

INITIATION REPORT

17 November 2011

Maxwell International Holdings Bhd

Price : RM0.36

Market Capitalization : RM144.0 mln

Board : Main Market

Sector : Consumer

Recommendation : BUY

Bursa / Bloomberg Code: 5189 / MAXWLL MK
Stock is Shariah-compliant.

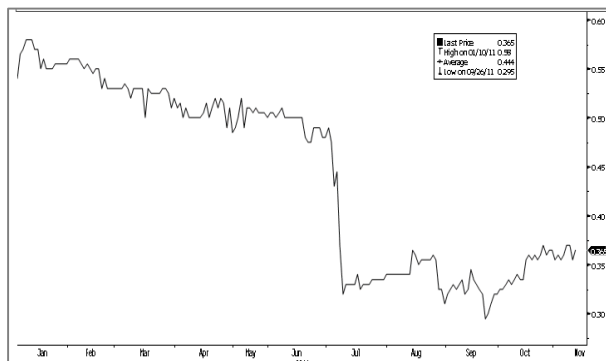
Key Stock Statistics

FYE Dec	FY10	FY11f
EPS (sen)	19.4	16.7
P/E (x)	1.9	2.2
Net Div/Share (sen)	3.5	3.5
NTA/Share (RM)	0.61	0.74
Book Value/Share (RM)	0.61	0.74
Issued Capital (mln)	400.0	
52-week Hi-Low (RM)	0.295-0.615	
Major Shareholders:	%	
Li Kw ai Chun & family	57.7	
OSK Technology Ventures	7.2	

Per Share Data

FYE Dec	FY09	FY10	FY11f
Book Value (RM)	0.45	0.61	0.74
Cash Flow (sen)	18.6	19.8	17.1
Earnings (sen)	18.2	19.4	16.7
Net Dividend (sen)	-	3.5	3.5
Payout Ratio (%)	-	18.1%	21.0%
PER (x)	2.0	1.9	2.2
P/Cash Flow (x)	1.9	1.8	2.1
P/Book Value (x)	0.8	0.6	0.5
Dividend Yield (%)	-	9.7%	9.8%
ROE (%)	40.5%	31.8%	25.2%
Net gearing	net cash	net cash	net cash

Last 12-Month Share Price Chart



Investment Highlights / Summary

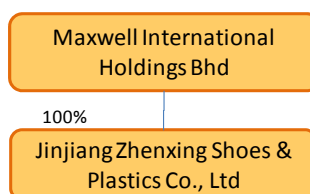
- **China-based sports shoes OEM and ODM.** Located in Jinjiang City, which is dubbed the “Shoes Capital” of the world, Maxwell sells over 11 mln pairs of sports shoes annually. It produces for renowned brands such as Yonex, Mizuno, Fubu, Fila, Diadora, and Hush Puppies, to name a few.
- **Design & develop capability** differentiates Maxwell from other OEM’s. It develops 1,000 designs p.a. at present and will be increasing to 1,500 designs p.a. going forward. Facility is running at optimal capacity with plans to double in-house production to 16 million over the next two years. Excess demand is currently met by outsourced contractors.
- **Superior profitability.** Maxwell generates the highest net profit margin amongst its peers on the local bourse. It registered a historical 4-year revenue and net profit CAGR of 46% and 53% respectively between FY06 and FY10. The Group has no borrowings, with balance sheet backed by NTA/share of 66 sen and net cash/share of 43 sen.
- **Risks** include potential loss of clients in the absence of long term contracts, quality control issues with its outsourcing and margin erosion from escalating production cost in China.
- **Rising consumer spending power** in emerging markets will drive Maxwell’s earnings growth forward. We estimate revenue in the next two years to continue expanding at double-digit figures while sustaining net profit margin at the 18%-level.
- **Initiate coverage with a Buy recommendation and a fair value of 58 sen,** derived by pegging FY11 net profit estimate against 3.5x PER multiple. It also offers attractive net dividend yield of 9.9%. We like Maxwell for its superior profitability track record, earnings growth potential and experienced management. Maxwell is currently trading at an undemanding valuation of 2.1x FY11 PER, which is also below its net cash/share of 43 sen.

