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Thursday, April 16, 2015

Zhulian Corporation Bhd

“Slow Start to FY15”

Results Review

- **Actual vs. expectations.** Zhulian Corporation Bhd (Zhulian) recorded a revenue of RM55 million in 1Q15, grew marginally by 1% q-o-q but dropped by 17% y-o-y compared to RM55 million in 4Q14 and RM66 million in 1Q14. The revenue dropped by 17% y-o-y in 3M15 impacted by lower demand in local market.
- **Bottomline.** Zhulian’s PAT touched RM13 million in 1Q15, increased by 11% q-o-q but fell by 27% y-o-y. The lower PAT due to weaker demand in local market tempered by the weakening in consumer sentiment that turns cautious on spending. PAT margin for 1Q15 was at 23%, slightly lower against 1Q14 margin of 26%. Zhulian’s 3M15 PAT of RM13 million accounted 21% of our estimates respectively.
- **Dividend.** The Group declared dividend of 1.5sen/share vs 3.0sen/share in 1Q14, translating into a dividend payout ratio of 55%, which is lower than 1Q14 of 80%.
- **Recruiting New Distributors.** The group is supported by its growing distribution force which consists of 328 Authorised Agencies and 605,516 distributors spreading across Malaysia, Thailand, Singapore and Indonesia. The group continues to invest in marketing activities apart from embarking in vigorous training programmes, increasing active engagement and spreading wider geographical presence in East Malaysia, Taiwan and Hong Kong, not forgetting the Indo-China market. Apart from that, we believe the group will continue to attract new distributors as well as retaining existing distributors, including increasing the effectiveness of the group R&D effort in developing new products,

SELL (TP: RM1.80)

Current Price (RM)	RM2.05
New Target Price (RM)	RM1.80
Previous Target Price (RM)	RM2.00
Previous Recommendation	HOLD
Upside/(Downside) To Target	-12%
Dividend Yield (FY15)	6%

Stock Code

Bloomberg	ZHCB MK
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Stock Information

Listing	MAIN MARKET	
Sector	Consumer	
Shariah Compliance	Yes	
Issued Shares (mn)	460.0	
Market Cap (RM mn)	943.0	
YTD Chg in Share Price	-7.66%	
Beta (x)	0.98	
52-week Hi/Lo (RM)	3.00	2.00
6M Average Volume (shrs)	0.148mn	
Estimated Free Float	19%	

Major Shareholders

Zhulian Holding Sdn Bhd	35%
Best Source Holdings	17%
Beng Seng Teoh	10%

Results Review - Zhulian Corporation Berhad

introducing more promotional campaigns and improving the quality of their customer service to sustain their position in consumer sector.

- **Outlook.** Although we expect consumer sentiment may turn cautious, we are of the view that moving forwards the custom and fine jewellery products to be the main driver to revenue and earnings for Zhulian as customers may switching from pure gold to non-gold jewellery particularly during a challenging and rising cost of living. Hence, Zhulian will benefit from two-prong possibility which include the rising number of distributor force and also the burgeoning demand for non-gold jewellery. We also foresee that Zhulian's will also continue to explore opportunities of tapping into new market segments through introduction of new products and venturing into new business segments for the future.
- **Change to forecast.** We made some adjustment to our earnings forecast by cutting our FY15 earnings by 40% to RM62 million and at the same time introduce FY16 earnings forecast to RM65 million. Zhulian's PAT for FY15 and FY16 are expected to grow by 31% and 6% respectively due to i) GST implementation in 2015, ii) challenging economic outlook and iii) rising cost of living due to inflationary pressure. Nevertheless, we expect the group to enjoy sustainable earnings growth performance over the next year or on track to record a net profit growth of 31% y-o-y in FY15 respectively driven by solid distributors force and new recruits in the MLM activities.
- **Valuation and recommendation**
We valued Zhulian with a **SELL** call and target price of RM1.80 based on 3-years average PER of 13x and EPS FY15 of 14 cent. We justify our valuation based on i) strong branding position in burgeoning demand for non-gold jewellery which may offset against challenging consumer behaviour, and ii) aggressive marketing and recruiting new members, especially the youth generation.

