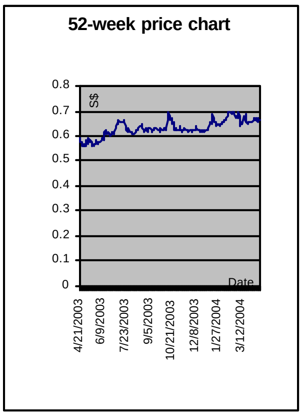
Recommendation:
BUY

Price (19/04/04)
S$0.655

Share Statistics

Shares	127.8m
Market Cap.	S$83.7m
Trailing PER	12.1X
Forward PER	10.3X
P/NTA	2.0X
52-week Price Range	S$0.56 – S$0.70
52-week PER Range	10.3x – 13.0x
Listing Bourse	Mainboard
Substantial Shareholders	Yap Family (52.0%)

Source: Bloomberg; Phillip Securities Research



Source: Bloomberg

Company Profile
Qian Hu engages primarily in the import, export and distribution of ornamental fish, the breeding of Dragon Fish, as well as the manufacturing and distribution of aquarium and pet accessories.

Phillip Securities Research

Wang Hoi Min
☎ 65-6531 1245
FAX 65-6536 4435
✉ wanghm@phillip.com.sg

Previous call: BUY on 13 January 2004 at S$0.69

Qian Hu Corporation Ltd

A Temporary Setback

Sales in 1Q04 increased by only 1.9%, from S$15.9m to S$16.2m. This was mainly attributable to lower domestic sales as a result of stiff competition and industry consolidation. Sales of both ornamental fish and accessories in Singapore dropped by SS1.0m and S$0.7m respectively. This was however, offset by higher sales in its overseas subsidiaries and the export market. Net profit of the group tumbled from S$1.3m to S$1.2m, mainly due to lower profit margin of the accessories division. Keen competition, coupled with production disruption in its plants in Guangzhou, caused the profit margin of this division to reduce from 18.1% to 9.2%. The lackluster performance of this division was partially offset by better profit margin brought in by the ornamental fish division, as the Group sold more Dragon Fish subsequent to the acquisition of Kim Kang.

We maintain our FY04 and FY05 sales and earnings forecasts for Qian Hu. Based on forward PER of 12x and estimated FY04 diluted EPS of S$0.064, we peg the fair value at S$0.76. We thus maintain our BUY recommendation.

1. Key Financial Data

(Financial Year Ended 31 December)

	1Q03	1Q04	%ch	FY03	FY04F	FY05F
Turnover (S$ m)	15.9	16.2	1.9	67.7	77.6	88.1
EBITDA (S$ m)	2.1	3.5	68.0	11.5	12.5	13.7
EBIT (S$ m)	1.7	1.6	(9.4)	9.8	10.3	11.5
Net Profit (S$ m)	1.3	1.2	(8.8)	7.0	8.5	9.6
Net Profit Margin (%)	8.2	7.3	(10.5)	10.4	10.9	10.9
ROE (%)	17.9*	12.7*	(29.1)	19.2	19.0	17.9
Earnings per Share (cents)	1.0	0.9	(8.8)	5.5	6.6	7.5
Diluted Earnings per Share (cents)	1.0	0.9	(8.8)	5.3	6.4	7.2
NTA per Share (cents)	22.7	32.3	42.4	31.2	37.4	44.4

Source: Company; Phillip Securities Research
**Based on annualised basis*

2. 1Q04 Financial Results

- **Sales were rather flat**

Revenue in 1Q04 increased marginally, from S$15.9m to S$16.2m. Lower sales in one market/division were being offset by better results in another market/division:

Lower local sales being offset by higher overseas sales.

First, lower local sales were being offset by higher overseas sales. Prior to 2003, increasing popularity of Flower Horns has attracted a lot of players into the industry. This has caused the competition in this industry became stiffer, and starting from 2H 2003, some players have exited the industry. As the industry is undergoing consolidation, Qian Hu is losing some of its local customers. Sales in Singapore dropped by 21.7% in 1Q04, compared to the corresponding period. Sales of its overseas subsidiaries, as well as export sales, however, improved significantly. Sales to other countries in South East Asia, Europe and other countries grew by 24.9%, 29.4% and 18.4% respectively. Local sales now accounted for only 38% of the Group sales, compared to 49% in 1Q03.

Higher ornamental fish sales mainly contributed by Kim Kang.

Second, higher sales from the ornamental fish division offset the lacklustre performance of the accessories division. Ornamental fish sales increased by 13.7%, from S$6.3m to S$7.2m, mainly due to contribution from Kim Kang, a subsidiary that was acquired in 2H03. This was, however, partially offset by lower fish sales in Singapore. On the other hand, accessories sales were lowered by 6.8%, from S$8.0m to S$7.5m, mainly due to lower demand in the domestic market.