Background

Corporate profile

OEM and ODM for sports shoes	Maxwell International Holdings Bhd (Maxwell) is an investment holding company incorporated in Malaysia on 3 November 2009, while its only wholly-owned subsidiary, Jinjiang Zhenxing Shoes & Plastics Co., Ltd (Zhenxing Shoes) was incorporated in the People's Republic of China in 1999. The subsidiary is principally involved in the design and manufacturing of sports shoes for the Chinese as well as overseas markets on an Original Equipment Manufacturer (OEM) and Original Design Manufacturer (ODM) basis. It sells in excess of 10 million pairs of sports shoes annually.
Established since 1999	Maxwell was listed on the Main Market of Bursa Malaysia on 6 January 2011. The Group's history dates back to 1999, when founder Madam Li Kwai Chun, through her company Chun Hing Industrial (Hong Kong) Ltd established Zhenxing Shoes to manufacture and sell sports shoes to domestic and overseas customers, which comprise mainly trading houses and brand distributors.
Facility located at Jinjiang City, nicknamed the "Shoes Capital"	Zhenxing Shoes is located in Jinjiang City, Fujian Province, which is dubbed the "Shoes Capital" as the city is renowned as one of the largest shoe manufacturing hubs in the world. Zhenxing Shoes commenced operations in 1999 with only one production line that had an annual production capacity of one million pairs of sports shoes. The business has since grown by leaps and bounds, having expanded from one production line to two in 2000, before adding the third line in 2006 and the fourth line in 2008. With four production lines, the Group currently boasts an annual production capacity of eight million pairs of sports shoes.
Started outsourcing in 2006 to cope with rising demand	In 2006, Zhenxing Shoes also began to outsource some of its production to external contract manufacturers in order to cope with the rising demand. Furthermore, contract manufacturing enables the Group to expand production capability rapidly without incurring heavy capex.
Founders remains hands-on as the Executive Chairman	Today, Madam Li continues to helm the Group in the capacity of the Executive Chairman of Maxwell. A citizen of Hong Kong, she has over 30 years of experience in running businesses across several industries, including footwear, textile as well as arts and crafts. She is aided by Executive Director and CEO, Mr Xie Zhen'an. Mr Xie played an instrumental role in the success of the Group, having been the General Manager of Zhenxing Shoes since inception. The remaining four directors in the 6-member board comprise non-executive directors, of which two are independent directors. We note that the board is well-balanced in that there are three Malaysians (including the two independent directors) in addition to two Chinese national and a Hong Kong citizen.
Substantial shareholders include founder & OSK Technology Ventures	In terms of shareholdings, substantial shareholders in Maxwell are Madam Li and her family with 57.7%-stake, and OSK Technology Ventures Sdn Bhd with 7.2%-interest.

Corporate structure.



Business

Maxwell, through Zhenxing Shoes, designs and manufactures a variety of sports shoes, including court shoes, running shoes and casual sports shoes for the domestic as well as overseas markets. The Group is an OEM and ODM for various internationally renowned brands, namely:-

OEM & ODM for various popular US, Italian and Japanese brands

- Brooks,
- Diadora,
- Fila,
- Fubu,
- Hush Puppies,
- Kappa,
- Mizuno,
- Riddell, and
- Yonex.

Customers comprise trading houses and brand distributors

Maxwell's customers comprise mainly trading houses and brand distributors that are based in China, as it does not usually deal direct with the brand owners. Presently, it has approximately 20 regular customers. These customers in turn export Maxwell's shoes to overseas markets such as Europe, South and North America, Asia and Africa. We note that the Group's clientele are quite well spread out, in that majority of customers do not contribute more than 10% to Maxwell's revenue. We understand Maxwell also exports directly to overseas on a small scale, which is usually less than 10% of its revenue.

