

Recommendation:

BUY

Previous call: Buy @ \$0.095 on 5 Nov 2008

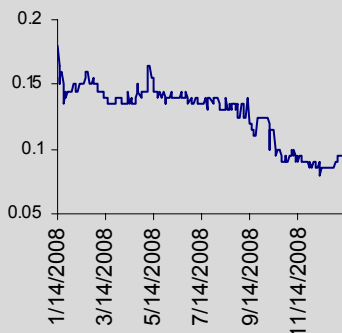
Price

Previous close **S\$0.095**
Fair value **S\$0.150**
Share price return **57.8%**

Share Statistics

Shares 415.22m
Market Cap. \$39.45m
Trailing PER 6.51x
Forward PER 7.92x
P/BV 0.74x
52-week Price Range \$0.08-\$0.185
52-week PER Range 5.9x-13.2x
Listing Bourse SGX-Main
Board
Qianhu
Major Shareholder Holdings
 26.25%

Price Chart



Company Profile

Qian Hu Corporation Limited imports, exports and distributes ornamental fish and aquarium and pet accessories. The company also manufactures and distributes plastic bags for ornamental fish, food and electronics industries.

Analyst

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Qian Hu Corporation Limited Full Year Results

15 Jan 2009

The latest financial results highlighted QH's strategy in improving on its margins while striving to achieve growth in revenue. FY08 revenue grew 1.5% YoY to \$93.1m. Gross profit grew 4.8% to \$33.1m and net profit attributable to shareholders registered double-digit growth of 22.1% to \$6.0m. Quarterly revenue however dropped 7.2% due mainly to one-off events. Notwithstanding the drop, quarterly figures for gross profit and net profit attributable to shareholders still registered respectable growths of 1.9% and 10.0%.

Drop in sales in the fourth quarter were due to three main reasons. Firstly, there was a shortage in the supply of dragon fish to meet the demand. Secondly, the production in OEM manufacturing of Guangzhou factory was delayed and started only in mid-October. Thirdly the closure of Bangkok International Airport affected fish exports from the Thai capital.

	FY07	FY08	% Change	Forecasted FY08F	Variance
Revenue (\$m)	91.7	93.1	1.5%	95.5	(2.5)%
Gross profit (\$m)	31.5	33.1	4.8%	33.5	(1.2)%
Net profit attributable to shareholders (\$m)	4.9	6.0	22.1%	5.6	7.1%
EPS (cents)	1.23	1.36	10.5%	1.26	7.9%

Actual revenue came in 2.5% below our forecast mainly due to reasons stated. However net profit attributable to equity shareholders and EPS are 7.1% and 7.9% better than our numbers. This can be attributed to the strategy put in place by the company to enhance their profit margins.

Product segments analysis. Ornamental fish sales were affected by the reasons stated above and from exhibit 1 and 2, it can be seen that fish sales contribution registered its lowest contribution in the two years of FY07 and FY08. Accessories sales climbed in 4Q08 compared to the preceding three quarters. Revenue from plastics division drops slightly in 4Q08 due to lower selling prices in-line with raw material prices.

Exhibit 1. Revenue breakdown by S\$

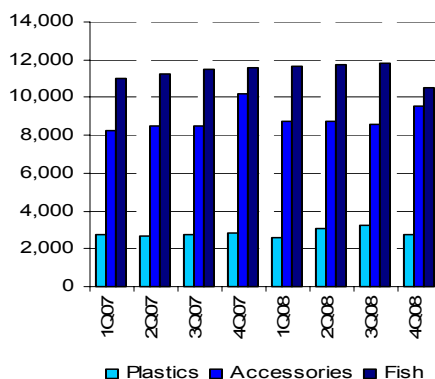
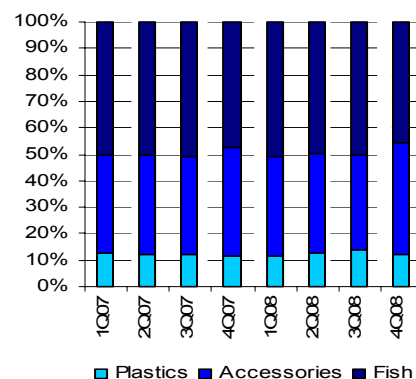