- **Drop in profitability**

Profit margin of the ornamental fish division improved substantially while the profit margin of the accessories division dropped.

As Qian Hu acquired Kim Kang, the third largest exporter of Arowana in Malaysia, sales of this higher margin fish increased and this has positive impact on the bottom line of the Group. Operating profit of the ornamental fish division increased from S$0.6m to S$1.0m, representing a 59.6% growth. Profit margin, hence, improved from 9.9% to 14.2%. This was however, more than offset by lower profit of the accessories division. This division had a double whammy in 1Q04: 1) Due to the keen competition in Singapore, Qian Hu were having more promotions in 1Q04 and this has eroded the profit margins; 2) the relocation of the factory in Guanzhou has caused some disruption in the production and thus both the sales and profitability were affected. The operation in Guanzhou incurred losses in the first two months of the year and only returned to profitability in March. Hence, profit margin of the accessories division shed from 18.1% to 9.2%.

Dropped in the net profit margin.

Mainly due to the losses in the Guangzhou plant and lower selling prices of the accessories, gross profit margin of the Group dropped from 36.7% to 34.5%. The management has put in a lot of effort in containing the operating costs. Operating expenses dropped by 1.9%, and this has cushioned the fall in the gross margins. Net profit margin of the Group dropped from 8.2% to 7.2%

- **Cash flow remained healthy**

Positive operating cash flow and undemanding gearing ratio.

The cash flow statement of the group remained healthy with the operating activities generating positive cash flow of S$0.5m. Gross gearing ratio remained low at 0.1x. Compared to December 2003, trade debtor turnover days dropped from 69 days to 66 days but inventory turnover increased from 125 days to 129 days, as Qian Hu stock up inventory for retail outlets that are slated to open in 2Q.

3. Outlook

Retail operation would be the wild card.

As the local industry is still undergoing consolidation, Qian Hu will see more customers leaving the industry this year. This will affect the sales and bottom line negatively. However, we believe that poorer results in the domestic market will be more than offset by better overseas sales. Subsidiaries in Malaysia, Thailand and China could contribute positively to the group. Furthermore, factory in Guanzhou is operating at 80% utilization rate now and was already profitable in March. We believe that the wild card comes from the retail operation. The success or failure of the retail operation will affect the profit margin of the Group this year. Qian Hu has thus far opened two retail outlets in Shanghai during end of March and beginning of April. Another 4 outlets are slated to open in 2Q04. The start-up costs of these retail outlets may affect the profit margin negatively in the short-term.

4. Recommendation

Maintain BUY.

We maintain our FY04 and FY05 sales and earnings forecasts for Qian Hu. Based on forward PER of 12x and estimated FY04 diluted EPS of S$0.064, we peg a fair value of S$0.76 on Qian Hu. We thus maintain our BUY recommendation.

Signed

Phillip Research Stock Selection System

BUY	>15% upside from the current price
HOLD	Trade within ± 15% from the current price
SELL	>15% downside from the current price

Note: With effect from 1st April 2004, we have streamlined our stock selection system to three primary recommendations of Buy, Hold and Sell. In the previous stock selection system, "SELL" was defined as >35% downside from the current price. We have also removed our "Strong Buy" & "Take Profit" recommendations.

GENERAL DISCLAIMER

The addressee of this publication, as identified by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), agrees to be bound by the terms and limitations set out below (the "designated recipient"). If you have received this publication and are not a designated recipient as defined above, then in addition and without prejudice to the following, Phillip Securities Research shall not owe any duty of care to you.

This publication is confidential and is only available to and intended for the reference of designated recipients and shall not be reproduced in whole or in part, distributed or published by such designated recipient for any purpose. Phillip Securities Research shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities Research has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities Research has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication are subject to change, and Phillip Securities Research shall not have any responsibility to maintain the data and services made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities Research be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the data or services made available, even if it has been advised of the possibility of such damages.

Non-applicability of Section 27 of the Financial Advisers Act (Act 43 of 2001) and the MAS Notice on Recommendations on Investment Products

Section 27 of the Financial Advisers Act (Act 43 of 2001) and the MAS Notice on Recommendations on Investment Products of 1 October 2002 do not apply in respect of this publication.

This material has been prepared for informational purposes only, and opinions contained in this publication have been made on a general basis. In the preparation of this publication, no consideration has been given to any particular individual or specific investment objectives, financial situations or other circumstances. As such, this publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Statement Pursuant to Section 36 of the Financial Advisers Act. Phillip Securities Research Pte Ltd and its directors and employees may have interest in the securities recommended herein from time to time, and its associates and connected persons may also have positions from time to time. Opinions and views expressed in this report are subject to change without notice.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation which would subject Phillip Securities Research to any registration or licensing requirement or penalty for contravention of such requirements within such jurisdiction.