Maxwell's selected notable customers

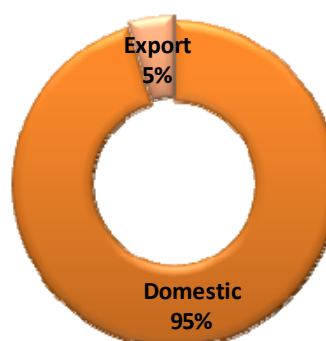
- Qingyang Aikuai Trading Co., Ltd
- Jinjiang Zong Sheng Industry & Trading Co., Ltd
- Lu Xin International Trading Co., Ltd
- Ouya Mingtong Trading Co., Ltd
- Quanzhou Fandou Trading Co., Ltd
- Xie Chang Zhen Xuan Shoes Co., Ltd
- Fujian Hua Yi Trading., Ltd
- Jinjiang Qing Feng Trading Co., Ltd

Source: Company

Notes:

- OEM refers to a company that manufactures products based on design provided, which would be branded by another firm for sale.
- ODM refers to a company which designs and manufactures products that would be branded by another firm for sale..
- OBM refers to a company which manufactures products that would carry its own brands for sale.

Geographical breakdown of FY10 revenue



Source: Company

All four production lines are running at optimal capacity, producing 6 mln pairs of shoes p.a.

Maxwell's manufacturing facility is situated at the Zhushuxia Industrial Zone in Jinjiang City. With four production lines and a production area of approximately 170,000 sq. ft., the Group boasts an annual production capacity of eight million pairs of sports shoes. At present, its average utilization rate is about 75% (or six million pairs of shoes annually) based on two shifts, which according to management, is already the optimal production level given the required time intervals to switch raw materials and tweak manufacturing processes at the production lines to produce different designs of shoes.

Outsourced contract manufacturers produce the remaining 5 mln pairs of shoes

As such, in order to cope with the rising demand rapidly without incurring heavy capital outlay, the Group had in 2006 started outsourcing some of the manufacturing jobs to third-party contract manufacturers in the Jinjiang City. The outsourced portions usually consist of sports shoes with simpler designs while those with sophisticated designs are handled in-house. For quality control at its outsourced contractors, Maxwell has in place quality assurance measures and inspections at various points during the production processes instead of just at finished goods level. Furthermore, the Group also supplies the necessary raw materials to the contract manufacturers and this ensures consistency in quality of materials used, as well as enhances cost control measures.

Over the years, the outsourced portion has risen rapidly. In FY10, the contract manufacturers produced approximately five million pairs of shoes for Maxwell per annum, which was just slightly under half of the Group's total sales of about 11 million pairs of shoes.

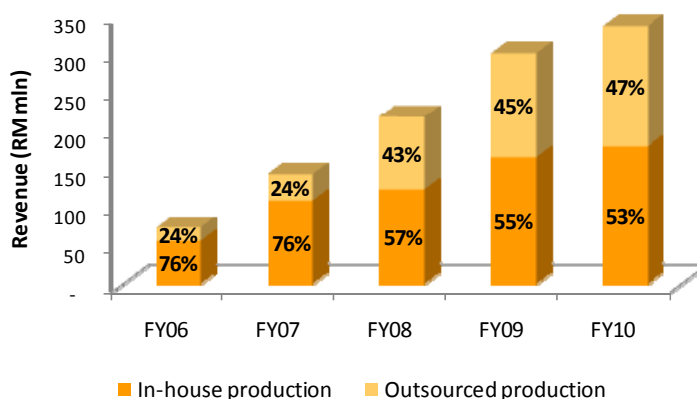
Plans to double in-house capacity by adding another four lines...

Going forward, the Group is planning to boost in-house production to 16 million pairs of sports shoes (from the current eight million) by adding another four production lines. The required capex of RM12 mln would be funded by the proceeds from its IPO exercise. We expect the increase in output to take place gradually over the next two years.

And to build a few factory as well

Additionally, Maxwell will also be constructing a new factory so as to house the new production lines as well as streamline its current operations with the intention to further improve efficiency. The required capex is estimated at RM60 mln to be spent over the next two years, and will be funded from internally generated funds. Management expects its new factory to be ready sometime in 2013.

Revenue breakdown between in-house & outsourced production



Source: Company

Capable of developing 1,000 new designs p.a., plans to increase to 1,500 new designs p.a.

In carving a niche in the competitive shoe manufacturing industry, Maxwell prides itself in being an ODM (in addition to OEM) with the capability of churning out 1,000 new designs a year. It has a staff of 30 personnel in the Design and Develop (D&D) department focusing on developing new designs in-house or in accordance to specifications provided by customers. Management notes that its ODM capability gives the Group an edge over most of the other players in the market as the latter mostly focus purely on the manufacturing aspect only.

