

1QFY11 RESULTS UPDATE

22 April 2011

# Zhulian Corporation Berhad

Price : RM1.75

Market Capitalization : RM805.0m

Market : Main Market

Sector : Consumer Product

Recommendation : Buy

Stock Code: 5131

## Zhulian: 1QFY11 results

FYE Nov (RM m)	Quarter-on-Quarter			Year-on-Year	
	Feb 11	Nov 10	% chg	Feb 10	% chg
Turnover	86.2	84.9	1.6%	86.3	-0.1%
Operating profit	19.5	20.9	-6.8%	24.9	-21.5%
Interest cost	-	-		-	
Share of assc profit	8.0	8.9		6.7	
Pre-tax profit	27.5	29.8	-7.9%	31.5	-12.8%
Tax	(5.5)	(5.6)		(6.7)	
Net profit	22.0	24.2	-9.3%	24.8	-11.4%
EPS (sen) - basic	4.8	5.3	-9.3%	5.4	-11.4%
Op profit margin	22.6%	24.7%		28.8%	
Pre-tax margin	31.9%	35.1%		36.5%	
Net profit margin	25.5%	28.6%		28.7%	
Net assets (RM)	0.78				

## 1QFY11 Results – within expectations

- Zhulian's 1QFY11 results were within our expectations with net profit of RM22.0 mln reaching 24% of our FY11 projection of RM91.3 mln.
- 1QFY11 revenue of RM86.2 mln was up 1.6% y-o-y but flat q-o-q. The marginal increase in revenue y-o-y was attributed to increased demand both in local and overseas markets, offset by currency loss arising from the weakening of USD.
- Similarly, the weakening of USD, coupled with rising raw material prices had pushed 1QFY11 operating profit lower by 21.5% y-o-y to RM19.5 mln, and resulted in operating profit margin being compressed to 22.6% from 28.8% a year ago. The USD has weakened approximately 10% in the past 12 months leading up to end February 2011. To recap, Zhulian's export sales to Thailand, Indonesia and Singapore are denominated in USD and hence, was affected by the depreciating USD. Fortunately, rising contribution from its associate (+19% y-o-y) helped mitigated the impact, with net profit falling by a smaller percentage of 11.4% y-o-y to RM22.0 mln.
- On a brighter note, notwithstanding the challenging operating environment, we remain positive on the Group's prospects. We opine that the Ringgit is unlikely to appreciate by double-digit in the next three quarters, and therefore the impact from currency fluctuation should be more subdued in the near future. Additionally, the rollout of new products should help create excitement and stimulate demand from customers. Amongst the new products planned for FY11 include new traditional herb supplements, Beyond Food Junction Detoxifying Unit, enhanced version of Beyond Microplasma Air Purifier, and imported kitchenware products. The Group will also remain focused on increasing productivity and efficiency in order to keep operating cost in check.

- Zhulian's operations continue to be supported by a solid and healthy balance sheet with no borrowings. NTA/share and net cash/share stood at 78 sen and 29 sen respectively as at end February 2011.
- We maintain our current FY11 revenue and net profit estimates of RM332.4 mln and RM91.3 mln respectively.
- As expected, Zhulian declared a first interim single-tier dividend of 3 sen. We are projecting a full year net dividend of 12 sen per share based on the Group's 60% dividend payout policy. Our dividend forecast translates into a prospective net yield of 6.9%.

## Recommendation

We maintain our **Buy** call on Zhulian with an unchanged fair value of **RM2.18**, derived from pegging the peer-benchmarked target PER of 11x against our FY11 net profit forecast. We continue to like Zhulian for its i) earnings growth prospects, especially in the overseas markets, ii) solid balance sheet, iii) higher-than-peers net profit margin, and iv) undemanding valuation at prospective FY11 PER of 8.8x supported by an attractive net yield of 6.9%. In our opinion, Zhulian offers a cheaper exposure into the MLM business by comparison to market leader, Amway Holdings, which is trading at a PER of 19x.

### Per Share Data

FYE Nov	FY09	FY10	FY11f
Book Value (RM)	0.70	0.77	0.84
Cash Flow (sen)	19.1	20.4	21.5
Earnings (sen)	17.8	18.9	19.8
Net Dividend (sen)	10.5	12.0	12.0
Payout Ratio (%)	58.9%	59.4%	60.0%
PER (x)	9.8	9.2	8.8
P/Cash Flow (x)	9.2	8.6	8.2
P/Book Value (x)	2.5	2.3	2.1
Dividend Yield (%)	6.0%	6.9%	6.9%
ROE (%)	25.6%	24.7%	23.5%

### P&L Summary (RM mil)

FYE Nov (RM mln)	FY09	FY10	FY11f	FY12f
Revenue	315.3	322.6	332.4	346.2
Operating profit	85.7	75.5	79.8	83.8
Net Int Exp	-	-	-	-
Share of assc profit	17.0	30.4	31.9	34.2
Pre-tax Profit	102.7	105.9	111.7	117.9
Eff. Tax Rate	24.1%	25.5%	25.5%	25.5%
Net Profit	82.0	87.1	91.3	97.0
Margin (%)	27.2%	23.4%	24.0%	24.2%
Pre-tax Margin (%)	32.6%	32.8%	33.6%	34.1%
Net Margin (%)	26.0%	27.0%	27.5%	28.0%

### 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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