

Qian Hu Corporation Ltd – Results

Phillip Securities Research Pte Ltd

21 July 2010

Market Singapore Stock Exchange
Sector Livestock
Reuters QIAN SI
Bloomberg QIAN SP

Buy
(Unchanged)

Closing Price
S\$0.13
Target Price
S\$0.17 (+30.7%)

Price
Last Price **0.130**
52w k High (11/24/2009) 0.18
52w k Low (5/25/2010) 0.12
Shares Outstanding (mil) 449.3867
Market Cap (S\$ mil) 58.42
Avg. Daily Turnover (mil) 0.02
Free float (%) 53.14
PE (X) 9.49
PB (X) 0.95

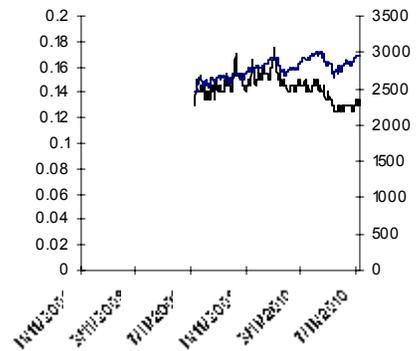
- 2Q10 revenue \$22.7 million (-4.1% y-y, -2.2% q-q)
- 2Q10 net profit attributable to shareholder \$0.95 million (-42.9% y-y, -32.7% q-q)
- Lowered FY10E revenue by 1.3% and EPS by 18.4%
- Maintained Buy, fair value pegged to FY10E book value of \$0.17

2Q10 was a deviation from the normal business trend of Qianhu. In the past year, Qianhu business remained resilient in the face of recession. Management cited the quadruple whammies of the European airports shutdown, World Cup drawing people's attention away from ornamental fish purchase, riots in Bangkok affected accessories sale, and the drought experienced in Malaysia that affected production of the dragon fish.

Product segments analysis. Revenue from ornamental fish was \$11.3 million (-5.6% y-y, -8.2% q-q) and contributed 50% to total revenue. Accessories sales was \$8.6 million (-6.3% y-y, +6.3% q-q) and contribution increased to 38%. The plastic business was stable with revenue of \$2.8 million (+10.4% y-y, 0.0% q-q) and accounted for 12% of total revenue. Long term plan is still to have equal contributions from both the fish and accessories segments.

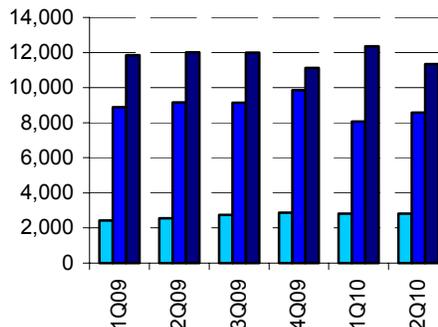
Price performance %

	1M	3M	6M
Absolute	0.0%	-10.3%	-16.1%
Relative	-4.1%	-9.2%	-18.0%



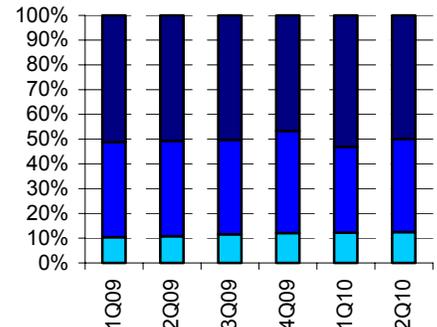
Major Shareholders	%
1 Qian Hu Holdings	24.26

Fig 1. Quarterly breakdown by segment (S\$'000)