As Maxwell strives to remain at the forefront of competition, management intends to improve its design capability by 50% to 1,500 new designs per annum though increasing D&D headcount to 40 from the current 30.

Suppliers are all located nearby in the same city

Maxwell's main raw materials components include leather, fabrics, PU, PVC and sole units (i.e. midsole and outsole). It sources the raw materials locally, and in fact, all its suppliers are located within the Fujian Province, in close proximity to its manufacturing plant. We understand that the Group also handles procurement of raw materials for its external contract manufacturers for quality control purposes as well as cost-control measures.

Competitive industry with over 3,000 shoe manufacturers in Jinjiang City

In terms of industry landscape, sports shoe industry in China is very competitive and rather fragmented. In the "Shoe Capital" of Jinjiang City, there are over 3,000 shoe manufacturers ranging from small mom-and-pop sweatshop to large corporations producing millions of pairs of shoes. There are OEM or contract manufacturers, Original Brand Manufacturers (OBM) (whereby they manufacture and market shoes bearing their own brand labels) as well as combination of both.

The table below lists some of the publicly-listed sporting goods companies in the region that have operations in China:-

Some notable public-listed sporting goods company in the region

Company	Listed in	OBM	OEM
• XingQuan International Sports Holdings Ltd	Malaysia	✓	✓
• K-Star Sports Ltd	Malaysia	✓	✓
• Li Ning Company Ltd	Hong Kong	✓	
• ANTA Sports Products Ltd	Hong Kong	✓	
• Xtep International Holdings Ltd	Hong Kong	✓	✓
• Xidelang Holdings Ltd	Malaysia	✓	
• Yue Yuen Industrial (Holdings) Ltd	Hong Kong		✓
• Pou Chen Corporation	Taiwan		✓
• Feng Tay Enterprise Co Ltd	Taiwan		✓

Source: Prospectus, respective company's website

Shoe-making industry remains labor intensive

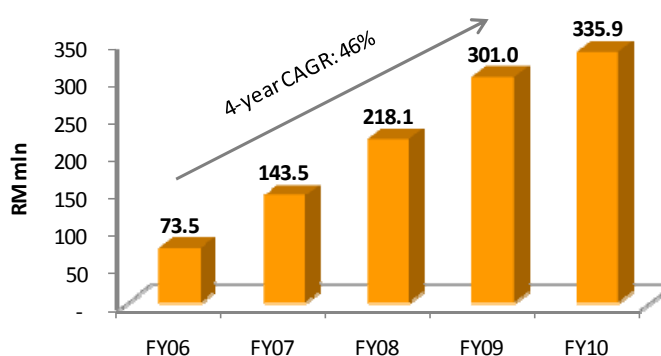
We understand the industry remains relatively labor intensive despite the use of machinery in the production lines as certain processes could not be automated. Of the over 1,600 employees at Maxwell, approximately 1,500 are employed at the factory level. While rising wages may be a concern, management clarified that labor cost only makes up a relatively small component of the total cost at between 10% and 12%.

Financial Highlights

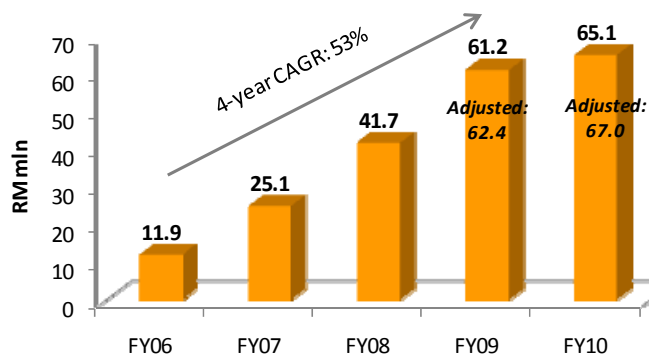
Revenue CAGR: 46%
Net profit CAGR: 53%

Maxwell has been chalking up commendable revenue and net profit growth over the last several years. The Group registered a 4-year revenue and net profit Compounded Annual Growth Rate (CAGR) of 46% and 53% respectively between FY06 and FY10. In FY10, it posted a net profit of RM65.1 mln on the back of RM335.9 mln turnover, translating into a net profit margin of 19.4%.

