18. Given there is still 40% upside, maintain our Buy recommendation.

## Key Financial Data

(S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
<b>Sales</b>	93.1	94.6	94.7	99.0	104.0
<b>Gross Profit</b>	33.1	32.7	31.7	33.7	35.4
<b>Net Profit</b>	6.0	6.5	5.3	6.9	7.9
<b>EPS (cents)</b>	1.5	1.6	1.2	1.5	1.7
<b>EPS growth (%)</b>	8.4	6.3	(24.2)	28.9	15.0
<b>PER (x)</b>	8.9	8.4	11.1	8.6	7.5
<b>NTA/share (cents)</b>	12.4	13.5	13.6	14.6	15.9
<b>DPS (cents)</b>	0.2	0.5	0.5	0.5	0.5
<b>Div Yield (%)</b>	1.5	4.1	3.9	3.9	3.9
<b>EV/EBITDA (x)</b>	5.8	5.7	7.1	5.6	5.0

Source: Company, NRA Capital estimates

## Results comparison

FYE Dec (S\$ m)	3Q10	3Q09	yoy % chg	2Q10	QoQ % chg	Prev. 3Q10F	Comments
Revenue	23.0	23.9	(4)	22.7	1	24.6	7% below expectation
Operating costs	(20.6)	(20.8)	(1)	(20.4)	1	(21.2)	Below, lower-than-expected sales
EBITDA	2.4	3.1	(23)	2.3	3	3.3	Below, lower-than-expected sales and margin
EBITDA margin (%)	10.4	13.0		10.2	2	13.6	Lower-than-expected margins
Depn & amort.	(0.7)	(0.7)	9	(0.7)	0	(0.7)	In line
EBIT	1.7	2.4	(32)	1.6	4	2.6	Below, lower-than-expected sales and margin
Interest expense	(0.1)	(0.2)	(18)	(0.1)	8	(0.1)	In line
Interest & invt inc	0.0	(0.0)	nm	(0.2)	122	0.0	In line
Associates' contrib	(0.0)	(0.0)	nm	(0.1)	(80)	(0.1)	In line
Exceptionals	0.0	0.0	0	0.0	0	0.0	
<b>Pretax profit</b>	<b>1.6</b>	<b>2.2</b>	<b>(30)</b>	<b>1.2</b>	<b>29</b>	<b>2.5</b>	Below, lower-than-expected sales and margin
Tax	(0.2)	(0.4)	(42)	(0.3)	(32)	(0.5)	Below, lower-than-expected profit
Tax rate (%)	13.1	15.9		24.8	(47)	20.0	
Minority interests	(0.1)	(0.2)	(24)	0.0	(523)	0.0	
<b>Net profit</b>	<b>1.2</b>	<b>1.7</b>	<b>(28)</b>	<b>1.0</b>	<b>28</b>	<b>2.0</b>	Below, lower-than-expected sales and margin
EPS (cts)	0.3	0.4	(33)	0.2	28	0.5	

Source: NRA Capital estimates

Profit & Loss (S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue	93.1	94.6	94.7	99.0	104.0
Operating expenses	(80.7)	(82.0)	(84.5)	(86.2)	(89.6)
EBITDA	12.4	12.6	10.2	12.8	14.3
Depreciation & amortisation	(2.4)	(2.6)	(2.9)	(2.9)	(2.9)
EBIT	9.9	10.0	7.3	9.9	11.4
Net interest & invt income	(0.7)	(0.6)	(0.3)	(0.2)	(0.2)
Associates' contribution	(0.0)	(0.0)	0.0	0.0	0.0
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>9.2</b>	<b>9.4</b>	<b>7.0</b>	<b>9.7</b>	<b>11.3</b>
Tax	(1.8)	(1.8)	(1.2)	(1.8)	(2.1)
Minority interests	(1.4)	(1.1)	(0.5)	(1.0)	(1.2)
<b>Net profit</b>	<b>6.0</b>	<b>6.5</b>	<b>5.3</b>	<b>6.9</b>	<b>7.9</b>
Wt. shares (m)	414.6	422.2	454.1	454.1	454.1
Shares at year-end (m)	414.6	422.2	454.1	454.1	454.1