■ Plastics ■ Accessories ■ Fish

Fig 2. Percentage contribution



■ Plastics ■ Accessories ■ Fish

Source: Company, Phillip Securities Research

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Conso' Ending	Profits (SG\$m)	EPS SG cents	DPS SG cents	BV (SG\$)	ROE (%)	P/E (X)	Yield (%)	P/BV (x)
12/07 A	4.95	1.34	0.00	0.14	11.4	9.70	65.7%	0.96
12/08 A	6.04	1.46	0.00	0.15	11.8	8.90	1.5%	0.86
12/09 A	6.54	1.34	0.00	0.16	11.0	8.33	3.8%	0.79
12/10 E	5.77	1.34	0.00	0.17	9.1	9.67	3.1%	0.75
12/11 E	6.79	1.49	0.00	0.18	9.7	8.71	3.4%	0.73

Profit margins. Profit margins continue to slide in 2Q10. Gross profit margin was 30.6% while net profit margin was 4.0%. Profitability margin of the fish segment fell from a high of 20% in 4Q09 to 7% IN 2Q10. As cautioned by management during the 1Q10 results release, a severe drought had caused lower production of the dragon fish which will affect sales into the second quarter. Profit margins for the accessories and plastic segments remained stable. As the fish segment contributes 50% of total revenue, the lower profitability has affected the overall gross and net profit margins.

Fig 3. Gross, Net profit margins

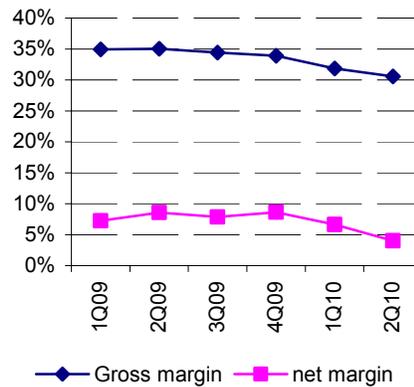
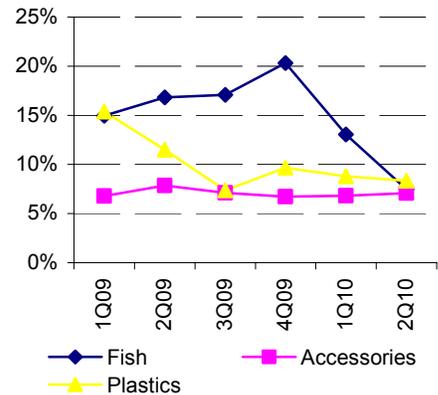


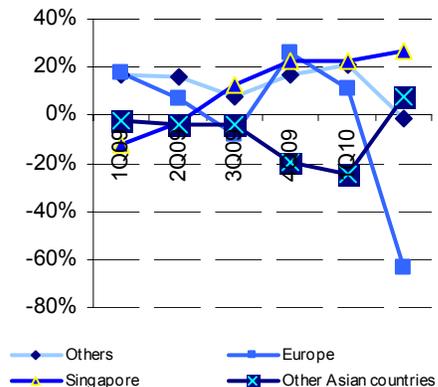
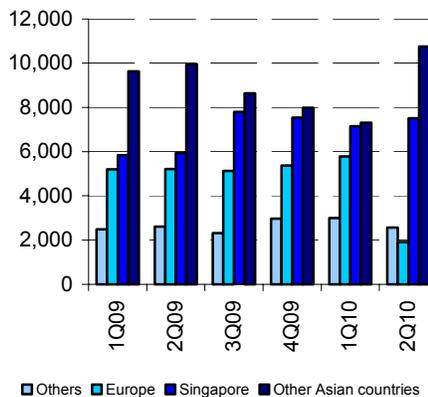
Fig 4. Profitability margins



Source: Company, Phillip Securities Research

Geographical analysis. Other Asian countries made good growth in 2Q10, however the opposite is true for the Europe region. Europe sales dropped 63% from a year ago to just \$1.9 million. As cited above, the European airports shutdown had affected exports to the Europe region.

Fig 5. Revenue breakdown by regions (S\$'000) Fig 6. Y-Y growth



Source: Company, Phillip Securities Research

2Q10 was an exceptional quarter that had caused a dent to this year's earnings trend. However we should see things normalizing in 3Q10 and 4Q10, given that such events are one-off and not expected to recur. The self-bred dragon fish should lift margins from 3Q10. We are now more wary of external shocks that could throw things haphazard. We lowered our FY10E revenue slightly by 1.3% to \$96.4 million and earnings per share by 18.4% to 1.34 cents. We continue to peg our fair value to FY10E book value, however we have lowered our fair value slightly from \$0.18 to \$0.17.

