

## Qian Hu Corporation

4Q10 results update

## BUY

**Current Price** S\$0.125  
18 January 2011

**Fair Value** S\$0.17

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## Historical Chart



Source: Bloomberg

## Stock Statistics

<b>Market Cap</b>	S\$56.8m
<b>52-HI</b>	S\$0.165
<b>52-LOW</b>	S\$0.115
<b>Avg Vol (1 yr)</b>	482,235
<b>Shares Outstanding</b>	454.1m
<b>Free Float</b>	253.4m

## Key Indicators

<b>ROE 11F</b>	8.4%
<b>ROA 11F</b>	5.9%
<b>P/BK</b>	0.88x
<b>Net gearing</b>	0.5%

## Major Shareholders

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

## Steady expansion mode

- **Results below expectations.** Qian Hu once again suffered from widespread airport closures and flight cancellations over European and North American air space in late November and December, not ash clouds but snowstorm this time. As a result, 4Q10 net profit of S\$0.6m was 44% below our S\$1.1m expectation.
- **Sales declined 7% yoy to S\$22.2m**, due to revenue from Europe and other region (including North American) slipping 41% and 25% yoy, respectively. This however was partially offset by 20% growth yoy from other Asian countries (excluding Singapore). Domestic sales dropped 4.5% yoy due mainly to less self-bred Dragon Fish sold.
- **EBITDA margins declined 7.7% pts yoy to 6.7%** due to 1) the reduction in the supply of self-bred Dragon Fish affecting the profitability, 2) revenue contribution from the export of ornamental fish was affected by the closure of the Europe airspace and stronger S\$ which weakened purchasing power of the European accessories markets, and 3) higher wage cost in China has sliced off some profitability of the accessories business.
- **Lowered its net gearing to 0.5% at end-Dec quarter.** Qian Hu generated S\$1.08m positive free cash flow in 4Q as a result of lowering its capex spending. Despite FY10 earnings being affected by several unexpected incidents, the group managed to strengthen its balance sheet to near zero net gearing. To reward shareholders, Qian Hu has declared a first and final dividend of 0.5 cts same as last year (54% payout ratio), which is in line with our projection.
- **Return to Indonesian market.** The group retreated from its Indonesian business in 2005 after failing to grow the business with its JV partner. However, after a successful experience in both the Thai and Chinese markets, Qian Hu is returning to the Indonesian market and expects to complete the set-up in 1H11. Indonesia is third largest in terms of population in the world. Management also expects its India JV, set up in 2009, to be profitable this year. In addition, the group is also looking for opportunities in Vietnam, which will enable Qian Hu to establish an extensive distribution network in the whole region. However, the group does not expect to incur substantial amounts of capital expenditure in the foreseeable future.
- **Cutting forecasts but maintain Buy.** We have trimmed our FY11 forecasts by 5% but kept our FY12 earnings estimate and also introduced the FY13 forecast. As such, our fair value has been reduced from S\$0.18 to S\$0.17, still applying 12x FY11 PER. Maintain our Buy recommendation.

## Key Financial Data

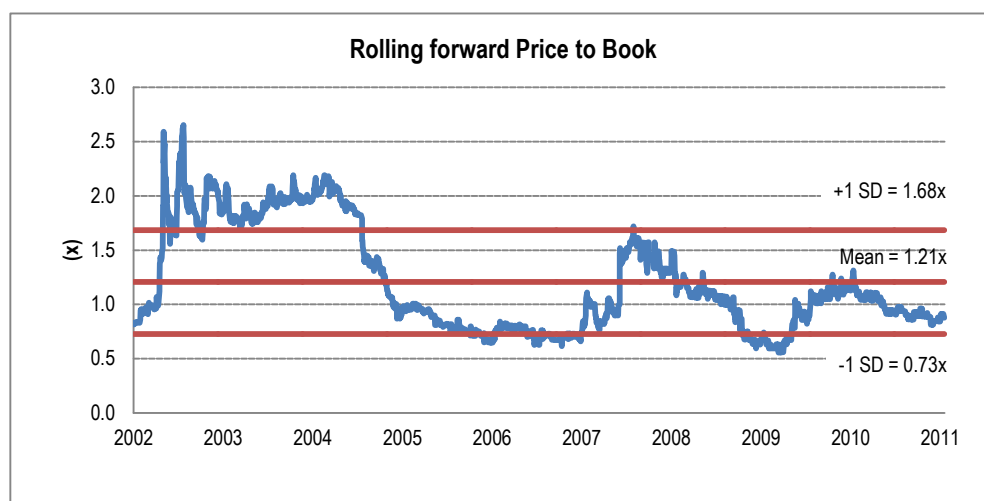
(S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
<b>Sales</b>	94.6	91.2	96.1	102.1	109.1
<b>Gross Profit</b>	32.7	29.2	32.7	35.7	38.2
<b>Net Profit</b>	6.5	4.2	6.5	7.8	8.4
<b>EPS (cents)</b>	1.6	0.9	1.4	1.7	1.8
<b>EPS growth (%)</b>	6.3	(40.2)	54.8	19.5	7.9
<b>PER (x)</b>	8.1	13.5	8.7	7.3	6.8
<b>NTA/share (cents)</b>	13.5	13.3	14.2	15.5	16.8
<b>DPS (cents)</b>	0.5	0.5	0.5	0.5	0.5
<b>Div Yield (%)</b>	4.2	4.0	4.0	4.0	4.0

