

Qian Hu Corporation

4Q09 results update

BUY

Current Price **S\$0.175**
12 January 2010

Fair Value **S\$0.22**

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Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$73.9m
52-HI	S\$0.18
52-LOW	S\$0.075
Avg Vol (1 yr)	349,395
Shares Outstanding	422.98m
Free Float	185.8m

Key Indicators

ROE 09F	9.5%
ROA 09F	6.3%
P/BK	1.3x
Net gearing	0.04x

Major Shareholders

Qian Hu Holding	26.3%
Yap family	29.8%

Growth on track

- **Spot on.** 4Q09 net profit of S\$1.8m was in line with our expectations but 29% ahead of street consensus estimate.
- **Sales inched up 4.4% yoy to S\$23.9m** as all business segments turned in positive growth. Among the segment, the higher growth came from the fish division (+6.2% yoy), followed by accessories (+2.9% yoy) and plastics (+2.8% yoy). Fish sales benefited from the completion of its new breeding facilities in the Singapore farm.
- **EBITDA margins slid 0.4% pts yoy to 14.4%** due to slightly lower operating margins from fish and accessories, this mainly due to the higher operating cost of the fish division after new expansion in Singapore. However, the margins were up 1.4% pts compared to the previous quarter.
- **Net gearing improved yoy from 7% to 4% at end-Dec 09.** Qian Hu generated S\$5.4m positive free cash flow in FY09 as a result of improvement in working capital by shortening the cash conversion cycle (-22 days yoy) and lowering its capex spending. Qian Hu has declared a first and final dividend of 0.5 cts (32% payout ratio), which is slightly better than our 0.4 cts projection. Management is on target in its goal to becoming a debt-free company with high dividend payout in 3-4 years time horizon.
- **Expanding into new products of aquarium accessories.** After expanding and stabilising its fish segment in Singapore and Malaysia, Qian Hu is now slowly expanding its accessories products. The group has entered into an exclusive licensing agreement with Clean World, who jointly developed the revolutionary Hydro-Pure technology that is capable of enhancing the water quality by as much as 50% compared to conventional filtration systems.
- **Maintain Buy.** We have trimmed our FY10 net profit estimated by 6% to factor in higher operating cost for new products launching soon. However, we kept our FY11 earnings estimate and also introduced the FY12 forecast. Given the improving market sentiment, we peg our fair value now on 14x FY10 PER, mean of its 8 years rolling forward PER (instead of 1.3x FY10 PBR). Our fair value has been raise from S\$0.19 to S\$0.22. With good track record and a strong brand name, we maintain our **Buy** recommendation.

Key Financial Data

(S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Sales	93.1	94.6	100.8	107.3	114.3
Gross Profit	33.1	32.7	35.6	38.1	40.6
Net Profit	6.0	6.5	7.2	8.6	9.0
Fully Diluted EPS (cents)	1.5	1.6	1.6	1.9	2.0
EPS growth (%)	8.4	6.3	1.4	19.8	5.6
Fully Diluted PER (x)	12.0	11.3	11.1	9.3	8.8
NTA/share (cents)	12.4	13.5	14.7	14.9	16.3
DPS (cents)	0.2	0.5	0.5	0.6	0.6
Div Yield (%)	1.1	2.9	2.9	3.2	3.4
EV/EBITDA (x)	7.0	6.9	6.1	5.6	5.3

Source: Company, NRA Capital estimates

Results comparison

FYE Dec (\$ m)	4Q09	4Q08	yoy % chg	3Q09	QoQ % chg	Prev. 4Q09F	Comments
Revenue	23.9	22.9	4	23.9	(0)	25.5	6% below expectation
Operating costs	(20.4)	(19.5)	5	(20.8)	(2)	(22.4)	Below, better-than-expected cost control
EBITDA	3.4	3.4	2	3.1	11	3.1	7% above expectation
EBITDA margin (%)	14.4	14.8		13.0	11	12.2	Higher-than-expected margins
Depn & amort.	(0.7)	(0.6)	7	(0.7)	3	(0.7)	In line
EBIT	2.8	2.8	0	2.4	13	2.5	Above
Interest expense	(0.1)	(0.2)	(37)	(0.2)	(17)	(0.0)	Above
Interest & invt inc	(0.1)	(0.2)	(62)	(0.0)	387	0.1	Below
Associates' contrib	0.0	(0.0)	244	(0.0)	145	0.1	Below
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	2.6	2.3	10	2.2	15	2.6	In line
Tax	(0.5)	(0.3)	78	(0.4)	45	(0.6)	Below, lower-than-expected tax rate
Tax rate (%)	20.1	12.4		15.9	26	21.8	
Minority interests	(0.3)	(0.3)	(19)	(0.2)	31	(0.3)	In line
Net profit	1.8	1.7	4	1.7	7	1.8	Spot on
EPS (cts)	0.4	0.4	2	0.4	7	0.4	