Historical Revenue Track Record



Historical Net Profit Track Record

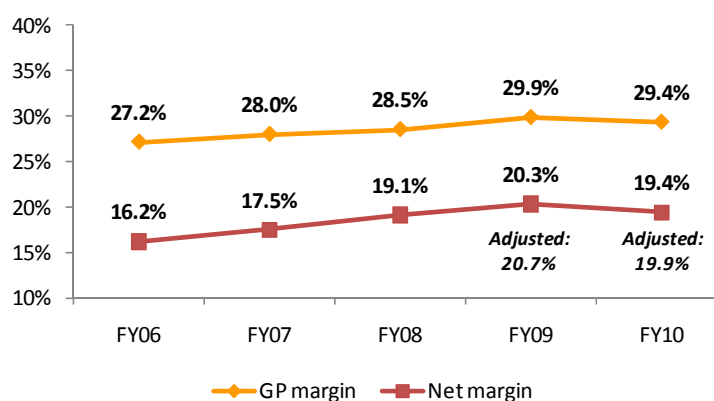


Note: FY09 and FY10 adjusted net profits included one-off listing expenses

Double-digit net profit margin

For a manufacturing entity, Maxwell's profitability is certainly impressive with its double-digit net profit margin. Management explained that its healthy net profit margin is a result of its business practice of accepting only orders which yield a minimum gross margin of 25%. In essence, it works on a "cost plus" business model. Its bargaining power is bolstered by its D&D capability and proven track record of quality products and on-time delivery of orders.

Profitability Margins Track Record



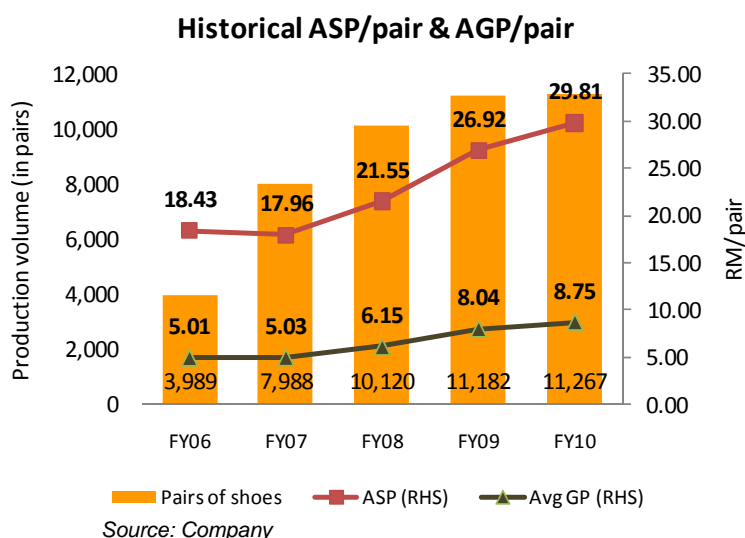
Note: FY09 and FY10 adjusted net profit margins included one-off listing expenses

"Cost plus" business model

From the historical financials, we note that Maxwell managed to grow its business considerably without sacrificing profit margin, thanks to its "cost plus" model. This is evident in its ability to sustain Gross Profit (GP) margin in excess of 27% despite production volume rising threefold to 11.3 mln pairs between FY06 and FY10. In fact, Maxwell's GP margin had generally been trending up, rising from 27.2% in FY06 to 29.4% in FY10.

ASP in FY10: RM29.81 per pair of sports shoes

On a per pair basis, the average selling price (ASP) increased steadily from RM18.43 in FY06 to RM29.81 in FY10. Management attributed the rising ASP to increasingly complex shoe designs as well as higher raw materials costs. Meanwhile, average GP (AGP) per pair too, expanded to RM8.75 from RM5.01 during the same period.



No adverse impact from credit crisis and Euro debt crisis

From the various charts above, we note that Maxwell has not appeared to have suffered material slowdown arising from the recent credit crisis and Euro debt crisis, as evident in the continued rise in revenue and net profit.