Exhibit 2. Revenue breakdown by %



Source: Company, Phillip Securities Research

Profit margins. Margins are markedly better in 4Q08. Both gross profit margin and net profit margin improve on a QoQ and YoY basis. QH's strategy is on brand building and it is selective on its product mix. We note the improving trend of net margin from the three-year period of FY06 to FY08 from exhibit 4, even though gross margin was relatively flat, net margin improves from 5.1% to 8.0%.

Exhibit 3. Profit margins QoQ

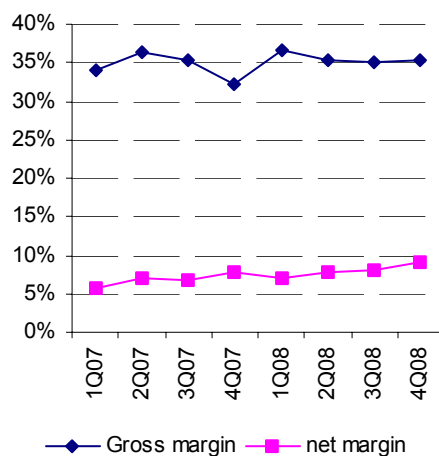
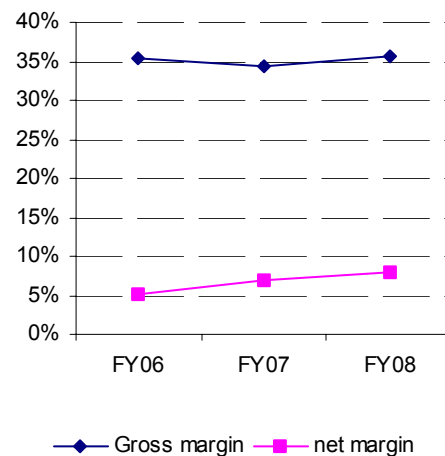


Exhibit 4. Profit margins YoY



Source: Company, Phillip Securities Research

Geographical analysis. Growth rates in the different geographical regions were mostly slower except for Other Asian countries, affected by earlier mentioned reasons. On absolute terms, Others region showed slight improvement. We believe there will be continued growth as QH continues to expand its export market.

Exhibit 5. Geographical breakdown

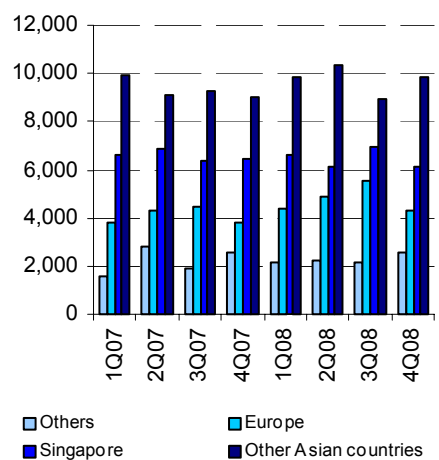
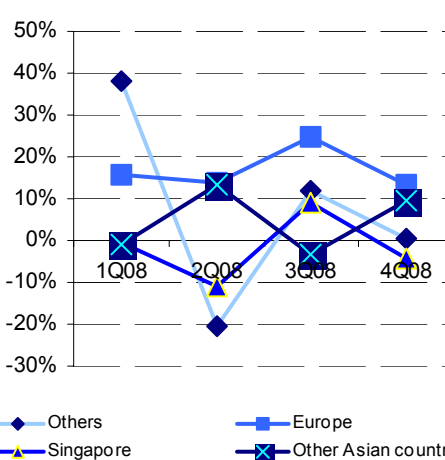


Exhibit 6. YoY growth



Source: Company, Phillip Securities Research

Future plans. QH will still be working on its long-term plan of achieving equal revenue contribution from its ornamental fish division and accessories division. Currently QH exports fish to over eighty countries while exporting accessories to thirty countries. Management has also stated a target of achieving net profit margin of 10%. QH has recently set up an integrated research department to look into all aspect of product research. The collaboration with Temasek Life Sciences Laboratory is into the second phase now focusing on raising the productivity of dragon fish.

