

3QFY11 RESULTS UPDATE

21 October 2011

Zhulian Corporation Berhad

Price : RM1.73

Market Capitalization : RM795.8 mln

Market : Main Market

Sector : Consumer Product

Recommendation : Buy

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

Zhulian: 3QFY11 results

FYE Nov (RM mln)	Quarter-on-Quarter			Year-on-Year		Year to date		
	Aug 11	May 11	% chg	Aug 10	% chg	9MFY11	9MFY10	% chg
Turnover	91.8	92.7	-1.0%	73.5	24.9%	270.7	237.7	13.9%
Operating profit	20.0	16.8	18.8%	15.8	26.3%	56.3	54.6	3.3%
Interest cost	-	-		-		-	-	
Share of assc profit	9.8	6.8		8.1		24.6	21.5	
Pre-tax profit	29.8	23.7	25.8%	24.0	24.2%	80.9	76.1	6.4%
Tax	(5.4)	(2.7)		(4.2)		(13.6)	(13.6)	
Net profit	24.3	21.0	15.7%	19.8	22.6%	67.3	62.8	7.2%
EPS (sen) - basic	5.3	4.6	15.7%	4.3	22.6%	14.6	13.6	7.2%
Op profit margin	21.8%	18.2%		21.6%		20.8%	23.0%	
Pre-tax margin	32.4%	25.5%		32.6%		29.9%	32.0%	
Net profit margin	26.5%	22.7%		27.0%		24.9%	26.4%	
Net assets (RM)	0.82							

3QFY11 Results – within expectations

- Zhulian's 9MFY11 net profit of RM67.3 mln was in line with our expectations, having reached 74% of our full-year estimate of RM91.3 mln.
- 3QFY11 turnover was 1.0% lower q-o-q but 24.9% higher y-o-y at RM91.8 mln. The flat q-o-q growth in revenue was due to lower contribution from overseas markets, which offset the increase in domestic demand that resulted from the pre-Hari Raya stocking-up activities by its distributors. We understand the Group rolled out several new products during 3Q that include new jewellery collections in conjunction with the Hari Raya festive season, healthcare products as well as smart-seal containers for households.
- 3Q operating profit margin recovered to above 20%-level after falling to 18.2% in the preceding quarter. Recall that operating profit margin in 2QFY11 was affected by both appreciating RM and increase in opex. The improved profit margin in 3QFY11 was attributed to lower opex as there was fewer incentive tour campaigns and seminars held. Meanwhile, PBT was further boosted by a substantial 44.1% q-o-q rise in contribution from its associate. Zhulian credited the improvement at its associated company to higher sales arising from increased marketing activities and incentive tour campaigns to motivate distributors.
- Notwithstanding the uncertainties surrounding the global markets, Zhulian registered a 13.9% and 7.2% y-o-y growth in 9MFY11 revenue and net profit at RM270.7 mln and RM67.3 mln respectively. While 9MFY11 net profit margin did decline by 1.5ppt, it is still healthy at 24.9%. We expect the Group to continue its consistent earnings performance in 4QFY11, supported by planned new product rollouts (i.e. new cosmetic products) and ongoing incentive campaigns.
- Zhulian's operations remain firmly supported by a strong balance sheet, backed by a NTA/share of 82 sen and net cash/share of 29 sen as at end-August 2011.

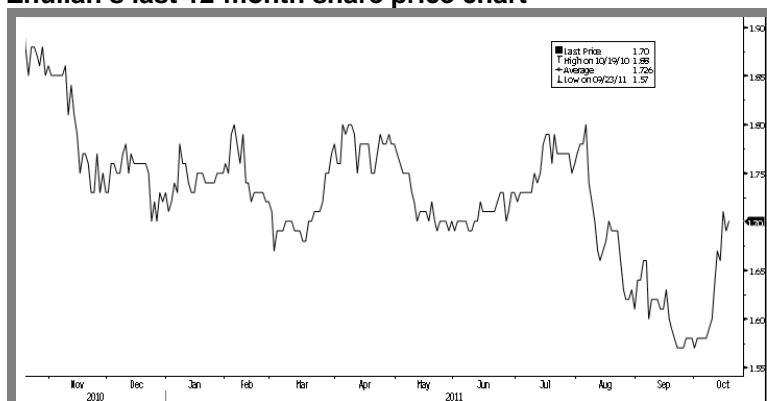
- With no surprises in the results, we maintain our current FY11 revenue and net profit estimates of RM354.1 mln and RM91.3 mln respectively. We remain sanguine on Zhulian's prospects and like its focus on growing market share in the ASEAN region. Domestically, the Group is also likely to benefit from the additional half-month bonus payout for civil servants under the recently tabled Budget 2012 as some of its distributors and customers are civil servants.
- As expected, Zhulian declared a third interim single-tier dividend of 3 sen. We continue to project a full year net dividend of 12 sen per share based on the Group's 60% dividend payout policy, which translates into an attractive 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, ii) solid balance sheet, iii) higher-than-peers net profit margin, and iv) undemanding valuation at prospective FY11 PER of 8.7x 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 forward PER of 16x.

Per Share Data				P&L Summary (RM mil)				
FYE Nov	FY09	FY10	FY11f	FYE Nov (RM mln)	FY09	FY10	FY11f	FY12f
Book Value (RM)	0.70	0.77	0.84	Revenue	315.3	322.6	354.1	368.9
Cash Flow (sen)	19.1	20.4	21.5	Operating profit	85.7	75.5	81.4	87.8
Earnings (sen)	17.8	18.9	19.8	Net Int Exp	-	-	-	-
Net Dividend (sen)	10.5	12.0	12.0	Share of assc profit	17.0	30.4	30.7	31.6
Payout Ratio (%)	58.9%	59.4%	60.0%	Pre-tax Profit	102.7	105.9	112.2	119.4
PER (x)	9.7	9.1	8.7	Eff. Tax Rate	24.1%	25.5%	25.6%	25.5%
P/Cash Flow (x)	9.1	8.5	8.1	Net Profit	82.0	87.1	91.3	97.0
P/Book Value (x)	2.5	2.3	2.0	Op. Profit Margin (%)	27.2%	23.4%	23.0%	23.8%
Dividend Yield (%)	6.1%	6.9%	6.9%	Pre-tax Margin (%)	32.6%	32.8%	31.7%	32.4%
ROE (%)	25.6%	24.7%	23.5%	Net Margin (%)	26.0%	27.0%	25.8%	26.3%

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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