1QFY15 RESULTS UPDATE **28 April 2015**

Zhulian Corporation Berhad

Price :	RM2.05
Market Capitalization :	RM943.0 mln
Market :	Main Market
Sector :	Consumer Product
Recommendation :	Hold

Bursa / Bloomberg Code: 5131 / ZHCB MK
Stock is Shariah-compliant

Zhulian: 1QFY15 results

FYE Nov		Quarter-on-Quarter		Year-on-Year	
(RM mln)	1QFY15	4QFY14	% chg	1QFY14	% chg
Turnover	55.2	54.7	0.9%	66.2	-16.5%
Operating profit	10.3	9.1	12.6%	13.4	-23.5%
Interest cost	-	-		-	
Share of assc profit	7.0	3.9	80.9%	7.0	-0.2%
Pre-tax profit	17.2	13.0	32.9%	20.4	-15.6%
Tax	(4.7)	(1.7)		(3.2)	
Net profit	12.6	11.3	11.1%	17.2	-26.9%
EPS (sen) - basic	2.7	2.5	11.1%	3.7	-26.9%
Op profit margin	18.6%	16.7%		20.3%	
Pre-tax margin	31.2%	23.7%		30.8%	
Net profit margin	22.7%	20.7%		26.0%	
Net assets (RM)	1.06				

1QFY15 Results Review

- Zhulian's RM12.6 mln net profit in 1QFY15 was 26.9% down y-o-y but up 11.1% q-o-q. While the achievement is nothing to shout about, we note that this is nonetheless the 3rd consecutive quarter of higher net earnings after the Group hit record low quarterly net profit of RM8.4 mln in 2QFY14. We consider the performance broadly in line with our expectation for RM56.3 mln in FY15 as we anticipate gradual earnings recovery in the coming quarters.

- Continued weak demand in the domestic market had resulted in the y-o-y decline of 1QFY15 revenue and net profit. The Group cited factors such as intensified competitions, higher utility costs, declining purchasing powers and uncertainties over the impacts from GST as the culprits for the lackluster performance. On a lighter note, contribution from its associate in Thailand was relatively stable at RM7.0 mln in these 2 comparison periods.

- Sequentially, a slight uptick in its overseas sales pushed turnover higher marginally by 0.9%. Meanwhile, the larger-than-proportionate rise in net profit (+11.1% q-o-q) was chiefly due to higher profit contribution from its Thai associate. The earnings would have been higher if not for the high effective tax rate (some 45%) for the quarter under review, which the management attributed to higher tax rate incurred on its foreign income.

- On balance sheet strength, Zhulian's net cash/share and BV/share stood at 23 sen and RM1.06 respectively as at end-Feb 2015. It also generated some RM18 mln net cash in 1QYF15 from its operations, vs. RM22.2 mln a year ago.

- The Board declared a lower-than-expected dividend of 1.5 sen for 1QFY15. This is in contrast to the 2.0 sen declared in 4QFY14, and pales further by comparison the 3.0 sen quarterly dividend it used to dish out prior to 3QFY14. Should the trend continue, the annualized 6.0 sen dividend would translate into a mere 3% yield only vs. its track record of 5%-6% yield in the past.

- Looking ahead, we are holding on to our expectation for a gradual recovery in sales both in Malaysia and in Thailand. Locally, the management acknowledged the issue with the falling sales and has embarked on several initiatives to reverse the trend. These measures include initiating new programs to attract younger distributors, intensifying marketing and promotional activities, and introducing new products (e.g. cookware, jewelry, nutrition supplements etc.). Nevertheless, we reckon the domestic recovery would take longer time given the shrinking purchasing power following the implementation of GST effective 1 April 2015.

- The Group may likely fare better in boosting its sales from the Thai market. Thailand's ruling junta had lifted martial law effective from 1 April 2015 after 10 months, and this may spur business activities in the country. Zhulian's associate in Thailand has completed the construction of a new warehouse in Korat and has since commenced operations in September 2014. This distribution centre is used to serve the northern and eastern parts of Thailand. There is also possibly the new contribution from Zhulian's foray into Myanmar since late last year. Against this backdrop, we maintain our present net profit estimate of RM56.3 mln for FY15.

Recommendation

We maintain our **Hold** recommendation on Zhulian with unchanged fair value of **RM2.05** (unchanged) by pegging a target PER of 14x against FY16 earnings. We believe the worst is over for the Group barring any major unforeseen circumstances, though we reckon it would take some time for its financial performance to bounce back. And until then, investors are likely to watch the stock from the side line, in our opinion.

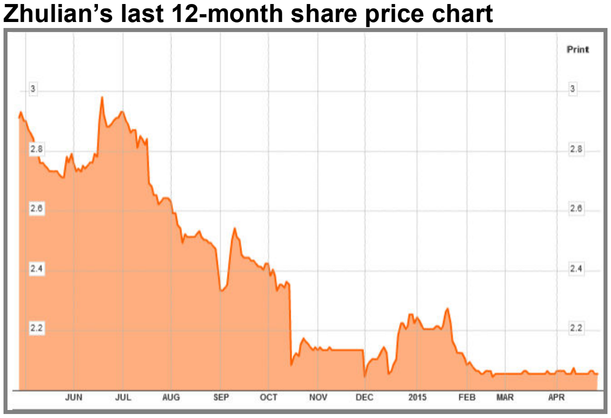
Per Share Data

FYE Nov	FY13	FY14	FY15e
Book Value (RM)	1.10	1.05	1.11
Cash Flow (sen)	28.4	12.6	12.2
Earnings (sen)	26.3	10.2	12.2
Net Dividend (sen)	16.0	10.0	6.0
Payout Ratio (%)	60.8%	97.6%	49.0%
PER (x)	7.8	20.0	16.8
P/Cash Flow (x)	7.2	16.3	16.8
P/Book Value (x)	1.9	2.0	1.8
Dividend Yield (%)	7.8%	4.9%	2.9%
ROE (%)	23.9%	9.8%	11.0%

P&L Summary

FYE Nov (RM mln)	FY13	FY14	FY15e	FY16f
Revenue	417.1	243.7	278.5	327.6
Operating profit	94.4	33.3	39.3	49.1
Net Int Exp	-	-	-	-
Share of assc profit	50.9	24.6	28.0	32.0
Pre-tax Profit	145.3	57.9	67.3	81.1
Eff. Tax Rate	25.8%	32.5%	28.0%	28.0%
Net Profit	121.0	47.1	56.3	67.4
Op. Profit Margin (%)	22.6%	13.6%	14.1%	15.0%
Pre-tax Margin (%)	34.8%	23.8%	24.2%	24.8%
Net Margin (%)	29.0%	19.3%	20.2%	20.6%

Zhulian's last 12-month share price chart



Source: Bloomberg

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RATING GUIDE

BUY	Price appreciation expected to exceed 10% within the next 12 months
SELL	Price depreciation expected to exceed 10% within the next 12 months
HOLD	Price movement expected to be between -10% and +10% over the next 12 months from current level

DISCLAIMER

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