

2QFY11 RESULTS UPDATE

18 July 2011

# Zhulian Corporation Berhad

Price : RM1.79

Market Capitalization : RM823.4 mln

Market : Main Market

Sector : Consumer Product

Recommendation : Buy

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

## Zhulian: 2QFY11 results

FYE Nov (RM m)	Quarter-on-Quarter			Year-on-Year		Year to date		
	May 11	Feb 11	% chg	May 10	% chg	1HFY11	1HFY10	% chg
Turnover	92.7	86.2	7.5%	77.9	19.0%	178.9	164.2	8.9%
Operating profit	16.8	19.5	-13.7%	13.9	21.5%	36.4	38.7	-6.1%
Interest cost	-	-		-		-	-	
Share of assc profit	6.8	8.0		6.7		14.8	13.4	
Pre-tax profit	23.7	27.5	-13.9%	20.6	14.9%	51.1	52.1	-1.9%
Tax	(2.7)	(5.5)		(2.7)		(8.1)	(9.4)	
Net profit	21.0	22.0	-4.4%	18.0	16.6%	43.0	42.9	0.1%
EPS (sen) - basic	4.6	4.8	-4.4%	3.9	16.6%	9.3	9.3	0.1%
Op profit margin	18.2%	22.6%		17.8%		20.3%	23.6%	
Pre-tax margin	25.5%	31.9%		26.4%		28.6%	31.7%	
Net profit margin	22.7%	25.5%		23.1%		24.0%	26.1%	
Net assets (RM)	0.80							

## 2QFY11 Results – within expectations

- Zhulian's consistency in earnings delivery continues with 2QFY11 results coming in within our expectations. The Group's 1HFY11 net profit of RM43.0 mln reached 47% of our FY11 projection of RM91.3 mln.
- 1HFY11 revenue rose 8.9% y-o-y to RM178.9 mln on higher demand from both local and overseas markets. Operating profit, however, fell 6.1% y-o-y to RM36.4 mln due to stronger Ringgit and higher opex arising from increased marketing activities. Still, despite the lower operating profit, Zhulian had managed to sustain its net profit level at RM43.0 mln, which is similar to 1HFY10's performance, as a combination of higher profit contribution from its associate (+10.5% y-o-y) and lower effective tax rate (22.4% in 1HFY11 vs. 24.3% in 1HFY10) helped cushioned the fall in operating profit.
- On balance sheet strength, Zhulian's operations remain firmly supported by a NTA/share of 80 sen and net cash/share of 26 sen.
- Looking ahead, we expect a stronger 3QFY11 performance as Zhulian's distributors step up purchases, especially the gold-plated jewellery, during the period leading up to the Hari Raya festive season in September. To recap, the Group's distributors and customer base are predominantly Malays. In addition, Zhulian has also rolled out several new products that would boost sales in the coming quarters. We understand these new products include the Beyond Food Junction Detoxifying unit introduced in 1QFY11 and the Beyond Microplasma Air Purifier in end-May 2011. More interestingly, it has also rolled out a new product line, comprising a range of traditional herbal supplements under the brand Greenlex.

- In terms of cost pressures, we opine that while the Ringgit may continue to strengthen, it is unlikely to appreciate significantly in 2HFY11, and therefore the impact from currency fluctuation should be more subdued and gradual in the near future.
- At this juncture, we maintain our current FY11 revenue and net profit estimates of RM332.4 mln and RM91.3 mln respectively.
- As expected, Zhulian declared a second interim single-tier dividend of 3 sen. We project 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 6.7%.

## 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, ii) solid balance sheet, iii) higher-than-peers net profit margin, and iv) undemanding valuation at prospective FY11 PER of 9x supported by an attractive net yield of 6.7%. 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.

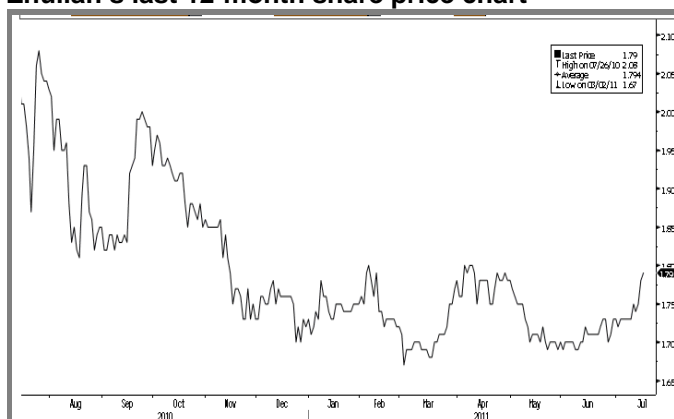
### Per Share Data

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)	10.0	9.5	9.0
P/Cash Flow (x)	9.4	8.8	8.3
P/Book Value (x)	2.6	2.3	2.1
Dividend Yield (%)	5.9%	6.7%	6.7%
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	354.1	368.9
Operating profit	85.7	75.5	81.4	87.8
Net Int Exp	-	-	-	-
Share of assc profit	17.0	30.4	30.7	31.6
Pre-tax Profit	102.7	105.9	112.2	119.4
Eff. Tax Rate	24.1%	25.5%	25.6%	25.5%
Net Profit	82.0	87.1	91.3	97.0
Op. Profit Margin (%)	27.2%	23.4%	23.0%	23.8%
Pre-tax Margin (%)	32.6%	32.8%	31.7%	32.4%
Net Margin (%)	26.0%	27.0%	25.8%	26.3%

### Zhulian's last 12-month share price chart



source: Bloomberg

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

**DISCLAIMER**

This report is for information purposes only and has been prepared by ZJ Advisory based on sources believed to be reliable at the time of issue of this report. We however do not give any guarantee as to the accuracy or completeness of the information provided. Any opinions or estimates in this report are that of ZJ Advisory as of this date and are subject to change without notice. ZJ Advisory has no obligation to update its opinion or the information in this report beyond the scope of participation under the CMDF-Bursa Research Scheme. ZJ Advisory and/or its directors and staff may have an interest in the securities mentioned.

This report is under no circumstances to be construed as an offer to sell or a solicitation of an offer to buy any securities. Investors should seek financial regarding the appropriateness of investing in any securities discussed or opined in this report. Investors should understand that statements regarding future prospects may not materialize. This report may contain forward looking statement and forecasts, which are based on assumptions that are subject to uncertainties. Any deviation from the expectations may have adverse effect on the projections and prospects contained herein. ZJ Advisory accepts no liability for any direct, indirect or consequential loss arising from the use of this report.

This report has been prepared by ZJ Advisory for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. ZJ Advisory has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: [http://www.bursamalaysia.com/website/bm/listed\\_companies/cmdf\\_bursa\\_research\\_scheme/](http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/)

---

**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

---