Source: Company, NRA Capital estimates

## Results comparison

FYE Dec (\$\$ m)	4Q10	4Q09	yoy % chg	3Q10	QoQ % chg	Prev. 4Q10F	Comments
Revenue	22.2	23.9	(7)	23.0	(3)	25.7	14% below expectation
Operating costs	(20.7)	(20.4)	2	(20.6)	1	(23.2)	Below, lower-than-expected revenue
EBITDA	1.5	3.4	(56)	2.4	(37)	2.5	Below, lower-than-expected sales and margin
EBITDA margin (%)	6.7	14.4		10.4	(35)	9.8	3.1% points below expectation
Deprn & amort.	(0.7)	(0.7)	(0)	(0.7)	(5)	(0.8)	In line
EBIT	0.8	2.8	(70)	1.7	(51)	1.7	Below, lower-than-expected sales and margin
Interest expense	(0.1)	(0.1)	(18)	(0.1)	(16)	(0.1)	In line
Interest & invt inc	0.0	(0.1)	nm	0.0	(70)	0.0	In line
Associates' contrib	(0.0)	0.0	nm	(0.0)	(92)	0.1	In line
Exceptionals	0.0	0.0	0	0.0	0	0.0	
<b>Pretax profit</b>	<b>0.7</b>	<b>2.6</b>	<b>(72)</b>	<b>1.6</b>	<b>(54)</b>	<b>1.8</b>	Below, lower-than-expected sales and margin
Tax	(0.0)	(0.5)	(97)	(0.2)	(92)	(0.4)	Below, lower-than-expected profit and taxation
Tax rate (%)	2.2	20.1		13.1	(83)	23.6	
Minority interests	(0.1)	(0.3)	(71)	(0.1)	(51)	(0.3)	
<b>Net profit</b>	<b>0.6</b>	<b>1.8</b>	<b>(65)</b>	<b>1.2</b>	<b>(48)</b>	<b>1.1</b>	44% below expectation
EPS (cts)	0.1	0.4	(67)	0.3	(48)	0.4	

Source: NRA Capital estimates



Source: Bloomberg, NRA Capital estimates

<b>Profit &amp; Loss</b> (S\$ m, FYE Dec)	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Revenue	94.6	91.2	96.1	102.1	109.1
Operating expenses	(82.0)	(82.6)	(84.7)	(89.2)	(95.5)
EBITDA	12.6	8.5	11.4	13.0	13.7
Depreciation & amortisation	(2.6)	(2.8)	(2.8)	(2.7)	(2.7)
EBIT	10.0	5.7	8.7	10.2	11.0
Net interest & invt income	(0.6)	(0.4)	(0.2)	(0.2)	(0.2)
Associates' contribution	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>9.4</b>	<b>5.3</b>	<b>8.3</b>	<b>9.9</b>	<b>10.7</b>
Tax	(1.8)	(0.8)	(1.5)	(1.8)	(1.9)
Minority interests	(1.1)	(0.3)	(0.3)	(0.3)	(0.4)
<b>Net profit</b>	<b>6.5</b>	<b>4.2</b>	<b>6.5</b>	<b>7.8</b>	<b>8.4</b>
Wt. shares (m)	422.2	454.1	454.1	454.1	454.1
Shares at year-end (m)	422.2	454.1	454.1	454.1	454.1

