

2QFY15 RESULTS UPDATE

3 August 2015

Zhulian Corporation Berhad

Price : RM2.00

Market Capitalization : RM920.0 mln

Market : Main Market

Sector : Consumer Product

Recommendation : Hold

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

Zhulian: 2QFY15 results

FYE Nov (RM mln)	Quarter-on-Quarter			Year-on-Year		Year to date		
	2QFY15	1QFY15	% chg	2QFY14	% chg	1HFY15	1HFY14	% chg
Turnover	55.3	55.2	0.1%	65.6	-15.8%	110.5	131.8	-16.2%
Operating profit	10.1	10.3	-1.3%	4.4	128.3%	20.4	17.8	14.2%
Interest cost	-	-		-		-	-	
Share of assc profit	4.6	7.0	-34.6%	7.3	-37.3%	11.5	14.2	-19.1%
Pre-tax profit	14.7	17.2	-14.8%	11.7	25.5%	31.9	32.1	-0.6%
Tax	(3.6)	(4.7)		(3.4)		(8.2)	(6.6)	
Net profit	11.1	12.6	-11.5%	8.3	34.3%	23.7	25.4	-7.0%
EPS (sen) - basic	2.4	2.7	-11.5%	1.8	34.3%	5.1	5.5	-7.1%
Op profit margin	18.3%	18.6%		6.8%		18.4%	13.5%	
Pre-tax margin	26.6%	31.2%		17.8%		28.9%	24.3%	
Net profit margin	20.1%	22.7%		12.6%		21.4%	19.3%	
Net assets (RM)	1.08							

2QFY15 Results Review

- Zhulian recorded a 34.3% y-o-y increase in 2QFY15 net profit, but on a cumulative basis, 1HFY15 earnings were still 7% lower y-o-y at RM23.7 mln. The results were below expectation as it constituted only 42% of our full year net profit estimate.
- For the quarter under review, the Group chalked up 34.3% rise in net profit despite revenue falling 15.8% y-o-y. We believe the improvement in profitability was due to better sales mix as well as the strengthening of USD against RM which worked to Zhulian's favour. Looking back, the RM8.3 mln net profit achieved in 2QFY14 was also the lowest quarterly earnings recorded by Zhulian since its listing in 2007.
- 1HFY15 results showed revenue and net profit declining 16.2% and 7.0% y-o-y respectively. Management attributed the sluggish performance to weaker sales both in the domestic as well as overseas markets. Contribution from its Thai associate too, was lower at RM11.4 mln vs. RM14.2 mln a year ago.
- Zhulian's net cash per share stood at 20 sen as at end-May 2015, supported by a BV per share of RM1.08. Net operating cash flow remained healthy with RM25.4 mln generated in 1HFY15 vs. RM17.0 mln in 1HFY14.
- The Board declared a single-tier dividend of 1.5 sen for 2QFY15, bringing total dividend declared so far to 3.0 sen.
- Overall, judging from the Group's recent few quarterly performances, we believe it is not out of the woods completely yet as its performance is still a far cry from FY13 and FY14 where it had consistently registered quarterly net profit in excess of RM25 mln. Nevertheless, the worst appeared to be behind Zhulian for now. We derive our observation based on its recent four

quarters' results which displayed some sort of stability with earnings hovering above RM10 mln in each quarter.

- Looking forward, there are still headwinds facing the Group as management continue its efforts to stem the declining sales trend both in Malaysia and abroad. Management is implementing various initiatives to rejuvenate sales, some of which include recruiting new distributors, stepping up promotional activities, intensifying R&D activities, rolling out new products and improving customer service.
- We opine 2HFY15 performance will remain challenging for the Group. With consumers tightening their spending in view of the GST implementation and escalating cost of living, we believe sales growth at Zhulian would remain subdued. The Thai market, meanwhile, has also not shown clear trend of recovery yet. On a brighter note, we understand Myanmar (its newest new overseas market) has started to contribute to the Group revenue. While the amount is still small at the moment, the potential is there given the country's much higher population at 53 mln, coupled with high percentage of young people and their rising purchasing power.
- Having considered the factors above that included its lackluster 1HFY15 performance and the headwinds ahead, we trim our FY15-FY16 net profit estimate by 5%-9% to RM51.1 mln and RM64.0 mln respectively to account for the highly challenging operating environment.

Recommendation

We maintain our **Hold** recommendation on Zhulian but lowered our fair value marginally to **RM1.95** (from RM2.05) following our earnings revision. We continue to peg a target PER of 14x against our estimate FY16 earnings. Projected dividend yield is at about 3%. We reiterate our view that the worst is likely to be over for the Group barring any major unforeseen circumstances, but it would certainly take some time the Group to rebuild and regain its business both in Malaysia and abroad. And until then, investors are likely to watch the stock from the side line, in our opinion.

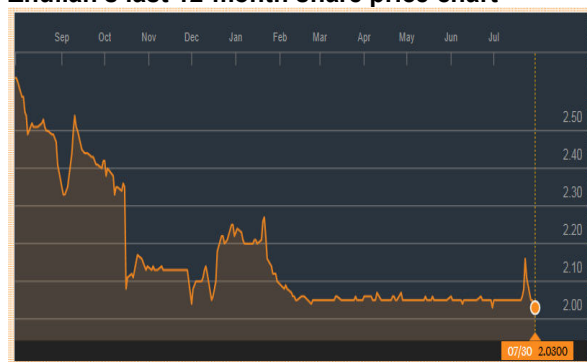
Per Share Data

FYE Nov	FY13	FY14	FY15e
Book Value (RM)	1.10	1.05	1.10
Cash Flow (sen)	28.4	12.6	11.1
Earnings (sen)	26.3	10.2	11.1
Net Dividend (sen)	16.0	10.0	6.0
Payout Ratio (%)	60.8%	97.6%	54.1%
PER (x)	7.6	19.5	18.0
P/Cash Flow (x)	7.0	15.9	18.0
P/Book Value (x)	1.8	1.9	1.8
Dividend Yield (%)	8.0%	5.0%	3.0%
ROE (%)	23.9%	9.8%	10.1%

P&L Summary

FYE Nov (RM mln)	FY13	FY14	FY15e	FY16f
Revenue	417.1	243.7	256.6	296.6
Operating profit	94.4	33.3	36.2	44.5
Net Int Exp	-	-	-	-
Share of assc profit	50.9	24.6	25.0	32.0
Pre-tax Profit	145.3	57.9	61.2	76.5
Eff. Tax Rate	25.8%	32.5%	28.0%	28.0%
Net Profit	121.0	47.1	51.1	64.0
Op. Profit Margin (%)	22.6%	13.6%	14.1%	15.0%
Pre-tax Margin (%)	34.8%	23.8%	23.8%	25.8%
Net Margin (%)	29.0%	19.3%	19.9%	21.6%

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

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