Financials

Profit model (\$ mil)	2007	2008	2009	2010E	2011E
Revenue	917	93.1	94.6	96.4	99.5
COGS	(60.2)	(60.0)	(61.9)	(64.9)	(66.0)
Gross Profit	315	33.1	32.7	315	33.4
Other operating income	0.2	0.2	0.1	0.1	0.1
Selling & Distribution expenses	(2.8)	(2.7)	(1.8)	(1.7)	(1.8)
General & administrative	(20.2)	(20.4)	(20.9)	(21.0)	(21.5)
Financial income	0.0	0.0	0.0	0.0	0.0
Financial expenses	(0.8)	(0.9)	(0.7)	(0.6)	(0.6)
Profit before tax	7.9	9.2	9.5	8.2	9.7
share of profit/(loss) from associates	0.0	(0.0)	(0.0)	0.1	0.1
tax expenses	(1.6)	(1.8)	(1.8)	(1.6)	(1.8)
net profit	6.3	7.4	7.6	6.7	7.9
Attributable to shareholders	4.9	6.0	6.5	5.8	6.8
Attributable to minority interest	1.4	1.4	1.1	0.9	1.1

Growth & margins (%)	2007	2008	2009	2010E	2011E
Revenue growth	20.5%	15%	17%	19%	3.2%
Gross profit growth	20.5%	15%	17%	19%	3.2%
Net profit growth	89.1%	22.1%	8.3%	-11.8%	17.7%
Gross profit margin	34.4%	35.5%	34.6%	32.6%	33.6%
Net Profit margins	5.4%	6.5%	6.9%	6.0%	6.8%
ROA	8.1%	8.2%	8.0%	6.8%	7.4%
ROE	11.4%	11.8%	11.0%	9.1%	9.7%

Cash flow statement (\$ mil)	2007	2008	2009	2010E	2011E
Profit before tax	7.9	9.2	9.4	8.3	9.7
adj for					
Depreciation and amortisation	2.2	2.4	2.6	3.5	2.9
Others	0.8	0.4	0.5	0.0	0.0
Share of profit of associates	(0.0)	0.0	0.0	(0.1)	(0.1)
Interest income	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Finance expenses	0.8	0.9	0.7	0.6	0.6
Operating cash flow before WC changes	11.8	12.9	13.3	12.3	13.2
WC changes	(3.1)	(3.1)	(1.1)	(2.9)	(2.9)
Net cash flow from operating activities	8.7	9.8	12.2	9.4	10.3
Capex	(9.7)	(10.9)	(7.2)	(5.9)	(6.8)
Interest received	0.0	0.0	0.0	0.0	0.0
Others	0.1	0.1	0.1	0.0	0.0
Net cash flow from investing activities	(9.6)	(10.8)	(7.2)	(5.9)	(6.8)
Net increase/(decrease) in bank term lo:	1.7	3.5	(0.2)	(0.3)	(0.4)
Net increase/(decrease) in finance lease	(0.2)	(0.3)	(0.2)	(0.5)	0.0
payment of dividends	(0.6)	0.0	(0.8)	(2.1)	(1.7)
Interest paid	(0.8)	(0.9)	(0.7)	(0.6)	(0.6)
Others	0.9	(0.1)	0.0	0.2	0.9
Net cash flow from financing activities	0.9	2.2	(1.9)	(3.3)	(1.8)
Net Increase/decrease in cash	(0.0)	1.2	3.1	0.2	1.7
cash at beginning	7.5	7.0	6.7	9.8	10.1
effects of exchange rate changes	0.0	0.0	0.0	0.0	0.0
cash at end	7.5	8.3	9.8	10.1	11.7