While QH is consciously managing its cost structure and enhancing its profitability, it has caution on rising personnel cost.

Valuation and recommendation. We make no change to our projections at the moment and maintain a positive outlook on the company. Our DCF derived fair value estimation remains at \$0.15, which translates to 11x FY08 earnings and 1x book value.

Exhibit 7. DCF Parameters

Risk free rate	3.0%
Risk premium	11.0%
Beta	0.61
Cost of Equity	11.0%
Terminal growth	0%

Source: Phillip Securities Research estimates

Exhibit 8. Key Financial Data

Key Financial Data (Financial Year Ended 31 Dec)	FY07	FY08	%ch	FY09F	FY10F	FY11F
Revenue (S\$m)	91.7	93.1	1.46%	98.2	101.2	103.8
EBITDA (S\$m)	11.0	12.5	14.07%	12.0	12.8	12.9
EBIT (S\$m)	8.7	10.1	15.67%	9.2	9.6	10.1
Net profit attributable to shareholder (S\$m)	4.9	6.0	22.13%	5.3	5.6	5.9
Gross profit margin (%)	34.39%	35.54%	1.14%	34.05%	34.35%	34.70%
Net profit margin (%)	6.89%	7.95%	1.07%	6.84%	6.99%	7.21%
Basic EPS (cents)	1.34	1.46	8.96%	1.28	1.34	1.42
Diluted EPS (cents)	1.23	1.36	10.57%	1.19	1.25	1.33
NAV per share (cents)	13.51	15.11	11.84%	16.77	18.42	20.16

Source: Company, Phillip Securities Research estimates

Financials

Profit model (\$mil)	2007	2008F	2009F	2010F
Revenue	91.7	95.5	98.2	101.2
COGS	(60.2)	(62.0)	(64.8)	(66.4)
Gross Profit	31.5	33.5	33.5	34.8
Other operating income	0.2	0.2	0.2	0.2
Selling & Distribution expenses	(2.8)	(3.0)	(3.1)	(3.2)
General & administrative	(20.2)	(21.0)	(21.4)	(22.2)
Financial income	0.0	0.0	0.0	0.0
Financial expenses	(0.8)	(0.9)	(0.9)	(0.8)
Profit before tax	7.9	8.9	8.3	8.8
share of profit/(loss) from associates	0.0	0.1	0.1	0.1
tax expenses	(1.6)	(1.8)	(1.7)	(1.8)
net profit	6.3	7.1	6.7	7.1
Attributable to shareholders	4.9	5.6	5.3	5.6
Attributable to minority interest	1.4	1.5	1.4	1.5

EPS basic (Cents)	3.84	1.36	1.28	1.34
EPS diluted (Cents)	1.34	1.26	1.19	1.25

Growth & margins (%)	2007	2008F	2009F	2010F
Revenue growth	20.5%	4.1%	2.9%	3.0%
Gross profit growth	20.5%	4.1%	2.9%	3.0%
Net profit growth	89.1%	13.8%	-5.8%	5.4%
Gross profit margin	34.4%	35.0%	34.0%	34.4%
Net Profit margins	5.4%	5.9%	5.4%	5.5%
ROA	8.1%	8.3%	7.4%	7.2%
ROE	8.9%	9.0%	7.6%	7.3%