1HFY11 revenue rose 5.9% y-o-y

For 1HFY11, the Group posted a 5.9% y-o-y increase in revenue to RM157.3 mln in tandem with the rise in sales volume from 4.9 mln to 5.3 mln pairs of sports shoes, but partly offset by a minor decline in 1HFY11 ASP to RM29.86 from RM30.33 in 1HFY10. Net profit however, fell 9.8% y-o-y to RM27.0 mln, which was partially attributed to higher opex arising from expensing listing expenses. Excluding the listing expenses, 1HFY11 net profit declined only 4.0% y-o-y. At GP level, 1HFY11 GP margin came in at 27.6% vs. 29.7% in 1HFY10, attributable to changes in product mix.

Rolling orderbook of between RM40mln and RM50 mln

According to management, the lead time from the placement of an order by customer to the delivery of finished goods is between 30 days and 60 days. Maxwell, therefore, has a rolling orderbook of between RM40 mln and RM50 mln at any point of time.

No borrowings; net cash/share at 43 sen as at June 2011

Maxwell's operations are supported by a very strong balance sheet. As at end-June 2011, it has a NTA/share of 66 sen. It has a cash balance of RM172.4 mln with no borrowings, and hence, translating into a net cash/share of 43 sen. We note that included in the cash balance is a sum of RM20.8 mln from its IPO proceeds, which have been earmarked for production expansion, enhancement of the D&D department as well as for working capital purposes.

Earnings Outlook

Rising consumer spending power in China and other emerging markets to drive growth

The global sporting goods industry is expected to expand in tandem with the projected 3%-4% annual global GDP growth in 2011 and 2012. We believe the growth in spending for sporting goods is weighted towards the emerging markets such as China and other Asian countries, bolstered by the rising consumer income in these economies.

In 2009, the per capital annual spending on footwear in the US was USD173, four times more than its counterpart in China. With the growing affluence of the Chinese consumers and rising brand awareness, Maxwell's prospects appear to be bright over the next few years. The Group is certainly seizing the opportunities with its planned expansion in production output and design capabilities in order to drive its earning growth going forward.

Expects a more robust 2HFY11 performance We project Maxwell FY11 revenue and net profit to climb 10.5% and 2.7% y-o-y to RM371.3 mln and RM66.9 mln respectively, on the assumptions of a 2% increase in sales volume and a 5% hike in ASP. Considering that 1HFY11 net profit is currently at RM27.0 mln, our projection reflects our expectation for a more robust performance in 2HFY11, which is usually the case. 1H results are historically weaker as there are fewer working days in 1Q due to the Chinese New Year celebrations, while orders in 2H are traditionally stronger as customers place more orders ahead of the year-end festive seasons when consumer spending is higher.

FY11 net profit affected by one-off listing expenses We note that the FY11 net profit included one-off listing expenses amounted to RM2.5 mln which dragged profitability down. For FY12, we forecast net profit at RM74.2 mln (+10.9% y-o-y) on the back of RM408.7 mln turnover (+10.1% y-o-y).

Production growth to come from outsourcing in the near term We expect the growth in production output in the next two years to come mostly from outsourced portion as in-house production has reached the optimal level, with new production lines to gradually commence only from 2012 onwards.

Investment Risks

Absence of long term contracts. Maxwell does not have long term contracts with its customers (i.e. the trading houses and brand distributors) and jobs are received via purchase orders from them. We understand that this is a common industry practice and is not specific to Maxwell. Customers therefore, in theory, could switch manufacturer as and when they desire. However, this usually does not happen unless Maxwell fails to deliver quality products on time or is uncompetitive in pricing, as the Group has established good and strong relationships with its customers. At present, approximately half of its business are derived from repeat customers.

Reliance on outsourcing. Outsourcing could be considered as a double-edged sword. On one hand, it enables Maxwell to scale up productions rapidly to meet demand without heavy capital outlay. On the other hand, however, there are risks that the Group's reputation and financial performance may suffer if the external contract manufacturers fail to deliver the orders on time or fail to adhere to the required quality, specifications and designs. Should this happen, the adverse impact could be material considering outsourcing constitutes approximately half Maxwell's total output. Nevertheless, management clarified that as there are over 3,000 shoes manufacturers in Jinjiang City and that there is no shortage of good contract manufacturers.