<b>Balance Sheet</b> (S\$ m, as at Dec)	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Fixed assets	46.3	44.0	44.5	43.0	41.5
Intangible assets	2.3	2.3	2.3	2.3	2.3
Other long-term assets	1.2	1.1	1.1	1.1	1.1
<b>Total non-current assets</b>	<b>49.7</b>	<b>47.4</b>	<b>47.9</b>	<b>46.4</b>	<b>45.0</b>
Cash and equivalents	9.8	11.7	13.5	18.6	23.4
Stocks	21.0	24.1	22.8	23.9	25.5
Trade debtors	18.1	19.2	19.9	21.1	22.6
Other current assets	5.1	5.0	5.5	6.0	6.7
<b>Total current assets</b>	<b>54.0</b>	<b>60.0</b>	<b>61.7</b>	<b>69.6</b>	<b>78.2</b>
Trade creditors	7.7	8.4	7.7	8.2	8.7
Short-term borrowings	12.2	11.7	9.6	9.2	8.7
Other current liabilities	10.3	9.6	10.0	10.7	11.2
<b>Total current liabilities</b>	<b>30.2</b>	<b>29.7</b>	<b>27.4</b>	<b>28.0</b>	<b>28.7</b>
Long-term borrowings	0.3	0.4	0.3	0.2	0.2
Other long-term liabilities	4.1	4.3	4.3	4.3	4.3
<b>Total long-term liabilities</b>	<b>4.4</b>	<b>4.7</b>	<b>4.6</b>	<b>4.6</b>	<b>4.5</b>
<b>Shareholders' funds</b>	<b>59.2</b>	<b>62.7</b>	<b>67.0</b>	<b>72.5</b>	<b>78.6</b>
Minority interests	10.0	10.3	10.6	11.0	11.3
NTA/share (S\$)	0.13	0.13	0.14	0.15	0.17
<b>Total Assets</b>	<b>103.8</b>	<b>107.4</b>	<b>109.6</b>	<b>116.0</b>	<b>123.2</b>
<b>Total Liabilities + S'holders' funds</b>	<b>103.8</b>	<b>107.4</b>	<b>109.6</b>	<b>116.0</b>	<b>123.2</b>

<b>Cash Flow</b> (S\$ m, FYE Dec)	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Pretax profit	9.4	5.3	8.3	9.9	10.7
Depreciation & non-cash adjustments	3.9	3.6	5.8	7.5	7.4
Working capital changes	0.1	(3.7)	(0.6)	(2.3)	(3.0)
Cash tax paid	(1.2)	(1.1)	(5.0)	(5.1)	(5.2)
Others	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from operations</b>	<b>12.2</b>	<b>4.1</b>	<b>8.4</b>	<b>10.1</b>	<b>9.8</b>
Capex	(6.8)	(1.3)	(1.9)	(1.9)	(1.9)
Net investments & sale of FA	(0.3)	1.7	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>(7.2)</b>	<b>0.4</b>	<b>(1.9)</b>	<b>(1.9)</b>	<b>(1.9)</b>
Debt raised/(repaid)	1.3	(0.5)	(2.1)	(0.5)	(0.5)
Equity raised/(repaid)	0.2	1.1	0.0	0.0	0.0
Dividends paid	(0.9)	(2.2)	(2.3)	(2.3)	(2.3)
Cash interest & others	(2.6)	(1.0)	(0.3)	(0.3)	(0.3)
<b>Cash flow from financing</b>	<b>(1.9)</b>	<b>(2.7)</b>	<b>(4.7)</b>	<b>(3.1)</b>	<b>(3.1)</b>
<b>Change in cash</b>	<b>3.1</b>	<b>1.8</b>	<b>1.8</b>	<b>5.1</b>	<b>4.8</b>
<b>Change in net cash/(debt)</b>	<b>1.8</b>	<b>2.4</b>	<b>3.9</b>	<b>5.6</b>	<b>5.3</b>
<b>Ending net cash/(debt)</b>	<b>(2.8)</b>	<b>(0.4)</b>	<b>3.5</b>	<b>9.1</b>	<b>14.4</b>

<b>KEY RATIOS</b> (FYE Dec)	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Revenue growth (%)	1.7	(3.6)	5.5	6.2	6.9
EBITDA growth (%)	2.3	(32.5)	33.7	13.4	5.6
Pretax margins (%)	10.0	5.8	8.7	9.7	9.8
Net profit margins (%)	6.9	4.6	6.8	7.6	7.7
Interest cover (x)	14.7	11.6	22.0	27.3	31.0
Effective tax rates (%)	19.0	14.8	18.0	18.0	18.0
Net dividend payout (%)	34.3	54.0	34.9	29.2	27.0
Debtors turnover (days)	73.1	74.6	74.2	73.3	73.1
Stock turnover (days)	127.8	132.8	135.0	128.5	127.2
Creditors turnover (days)	32.5	32.2	30.6	28.3	28.3

Source: Company, NRA Capital Estimates

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