

3QFY11 RESULTS UPDATE

23 November 2011

Maxwell International Holdings Bhd

Price : RM0.375

Market Capitalization : RM150.0 mln

Market : Main Market

Sector : Consumer

Recommendation : Buy

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

Maxwell: 3QFY11 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	Sep 11	Jun 11	% chg	Sep 10	% chg	9MFY11	9MFY10	% chg
Turnover	114.7	102.5	11.9%	96.9	18.4%	272.0	245.3	10.9%
Operating profit	30.2	26.8	12.8%	26.6	13.4%	67.3	67.0	0.4%
Finance costs	(0.0)	(0.0)		(0.1)		(0.1)	(0.3)	
Pre-tax profit	30.2	26.8	12.8%	26.5	13.8%	67.2	66.7	0.7%
Tax	(7.6)	(6.7)		(6.7)		(17.6)	(16.9)	
Net profit	22.6	20.0	12.7%	19.9	13.8%	49.6	49.8	-0.4%
Reported EPS (sen)*	5.7	5.0	12.8%	5.9	-4.2%	12.4	14.8	-16.2%
Op. profit margin	26.3%	26.1%		27.5%		24.7%	27.3%	
Pre-tax margin	26.3%	26.1%		27.4%		24.7%	27.2%	
Net profit margin	19.7%	19.6%		20.5%		18.2%	20.3%	
NTA/share (RM)	0.73							

*EPS for FY11 numbers were based on enlarged share base of 400 mln, while EPS for FY10 figures were based on pre-listing share base of 336 mln.

3QFY11 Results – within expectations

- Maxwell's 9MFY11 net profit of RM49.6 mln was in line with our expectations, having reached 74% of our full-year estimate of RM66.9 mln.
- 9MFY11 revenue grew 10.9% y-o-y to RM272.0 mln in tandem with the 11% y-o-y increase in volume of shoes sold to 9.1 mln pairs. This was, however, offset slightly by the weaker exchange rate of RM against RMB. Average selling price (ASP) per pair in RM declined marginally to RM29.87 in 9MFY11 from RM29.98 in 9MFY10, although ASP in RMB rose from RMB62.91 to RMB64.08 during this period. Notwithstanding the higher revenue, 9MFY11 net profit growth was flat at RM49.6 mln, held back by higher opex which included the one-off RM2.5 mln in listing expenses.
- Sequentially, 3QFY11 revenue and net profit improved 11.9% and 12.8% q-o-q to RM114.7 mln and RM22.6 mln respectively, on better volume of shoes sold. We note that the slightly higher-than-proportionate increase in net profit was also partly due to absence of listing expenses which affected performance in 2QFY11.
- Maxwell's operations remain firmly supported by a strong balance sheet, backed by a NTA/share of 73 sen and a net cash/share of 48 sen as at end-September 2011.
- We maintain our existing FY11 revenue and net profit estimates of RM371.3 mln and RM66.9 mln respectively. We remain upbeat on Maxwell's outlook, riding along the expected increase in consumer spending on sporting goods. The trend has been encouraging so far, with volumes sold and ASP in RMB increasing steadily. We note however, that the Group's financial performance is affected marginally when translated into RM given the appreciation of RMB.

- We understand from management that Maxwell has recently secured a new customer – Li Ning Company Ltd, the No. 2 sportswear maker in China behind Nike – and is expected to deliver its first order of badminton shoes sometime in early 2012 that are meant for the South East Asian markets. Clinching this big-name customer is a positive development for Maxwell in our opinion, and we expect the orders from Li Ning to increase over time once Maxwell has proven itself to Li Ning.
- No dividend was declared for the quarter under review.

Recommendation

We retain our **Buy** call on Maxwell with an unchanged fair value of **58 sen**, derived from pegging a target PER of 3.5x against our FY11 net profit forecast. Its business fundamentals remain intact, with good prospects on the horizon. Meanwhile, from a valuation standpoint, it continues to trade at an undemanding prospective FY11 PER of 2.2x, with an attractive expected net dividend yield of 9.4%. We note that it is also trading below its current net cash/share of 48 sen.

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)	2.1	1.9	2.2
P/Cash Flow (x)	2.0	1.9	2.2
P/Book Value (x)	0.8	0.6	0.5
Dividend Yield (%)	-	9.3%	9.4%
ROE (%)	40.5%	31.8%	25.2%
Net gearing	net cash	net cash	net cash

P&L Summary

FYE Dec (RM m ln)	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%

Maxwell'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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