Cash flow statement (\$mil)	2007	2008F	2009F	2010F
Profit before tax	7.9	9.0	8.4	8.9
adj for				
Depreciation and amortisation	2.2	2.6	2.8	3.2
Others	0.8	0.0	0.0	0.0
Share of profit of associates	(0.0)	(0.1)	(0.1)	(0.1)
Interest income	(0.0)	(0.0)	(0.0)	(0.0)
Finance expenses	0.8	0.9	0.9	0.8
Operating cash flow before WC changes	11.8	12.4	12.0	12.8
WC changes	(3.1)	(3.1)	(2.4)	(2.8)
Net cash flow from operating activities	8.7	9.3	9.5	10.0
Capex	(9.7)	(7.9)	(6.4)	(4.2)
Interest received	0.0	0.0	0.0	0.0
Others	0.1	0.0	0.0	0.0
Net cash flow from investing activities	(9.6)	(7.8)	(6.4)	(4.1)
Net increase/(decrease) in bank term loans	1.7	(0.3)	(0.3)	(0.3)
Net increase/(decrease) in finance lease	(0.2)	(0.2)	(0.2)	(0.2)
payment of dividends	(0.6)	0.0	0.0	0.0
Interest paid	(0.8)	(0.9)	(0.9)	(0.8)
Others	0.9	0.0	0.0	0.0
Net cash flow from financing activities	0.9	(1.3)	(1.3)	(1.3)
Net Increase/decrease in cash	(0.0)	0.2	1.8	4.6

Balance sheet (\$mil)	2007	2008F	2009F	2010F
PPE	12.4	13.6	12.4	10.8
Brooder stocks	21.4	25.4	30.3	32.9
investment in associate	0.8	0.9	1.0	1.1
Intangibles assets	2.1	2.1	2.1	2.1
total non current assets	36.8	42.1	45.8	46.8
Current assets				
Inventories	22.0	22.9	23.6	24.3
Breeder stocks	1.4	1.4	1.4	1.4
Trade and other receivables	19.4	20.2	20.8	21.5
Due from fixed deposits	0.0	0.0	0.0	0.0
Due from associate	1.7	1.7	1.7	1.7
Cash and bank balances	7.5	7.7	9.5	14.0
total current assets	52.0	53.9	57.0	62.9
Trade and other payables	17.1	17.5	18.1	18.4
Due to minority shareholders	0.9	0.9	0.9	0.9
Finance lease obligations	0.2	0.2	0.2	0.0
Bank term loans	7.4	7.4	7.4	7.4
Provision for taxation	0.8	0.9	0.8	0.9
Bank overdraft	2.1	2.1	2.1	2.1
total current liabilities	28.4	28.8	29.3	29.6
Finance lease obligations	0.3	0.2	0.0	0.0
Bank term loan	1.5	1.2	0.9	0.6
Deferred tax	2.9	2.9	2.9	2.9
total non current liabilities	4.8	4.3	3.8	3.5
Total equity	55.6	62.8	69.5	76.6

Key Ratios	2007	2008F	2009F	2010F
Gross Gearing	0.18	0.16	0.15	0.14
Net Gearing	0.10	0.08	0.06	0.01
Interest Coverage	10.39	11.30	10.70	11.55
Debt-equity ratio	0.60	0.53	0.48	0.43
Current ratio	1.83	1.87	1.94	2.13
Cash ratio	0.26	0.27	0.32	0.48
Receivables turnover	1.37	1.33	1.32	1.32
Inventory turnover	2.73	2.71	2.75	2.74
Payables turnover	2.25	2.08	2.09	2.07

Valuation	2007	2008F	2009F	2010F
P/E basic (X)	7.09	6.97	7.42	7.07
P/B (X)	0.70	0.62	0.57	0.52

Source: Company, Phillip Securities Research

Ratings History

Qian Hu Corporation Limited

Rating	Date	Closing price (S\$)	Fair value (S\$)	Remarks
BUY	15 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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	HOLD	Trade within \pm 15% from the current price
	SELL	>15% downside from the current price
	We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation	

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