Balance Sheet (S\$ m, as at Dec)	2008	2009	2010F	2011F	2012F
Fixed assets	41.4	46.3	46.3	46.9	45.3
Intangible assets	2.2	2.3	2.3	2.3	2.3
Other long-term assets	0.8	1.2	1.1	1.1	1.1
<b>Total non-current assets</b>	<b>44.4</b>	<b>49.7</b>	<b>49.7</b>	<b>50.3</b>	<b>48.7</b>
Cash and equivalents	8.3	9.8	9.8	12.9	16.3
Stocks	22.4	21.0	21.4	22.2	24.7
Trade debtors	19.8	18.1	19.6	20.5	21.5
Other current assets	5.6	5.1	5.5	6.1	6.7
<b>Total current assets</b>	<b>56.1</b>	<b>54.0</b>	<b>56.4</b>	<b>61.7</b>	<b>69.2</b>
Trade creditors	9.2	7.7	8.5	8.9	8.3
Short-term borrowings	10.4	10.5	7.6	6.9	6.2
Other current liabilities	12.1	10.3	10.1	10.9	11.5
<b>Total current liabilities</b>	<b>31.8</b>	<b>28.4</b>	<b>26.1</b>	<b>26.7</b>	<b>26.1</b>
Long-term borrowings	2.4	2.1	1.3	1.0	0.8
Other long-term liabilities	3.6	4.1	4.1	4.1	4.1
<b>Total long-term liabilities</b>	<b>6.0</b>	<b>6.1</b>	<b>5.4</b>	<b>5.1</b>	<b>4.9</b>
<b>Shareholders' funds</b>	<b>53.6</b>	<b>59.2</b>	<b>64.1</b>	<b>68.7</b>	<b>74.3</b>
Minority interests	9.1	10.0	10.5	11.5	12.7
NTA/share (S\$)	0.12	0.13	0.14	0.15	0.16
<b>Total Assets</b>	<b>100.5</b>	<b>103.8</b>	<b>106.1</b>	<b>112.0</b>	<b>118.0</b>
<b>Total Liabilities + S'holders' funds</b>	<b>100.5</b>	<b>103.8</b>	<b>106.1</b>	<b>112.0</b>	<b>118.0</b>

Cash Flow (S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Pretax profit	9.2	9.4	7.0	9.7	11.3
Depreciation & non-cash adjustments	3.3	3.9	7.0	5.6	7.4
Working capital changes	(1.6)	0.1	(1.6)	(1.8)	(4.6)
Cash tax paid	(1.1)	(1.2)	(5.3)	(4.7)	(5.0)
Others	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from operations</b>	<b>9.8</b>	<b>12.2</b>	<b>7.1</b>	<b>8.8</b>	<b>9.1</b>
Capex	(10.9)	(6.8)	(1.6)	(2.1)	(2.1)
Net investments & sale of FA	0.1	(0.3)	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>(10.8)</b>	<b>(7.2)</b>	<b>(1.6)</b>	<b>(2.1)</b>	<b>(2.1)</b>
Debt raised/(repaid)	3.9	1.3	(3.7)	(0.9)	(0.9)
Equity raised/(repaid)	0.1	0.2	0.9	0.0	0.0
Dividends paid	0.0	(0.9)	(2.2)	(2.3)	(2.3)
Cash interest & others	(1.8)	(2.6)	(0.5)	(0.5)	(0.4)
<b>Cash flow from financing</b>	<b>2.2</b>	<b>(1.9)</b>	<b>(5.5)</b>	<b>(3.7)</b>	<b>(3.6)</b>
<b>Change in cash</b>	<b>1.2</b>	<b>3.1</b>	<b>(0.0)</b>	<b>3.0</b>	<b>3.4</b>
<b>Change in net cash/(debt)</b>	<b>(2.7)</b>	<b>1.8</b>	<b>3.7</b>	<b>3.9</b>	<b>4.3</b>
<b>Ending net cash/(debt)</b>	<b>(4.6)</b>	<b>(2.8)</b>	<b>0.9</b>	<b>4.9</b>	<b>9.2</b>

KEY RATIOS (FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue growth (%)	1.5	1.7	0.0	4.6	5.0
EBITDA growth (%)	14.8	2.3	(19.5)	26.1	11.8
Pretax margins (%)	9.9	10.0	7.4	9.8	10.9
Net profit margins (%)	6.5	6.9	5.6	6.9	7.6
Interest cover (x)	11.5	14.7	15.4	23.2	30.1
Effective tax rates (%)	19.5	19.0	17.0	19.0	19.0
Net dividend payout (%)	13.7	34.3	43.1	33.4	29.1
Debtors turnover (days)	73.3	73.1	72.7	73.9	73.8
Stock turnover (days)	135.1	127.8	122.8	121.8	124.8
Creditors turnover (days)	32.4	32.5	31.2	32.1	30.2

Source: Company, NRA Capital Estimates

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