Rising production cost. Prices of some of Maxwell's raw materials move in tandem with the crude oil price. Raw material costs made up 71% of total cost in FY10, up from 63% in FY06 largely due to the rising crude oil price. The other major component is labor cost, which is also on the uptrend. Labor cost contributed about 11% of total cost in FY10. In mitigation, management explained that it is able to source raw materials at competitive prices due to availability of a large pool of suppliers in Jinjiang City. More importantly, it has been able to pass the cost increases to customers, as shown in the rising ASP over the years.

Valuation

The tables in the next page compare Maxwell to its listed peers in Malaysia, i.e. Chinese companies in the shoes manufacturing industry, from the perspective of valuation metrics and financial performance. We note that i) Multi Sports Holdings has been excluded from the comparison as it mainly produces shoe soles rather than the whole shoes, and ii) Maxwell is a pure OEM and ODM company while its peers in Malaysia are chiefly focused on the OBM model, with only a small exposure to the OEM business, if any.

Peer comparison: valuation metrics

Company	FYE	Share price (RM)	PER (x)	PER-1YR (x)	P/BV* (x)	Market Cap (RM mln)	Net gearing* (x)	Net cash/share* (RM)	Div Yield
Maxwell Int'l Holdings	Dec	0.36	2.2	2.1	0.54	142.0	Net cash	0.43	9.9%
XingQuan Int'l Sports	Jun	0.89	1.1	1.0	0.28	273.5	Net cash	0.61	0.0%
Xidelang Holdings Ltd	Dec	0.31	1.6	1.6	0.48	136.4	Net cash	0.17	8.1%
K-Star Sports Ltd	Dec	0.29	0.9	n/a	0.16	75.9	Net cash	0.22	5.6%

*P/BV, Net gearing & Net cash figures based on respective company's latest quarterly results

Source: Company, Bloomberg, ZJ Research

Peer comparison: financial performance

Company	FYE	Revenue (RM mln)	EBITDA (RM mln)	Net Income (RM mln)	EBITDA margin	Net margin
Maxwell Int'l Holdings	Dec	335.9	90.1	65.1	26.8%	19.4%
XingQuan Int'l Sports	Jun	1,496.7	332.6	252.0	22.2%	16.8%
Xidelang Holdings Ltd	Dec	465.1	110.4	77.9	23.7%	16.8%
K-Star Sports Ltd	Dec	670.9	129.0	88.3	19.2%	13.2%

Source: Company, Bloomberg

Maxwell is trading below net cash position

We note that Maxwell and its peers on Bursa Malaysia are generally trading at low PERs of under 3x, with all of them in a net cash position. We also observe that Maxwell is the only company amongst its peers that is trading below its net cash/share of 43 sen.

High net dividend yield at 9.9%; intends to pay out 20% of net profit

From our analysis, the Group offers the highest net dividend yield at 9.9%, followed by Xidelang and K-Star Sports. XingQuan, meanwhile, announced it has decided not to declare any dividend for its recently concluded financial year in order to conserve cash for expansion purposes. We understand investors are mostly disappointed with XingQuan's decision and are concerned if others in the industry would follow suit. In response to this concern, management of Maxwell has, thus far, clarified that it intends to continue paying dividends that amount to approximately 20% of net profit although it does not have a written dividend policy.

Highest net profit margin amongst peers

In terms of financial performance, Maxwell has the smallest revenue and net profit base. Nevertheless, it yielded superior profitability with the highest net profit margin at 19.4%, against the range of between 13.2% and 16.8% for its peers, in their most recent financial year.

For a regional perspective, the table below lists some of the major players in the sporting goods industry listed in Hong Kong and Taiwan that have operations in China. We note that some of these companies are OBM, and also sell sportswear in addition to sports shoes.