Table 2: Peers comparison (Calenderised)

Company	YE	Price (RM)	EPS (sen)		P/E (X)		P/BV (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY14	FY15	FY15	FY16				
Parkson*	Jun	2.08	17	19	17	16	1	1	5	NA	2.25	Hold
Amway	Dec	10.98	69	73	17	16	9	8	55	3.4	10.50	Hold
Nestle	Dec	75.48	254	277	27	24	18	18	58	3.5	59.30	Sell
MSM	Dec	5.15	34	38	14	13	2	2	13	5.1	5.30	Hold
Dutch Lady	Dec	48.18	216	229	22	20	14	16	58	2.4	48.8	Hold
Padini*	Jun	1.44	15	18	13	11	3	3	24	5.0	2.35	Buy
Scientex	July	6.79	68	80	10	8	2	2	20	4.0	7.30	Hold
Zhulian	Nov	2.05	11	33	10	6	2	2	10	5.1	1.80	Sell
Aeon Co	Dec	3.08	18	19	23	21	3	3	14	1.4	NA	NA
QL Resources	Mac	3.99	16	18	19	17	3	3	15	1.0	NA	NA
Average					18	15	5	5				

Source: Bloomberg, M&A Securities

Results Review - Zhulian Corporation Berhad

Table 2: Financial Forecast

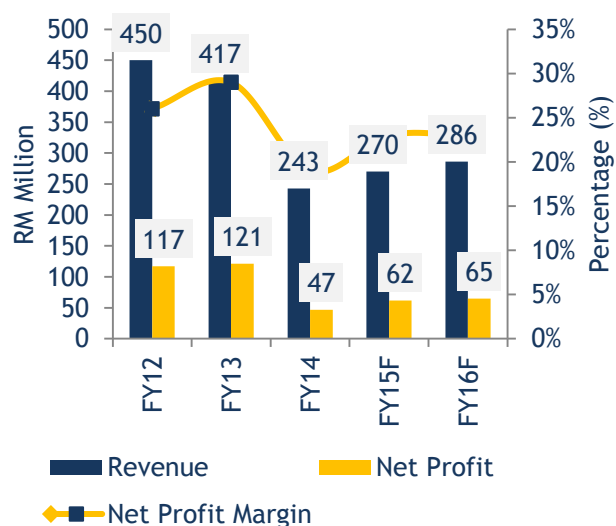
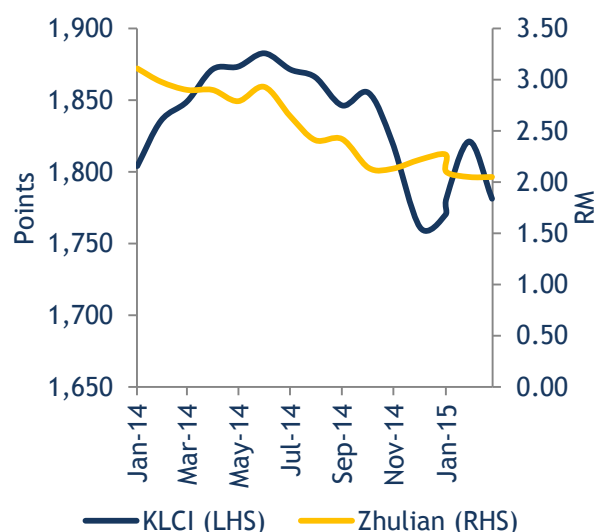
Y/E: November (RM'mil)	FY12	FY13	FY14	FY15F	FY16F
Revenue	450	417	243	270	286
EBIT	94	94	33	49	52
PBT	141	145	58	78	83
Net profit	117	121	47	62	65
EPS (sen)	25	26	10	14	15
DPS (sen)	16	16	10	12	13
Dividend Yield (%)	5%	3%	7%	6%	6%
Dividend payout (%)	61%	61%	97%	85%	86%
PER (x)	6	10	10	9	9
P/BV (x)	1.0	1.9	2.4	2.4	2.4
PBT Margin (%)	31%	35%	24%	29%	29%
Net profit margin (%)	26%	29%	19%	23%	23%
ROE (%)	22%	22%	22%	23%	23%
ROA (%)	26%	24%	23%	24%	24%

