

4QFY14 RESULTS UPDATE

05 February 2015

# Zhulian Corporation Berhad

Price : RM2.10

Market Capitalization : RM966.0 mln

Market : Main Market

Sector : Consumer Product

Recommendation : Hold

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

## Zhulian: 4QFY14 results

FYE Nov (RM mln)	Quarter-on-Quarter			Year-on-Year		Year to date		
	4QFY14	3QFY14	% chg	4QFY13	% chg	FY14	FY13	% chg
Turnover	54.7	57.2	-4.3%	78.0	-29.8%	243.7	417.1	-41.6%
Operating profit	9.1	6.3	44.5%	15.1	-39.8%	33.3	94.4	-64.8%
Interest cost	-	-		-		-	-	
Share of assc profit	3.9	6.5	-41.2%	3.7	4.5%	24.6	50.9	-51.6%
Pre-tax profit	13.0	12.9	0.8%	18.8	-31.1%	57.9	145.3	-60.2%
Tax	(1.7)	(2.5)		(5.1)		(10.8)	(24.3)	
Net profit	11.3	10.4	8.9%	13.7	-17.7%	47.1	121.0	-61.1%
EPS (sen) - basic	2.5	2.3	8.9%	3.0	-17.7%	10.2	26.3	-61.1%
Op profit margin	16.7%	11.0%		19.4%		13.6%	22.6%	
Pre-tax margin	23.7%	22.5%		24.1%		23.8%	34.8%	
Net profit margin	20.7%	18.1%		17.6%		19.3%	29.0%	
Net assets (RM)	1.06							

## 4QFY14 Results Review

- Signs of recovery remained absent in Zhulian's 4QFY14 results, with net profit declining 17.7% y-o-y to RM13.7 mln. Full year FY14 net profit of RM47.1 mln, while within our expectations, was down a significant 61.1% y-o-y.
- FY14 revenue was 41.6% lower y-o-y on sustained weak sales performance both locally and overseas. For domestic market, tight consumer spending along with intense competition continued to hamper the sales activities of Zhulian's distributors. As for Thailand, which is the Group's largest overseas market, there were also no signs of rebound in sales despite the absence of street protests following the takeover by military junta in May 2014. The resultant of these unfavourable operating environments was a plunge of 61.1% y-o-y in Zhulian's net profit to RM47.1 mln. This was the lowest ever net profit posted by the Group since its listing in 2007.
- For the quarter under review, net profit was higher by 8.9% q-o-q despite lower revenue (-4.3% q-o-q), mainly attributed to lower opex and lower effective tax rate. Contribution from its associate (Thai operations) remained weak at RM3.9 mln vs. in excess of RM10 mln in the past prior to 4QFY13. Overall quarterly performance was affected by similar reasons as mentioned earlier.
- On a lighter note, the Group continued to generate positive cash with net operating cash flow of RM45.6 mln in FY14, though this was a far cry from the RM87.0 mln registered a year ago. With no borrowings, its net cash/share stood at 20 sen backed by BV/share of RM1.06 as at end Nov-2014.
- With the slower-than-expected recovery path, we trimmed our FY15 earnings estimate by 16% to RM56.3 mln. We also introduce our FY16 earnings projection of RM67.4 mln. We anticipate some earnings growth from its Thai market in FY15, as well as new contribution from its venture into Myanmar. Zhulian started its operation in Myanmar in 3QFY14 and we expect to see some

positive contribution in the coming quarters. Meanwhile, the strengthening of USD against RM should bode well for the Group too given that its overseas sales are denominated in USD.

- Management also stated other initiatives that it is undertaking to improve its sales. These include stepping up promotional activities, improving customer service, rolling out new products as well as emphasizing sales of small ticket items to suit the affordability level of customers.
- Zhulian declared a 4<sup>th</sup> interim dividend of 2 sen (4QFY13: interim 3 sen with a special dividend of 4 sen). This brings total dividend declared in FY14 to 10 sen, which translates into a net yield of 4.8% based on current share price.

## Recommendation

We reiterate our **Hold** recommendation on Zhulian with unchanged fair value of **RM2.05** by pegging a target PER of 14x against FY16 (from FY15) earnings. Barring any major misfortune (such as another political upheaval in Thailand) we reckon the current share price has factored in the lackluster earnings performance over the last few quarters. Until the earnings rebound, we opine that its share price growth would be limited. On a brighter note, its prospective net dividend yield is decent at 4.8%. And, fundamentally, the Group remains relatively sound with a solid balance sheet.

### Per Share Data

FYE Nov	FY13	FY14	FY15e
Book Value (RM)	1.10	1.10	1.12
Cash Flow (sen)	28.4	12.6	12.2
Earnings (sen)	26.3	10.2	12.2
Net Dividend (sen)	16.0	10.0	10.0
Payout Ratio (%)	60.8%	97.6%	81.7%
PER (x)	8.0	20.5	17.2
P/Cash Flow (x)	7.4	16.7	17.2
P/Book Value (x)	1.9	1.9	1.9
Dividend Yield (%)	7.6%	4.8%	4.8%
ROE (%)	23.9%	9.3%	10.9%

### P&L Summary

FYE Nov (RM mIn)	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

Analyst: Nicole Tan Yoke Ping ([nicole@zj.com.my](mailto:nicole@zj.com.my))

**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

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**ZJ Advisory Sdn Bhd (Co No: 645449-V)**  
**(An investment adviser licensed by the Securities Commission)**  
Suite 22B, 22nd Floor, Sunway Tower,  
No 86, Jalan Ampang, 50450 Kuala Lumpur  
Tel (603) 2032 2328 Facsimile (603) 2032 1328

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