Source: NRA Capital estimates



Source: Bloomberg, NRA Capital

Profit & Loss (S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue	93.1	94.6	100.8	107.3	114.3
Operating expenses	(80.7)	(82.0)	(86.6)	(91.8)	(97.9)
EBITDA	12.4	12.6	14.1	15.6	16.4
Depreciation & amortisation	(2.4)	(2.6)	(3.2)	(3.2)	(3.3)
EBIT	9.9	10.0	11.0	12.3	13.1
Net interest & invt income	(0.7)	(0.6)	(0.4)	(0.3)	(0.3)
Associates' contribution	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	9.2	9.4	10.6	12.0	12.9
Tax	(1.8)	(1.8)	(2.1)	(2.3)	(2.4)
Minority interests	(1.4)	(1.1)	(1.3)	(1.1)	(1.4)
Net profit	6.0	6.5	7.2	8.6	9.0
Wt. shares (m)	414.6	422.2	422.2	454.8	454.8
Shares at year-end (m)	414.6	422.2	422.2	454.8	454.8
Balance Sheet (S\$ m, as at Dec)	2008	2009	2010F	2011F	2012F
Fixed assets	41.4	46.3	49.7	53.2	51.4
Intangible assets	2.2	2.3	2.3	2.3	2.3
Other long-term assets	0.8	1.2	1.2	1.2	1.2
Total non-current assets	44.4	49.7	53.2	56.7	54.9
Cash and equivalents	8.3	9.8	7.8	8.2	11.5
Stocks	22.4	21.0	22.2	23.5	25.8
Trade debtors	19.8	18.1	20.9	22.2	23.7
Other current assets	5.6	5.1	5.9	6.7	7.8
Total current assets	56.1	54.0	56.7	60.7	68.7
Trade creditors	9.2	7.7	9.1	9.7	9.1
Short-term borrowings	10.4	10.5	9.1	8.6	7.4
Other current liabilities	12.1	10.3	10.5	11.1	11.6
Total current liabilities	31.8	28.4	28.7	29.3	28.2
Long-term borrowings	2.4	2.1	1.6	1.3	1.1
Other long-term liabilities	3.6	4.1	4.1	4.1	4.1
Total long-term liabilities	6.0	6.1	5.7	5.4	5.1
Shareholders' funds	53.6	59.2	64.2	70.2	76.6
Minority interests	9.1	10.0	11.3	12.4	13.7
NTA/share (S\$)	0.12	0.13	0.15	0.15	0.16
Total Assets	100.5	103.8	109.9	117.3	123.6
Total Liabilities + S'holders' funds	100.5	103.8	109.9	117.3	123.6
Cash Flow (S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Pretax profit	9.2	9.4	10.6	12.0	12.9
Depreciation & non-cash adjustments	3.3	3.9	4.8	4.2	9.5
Working capital changes	(1.6)	0.1	(3.4)	(3.1)	(5.2)
Cash tax paid	(1.1)	(1.2)	(5.3)	(5.1)	(5.2)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	9.8	12.2	6.6	8.0	11.8
Capex	(10.9)	(6.8)	(5.2)	(5.2)	(5.2)
Net investments & sale of FA	0.1	(0.3)	0.1	0.1	0.1
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	(10.8)	(7.2)	(5.1)	(5.1)	(5.1)
Debt raised/(repaid)	3.9	1.3	(1.9)	(0.8)	(1.4)
Equity raised/(repaid)	0.1	0.2	0.0	0.0	0.0
Dividends paid	0.0	(0.9)	(2.1)	(2.1)	(2.6)
Cash interest & others	(1.8)	(2.6)	0.4	0.5	0.6
Cash flow from financing	2.2	(1.9)	(3.5)	(2.5)	(3.4)
Change in cash	1.2	3.1	(2.0)	0.4	3.3
Change in net cash/(debt)	(2.7)	1.8	(0.2)	1.2	4.7
Ending net cash/(debt)	(4.6)	(2.8)	(2.9)	(1.7)	3.0
KEY RATIOS (FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue growth (%)	1.5	1.7	6.5	6.5	6.5
EBITDA growth (%)	14.8	2.3	11.8	10.0	5.5
Pretax margins (%)	9.9	10.0	10.5	11.2	11.3
Net profit margins (%)	6.5	6.9	7.1	8.0	7.9
Interest cover (x)	11.5	14.7	18.9	23.0	28.6
Effective tax rates (%)	19.5	19.0	20.0	19.5	19.0
Net dividend payout (%)	13.7	32.3	32.3	30.0	30.0
Debtors turnover (days)	73.3	73.1	70.6	73.2	73.2
Stock turnover (days)	135.1	127.8	120.7	120.5	122.1
Creditors turnover (days)	32.4	32.5	30.3	31.8	30.0

Source: Company, NRA Capital Estimates

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