Regional peer comparison

Company	Listed in	FYE	Share price	PER (x)	P/BV (x)	Market			
						Cap (USD mln)	Revenue (USD mln)	EBITDA (USD mln)	EBITDA margin
Maxwell Int'l Holdings	M'sia	Dec	RM0.36	2.1	0.5	45.4	107.3	28.8	26.8%
Li Ning Company Ltd	HK	Dec	HKD7.12	7.4	1.8	963.65	1,215.2	226.0	18.6%
ANTA Sports Products	HK	Dec	HKD7.72	9.1	2.6	2,468.47	949.8	233.6	24.6%
Xtep Int'l Holdings	HK	Dec	HKD2.58	5.1	1.3	719.83	571.4	128.0	22.4%
Yue Yuen Industrial (Holdings)	HK	Sep	HKD21.9	9.3	1.3	4,629.68	742.1	81.5	11.0%
Pou Chen Corp.	Taiwan	Dec	TWD22.75	8.2	1.2	2,198.98	467.7	29.5	6.3%
Feng Tay Enterprise Co.	Taiwan	Dec	TWD25.75	8.6	1.7	446.10	410.0	26.3	6.4%

Source: Bloomberg

Regional peers accorded higher valuation

Compared to the regional peers, Maxwell is the smallest in terms of market capitalization and revenue base. It does, however, have the highest EBITDA margin. It is also evident from the comparison that the sporting goods industry in Hong Kong and Taiwan is generally accorded higher valuation in comparison to Malaysia, with PERs ranging between 5x and 9x.

We reckon this may be due to i) investors taking more time to understand these companies as foreign listing in Malaysia is still in the nascent phase (XingQuan was the first straight listing by a Chinese company on Bursa Malaysia in 2009), and ii) cautious approach by investors towards Chinese companies following news of alleged financial irregularities in some Chinese companies listed on other exchanges.

Akin to its peers in Malaysia, Maxwell was not spared from the predicament above and is currently trading below its IPO price of 54 sen. We understand that management has embarked on active investor relations initiatives to enhance public perception and to raise awareness as well as confidence toward the company.

Fair value at 58 sen

We value Maxwell using a relative valuation approach, and derive a fair value of **58 sen** by ascribing a PER multiple of 3.5x against our projected FY11 earnings estimates. The target PER multiple is a 30% discount to the lower-end of its regional peers' 5x-9x PER range, to reflect Maxwell's smaller market capitalization and revenue base. Our fair value is well supported by its net cash/share of 43 sen and desirable net dividend yield of 9.9%.

Recommendation

BUY recommendation

We initiate our coverage on Maxwell with a **Buy** recommendation and a fair value of **58 sen**, which translates into a potential share price upside of 61%.

We like Maxwell for its superior profitability track record compared to its peers, earnings growth potential, high net cash/share as well as hands-on and experienced management team.

Maxwell's current valuation, at prospective FY11 PER of 2.1x, is undemanding and does not reflect its earnings growth potential in our opinion. Furthermore, it also offers very attractive net dividend yield of 9.9%, assuming a 20% payout from net profit as per management guidance. Given management's active initiatives to enhance investors' perception and

confidence toward the Group, interests in the counter may gradually pick up going forward as it delivers its earnings stream.

Moderating factors include possible profit margin erosion from higher-than-expected escalation in production cost, muted sales growth arising from worse-than-expected slowdown in the Chinese economy, and reputation damage from quality issues arising from outsourcing. Meanwhile, emergence of more alleged financial irregularities in foreign-listed Chinese firms may also prolong the tepid response by investors.

P&L Summary

FYE Dec (RM mIn)	FY09	FY10	FY11f	FY12f
Revenue	301.0	335.9	371.3	408.7
Operating profit	82.7	88.6	90.0	98.9
Net Int Exp	(0.4)	(0.4)	(0.2)	-
Pre-tax Profit	82.3	88.2	89.8	98.9
Eff. Tax Rate	25.6%	26.1%	25.5%	25.0%
Net Profit	61.2	65.1	66.9	74.2
Op. Profit Margin (%)	27.5%	26.4%	24.2%	24.2%
Pre-tax Margin (%)	27.3%	26.3%	24.2%	24.2%
Net Margin (%)	20.3%	19.4%	18.0%	18.2%

Source: Company, ZJ Research

Balance Sheet Summary

FYE Dec (RM mIn)	FY09	FY10	1HFY11
Total Assets	193.9	265.6	335.8
Non-Current Assets	33.7	30.2	31.7
Current Assets	160.2	235.4	304.0
Current Liabilities	42.8	61.0	70.8
Long Term Liabilities	-	-	-
Share Capital	134.5	134.5	160.0
Shareholders' Equity	151.1	204.6	264.9

Source: Company

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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