Source: Company, M&A Securities

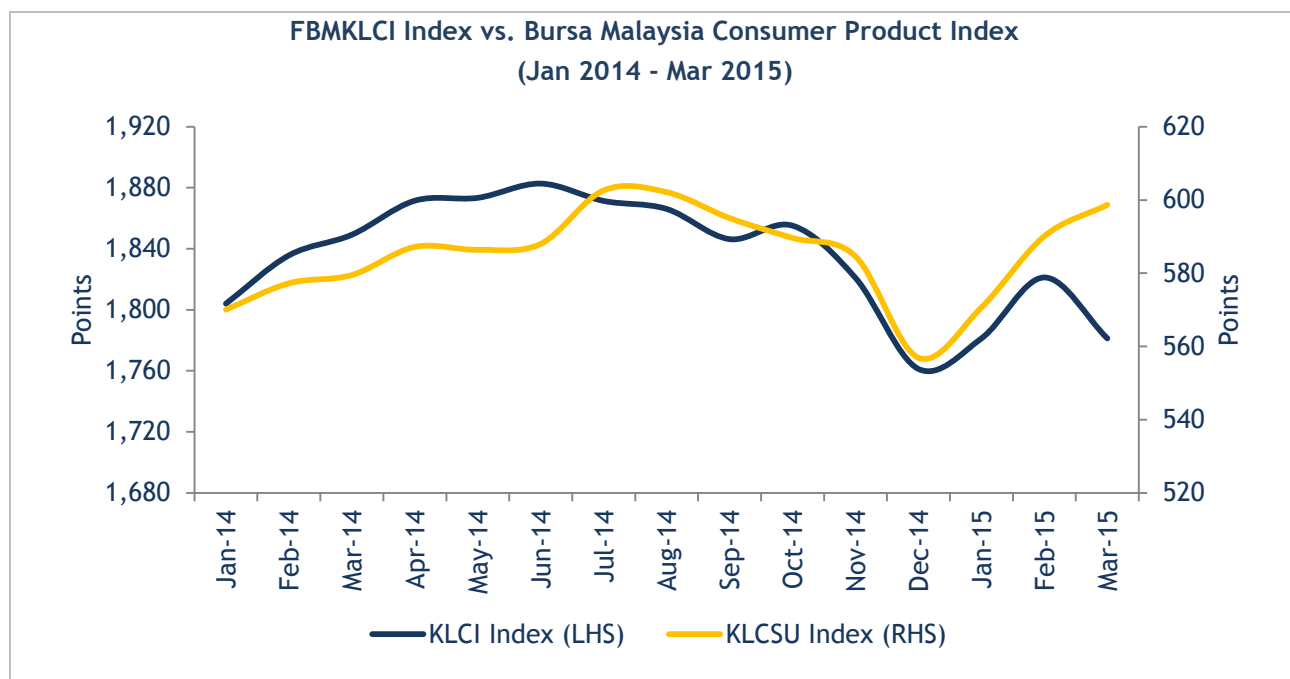
Table 3: Results Analysis

YE: Nov (RM million)	1Q15	1Q14	4Q14	q-o-q	y-o-y	3M15	3M14	y-o-y
Revenue	55	66	55	1%	-17%	55	66	-17%
EBIT	10	13	9	13%	-24%	10	13	-24%
PBT	17	20	13	33%	-16%	17	20	-16%
Taxation	(5)	(3)	(2)	181%	45%	(5)	(3)	45%
Net profit	13	17	11	11%	-27%	13	17	-27%
EPS (sen)	3	4	2	11%	-27%	3	4	-27%
EBIT margin	19%	20%	17%			19%	20%	
PBT margin	31%	31%	24%			31%	31%	
Net profit margin	23%	26%	21%			23%	26%	
Effective tax rate	-27%	-16%	-13%			-27%	-16%	

Source: Bursa Malaysia, M&A Securities

Revenue vs. Net Profit
(FY12-FY16F)Zhulian Share Price vs. KLCI
(Jan 2014 - YTD)

Source: Company, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my