Source: Company, Phillip Securities Research

Balance sheet (\$ mil)	2007	2008	2009	2010E	2011E
PPE	12.4	14.6	15.9	14.2	13.2
Brooder stocks	21.4	26.7	30.3	34.5	39.3
investment in associate	0.8	0.8	1.2	1.2	1.3
Intangibles assets	2.1	2.2	2.3	2.3	2.3
total non current assets	36.8	44.4	49.7	52.2	56.1
Current assets					
Inventories	22.0	22.4	21.0	21.9	22.6
Breeder stocks	1.4	1.6	1.5	1.5	1.5
Trade and other receivables	19.4	23.3	20.4	21.1	21.8
Due from fixed deposits	0.0	0.0	0.0	0.0	0.0
Due from associate	1.7	1.4	1.3	1.3	1.3
Cash and bank balances	7.5	8.3	9.8	10.1	11.7
total current assets	52.0	57.1	54.0	56.0	59.0
Total assets	88.8	100.5	103.8	108.2	115.1
Trade and other payables	17.1	18.5	16.7	17.3	17.5
Due to minority shareholders	0.9	0.1	0.0	0.0	0.0
Finance lease obligations	0.2	0.2	0.2	0.0	0.0
Bank term loans	7.4	10.3	10.3	10.3	10.2
Provision for taxation	0.8	1.1	1.3	1.0	1.2
Bank overdraft	2.1	1.6	0.0	0.0	0.0
total current liabilities	28.4	31.8	28.4	28.6	28.9
Finance lease obligations	0.3	0.4	0.3	0.0	0.0
Bank term loan	1.5	2.1	1.7	1.4	1.0
Deferred tax	2.9	3.6	4.1	4.1	4.1
total non current liabilities	4.8	6.0	6.1	5.5	5.1
Total liabilities	33.2	37.8	34.5	34.1	34.0
Total equity	55.6	62.7	69.2	74.1	81.1
Total liabilities and equity	88.8	100.5	103.8	108.2	115.1

Per share data	2007	2008	2009	2010E	2011E
EPS basic (Cents)	134	146	156	134	149
EPS diluted (Cents)	123	136	148	130	153
NAV/shr	0.14	0.15	0.16	0.17	0.18
Dividend (cents)	8.54	0.2	0.5	0.40	0.45

Key Ratios	2007	2008	2009	2010E	2011E
Gross Gearing	0.18	0.18	0.16	0.15	0.13
Net Gearing	0.10	0.10	0.06	0.06	0.03
Interest Coverage	10.39	11.52	14.75	14.53	18.03
Debt-equity ratio	0.60	0.60	0.50	0.46	0.42
Current ratio	1.83	1.77	1.90	1.96	2.04
Cash ratio	0.26	0.26	0.35	0.35	0.41
Receivables turnover days	67	75	75	69	69
Inventory turnover days	133	135	128	120	123
Payables turnover days	41	50	50	44	45

Valuation	2007	2008	2009	2010E	2011E
P/E basic (X)	9.70	8.90	8.33	9.67	8.71
P/B (X)	0.96	0.86	0.79	0.75	0.73
Dividend yield (%)	65.7%	15%	3.8%	3.1%	3.4%

Ratings History

Qian Hu Corporation Ltd

Rating	Date	Closing price (S\$)	Fair value (S\$)	Remarks
BUY	21 July 2010	0.13	0.17	2QFY10 results
BUY	20 April 2010	0.15	0.18	1QFY10 results
BUY	29 March 2010	0.14	0.18	Update
HOLD	13 January 2010	0.175	0.18	FY2009 results
HOLD	20 October 2009	0.170	0.17	3QFY09 results
BUY	22 July 2009	0.135	0.17	1HFY09 results
BUY	14 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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	BUY	>15% upside from the current price
	HOLD	-10% to 15% from the current price
	SELL	>10% downside from the current price
	TRADING SELL	Share price may exceed 10% on the downside over the next 3 months, however longer-term outlook remains uncertain
	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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