Maxwell to tie up with leading sports shoe brand

Deal will provide good long-term prospects for China-based company

by **Clint Loh**
FD@bizedge.com

KUALA LUMPUR: China-based shoe manufacturer Maxwell International Holdings Bhd is close to sealing a deal with a leading international sports shoe brand, according to CEO Xie Zhen'an.

In an interview with The Edge Financial Daily yesterday, Xie said the tie-up will provide good long-term prospects for Maxwell, adding that the international brand will be disclosed once the deal is finalised.

Through its wholly owned subsidiary, Jinjiang Zhenxing Shoes & Plastics Co Ltd, Maxwell is an original equipment manufacturer (OEM) and original design manufacturer (ODM) in the sports shoe market. Its end-customers include international brand names such as Yonex, Diadora, Kappa, Brooks and FILA.

Maxwell which is listed on Bursa Malaysia, announced a 13.8% year-on-year rise in net profit yesterday to RM22.59 million for 3QFY11 ended Sept from RM19.85 million a year ago. Due to better sales, revenue also increased by a larger margin of 18.4% to RM114.7 million from RM96.88 million previously. Basic earnings per share for the quarter was 5.65 sen compared with 5.90 sen a year ago.

For the nine months to Sept 30, net profit was unchanged at RM49.6 million on revenue growth of 10.8% to RM272 million from RM245.3 million a year ago.

For FY10, it posted a net profit of RM65.14 million on the back of RM335.92 million revenue. It is noteworthy that between 2006 and 2010, Maxwell's revenue and net profit saw a compound annual growth rate of 46% and 53%.

Maxwell's customers are mainly trading houses and brand distributors based in China. Xie said these customers in turn export Maxwell's shoes to Europe, South and North America, Asia and Africa. In FY10, about 96% of its revenue came from China.

SUHAIMI YUSUF

Xie says investors should not stereotype China-based companies but instead judge them on merit.

Despite having sound financials, Maxwell, like other China-based companies listed on Bursa, has experienced steep declines in its share price. Xie said this is most likely due to a negative perception arising from accounting irregularities at some China-based companies listed in Singapore and elsewhere.

"The perception is that just because one apple is bad, then the others should be as well. I hope investors will eventually start to judge a company based on its merit," he said of Maxwell being stereotyped as a China-based company.

Maxwell's share price has fallen by 30% to close at 38 sen yesterday from its IPO price of 54 sen in January.

As at end-June, Maxwell had a net cash position of RM193.12 million with no borrowings.

Its prevailing share price of 38 sen is below its book value of 73 sen and its net cash per share of 48 sen as at end-September. It paid its maiden dividend of 3.35 sen per share in September, representing a net dividend yield of 8.8%. Maxwell has a dividend payout policy of 20%. Xie said these figures make Maxwell an undervalued company.

Compared with other China-based shoe companies listed on Bursa, Xie said Maxwell is slightly different because it focuses on ODM and OEM.

The other Chinese shoe companies, K-Star Sports Ltd, XiDeLang Holdings Ltd and Xingquan International Sports Holdings Ltd are primarily own-brand manufacturers (OBM) — their products are marketed and sold under proprietary brand names and distribution networks.

Unlike an OBM, he said Maxwell does not incur large expenditure in building and marketing its own brand name.

Maxwell has a design and development (D&D) department focusing on developing new designs in-house or in accordance to specifications provided by customers. Xie said this capability differentiates Maxwell from other OEMs. Maxwell develops 1,000 designs annually and will be increasing that number to 1,500 in the future, he said.

Maxwell is planning to increase its production capacity to 16 million pairs of shoes by adding another four more production lines to its current four production lines. Each production line has an annual capacity of two million pairs of shoes, he said.

Maxwell's production facility is located in Jinjiang, Fujian province. Xie said Jinjiang is the world's largest sports shoe hub and is in proximity to raw material sources and suppliers.

For the expansion, Maxwell has yet to decide if it will completely relocate its production facility or continue expanding in the same location. Adding production lines in the vicinity of its present facility will take a year to complete and cost around RM50 million to RM60 million, he said. It will involve tearing down a warehouse and then building an eight- to nine-storey building.

If Maxwell chooses to relocate, it will have to rebuild its facility at a new location with a larger land area. Xie said this option will take three years and provides better long-term prospects as there will be more space to add production lines there in the future.

In 2010, Maxwell produced 11.27 million pairs of shoes, of which 47% were outsourced externally. Xie said outsourcing allows Maxwell to limit the risk of an unexpected drop in demand or to cope with increasing demand. Xie added that gross profit margins from outsourcing and in-house production were almost the same in 2010.

Xie said shoe soles account for half of Maxwell's raw material costs, which made up 71% of Maxwell's total cost of sales in 2010. He said Maxwell is able to pass down increases in raw material costs to its customers.

To sustain consistent margins going forward, Xie said Maxwell ensures that it has at least a gross profit margin of 25% before accepting a sales order.