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Sound ground

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WHAT DO PIONEER, Yamaha, Sony, Onkyo, Philips, Thomson, Bose, Magnavox and Nakamichi have in common?

Apart from being established brand names in the home audio products market, the parts for these brands are all manufactured locally on an original equipment manufacturer (OEM) basis in Port Klang by Malaysian company Capetronic Consumer Electronics Holdings Bhd (Capetronic). Capetronic manufactures, assembles and exports integrated home audio products comprising compact disc (CD) players, CD changers, video CD players, tuners, receivers, speakers, amplifiers and other accessories. Soon-to-be-listed Capetronic is now concentrating on its original design manufacturer (ODM) business in addition to being an OEM. Capetronic chairman Mirzan Mahathir explains, 'As a ODM we develop our own design and manufacture the products. This will give us better margins as we determine the cost of the products.' He says the company has invested heavily on in-house research and development. It has a staff force of 34, whose main aim is to improve on existing manufacturing technologies to reduce unit cost per product.

What does the future hold for the company?

Mirzan elaborates, 'More international companies are sourcing components and parts from local manufacturers due to geographical convenience, coupled with an increase in cost of components from Japan. Furthermore, the Multimedia Super Corridor will accelerate the development of the electrical and electronic industry especially in merging consumer electronics with information technology. This augurs well for Capetronic.' One of the company's priorities is to construct its own manufacturing plant near its existing plant in Port Klang which is rented. Construction of the new factory will commence in July this year and is expected to be completed by April 1998. Production is scheduled for May 1998, Mirzan says.

The total cost of the new plant is estimated at RM44.8 million. It will have 16 production lines with the capacity to produce 90,000 units of music centres and 20,000 units of audio systems per month.

Capetronic is making an offer for sale of four million shares and a public issue of six million shares at RM7.80 each enroute to a listing on the second board of the Kuala Lumpur Stock Exchange. Its net price earnings (PE) multiple based on the offer price is 11.54 times.

Capetronic has forecast a net profit of RM26.75 million for the year ending Dec 31, 1997. The profit, which is tax exempt due to the company's pioneer status, will yield an earnings per share of 67.6 sen on the enlarged share capital of 39.58 million shares.

Based on the profit forecast, Capetronic is expected to be in a position to pay a gross dividend of 18 sen per share with a net dividend cover of 3.75 times.

According to the company's prospectus, the new share issue will raise gross proceeds amounting to RM46.8 million and will be utilised mainly to set up the new factory.

Capetronic was set up eight years ago as a subsidiary of Capetronic Hong Kong to manufacture audio systems locally. Although Capetronic was initially a wholly-owned subsidiary of Capetronic HK, vast opportunities were identified in Malaysia and Mirzan was brought in as chairman in 1995. The Capetronic group comprises a holding company with subsidiaries

Capetronic (M) Corp Sdn Bhd (CMC) and Capetronic Consumer USA (HK) Ltd. The latter is currently inactive. CMC's main activities are in the manufacture and sale of audio systems, CD players and record players. According to the prospectus, Capetronic is ultimately controlled by Cayman Islands-incorporated The Grande Holdings Ltd (a well known group in the region with a diversified range of activities) and Iskandar Holdings Sdn Bhd. After the listing, The Grande Holdings will hold a 53.52 per cent stake in Capetronic from the earlier 75 per cent stake and Iskandar Holdings, a company controlled by Mirzan, will hold 21.21 per cent stake from 25 per cent prior to listing.

An analyst observes that Capetronic is heavily dependant on what happens in the United States and European markets as most of its exports are to those markets. The group is entirely dependant on the export market since 100 per cent of the products that it manufactures is for the export market. (Refer to Table 1.)

The prospectus addresses these worries. To mitigate this risk, the group will endeavour within two years of listing to obtain new customers to expand its customer base to minimise any possible loss in sales. Moreover, to minimise the impact of a decline in sales volume the group, with help from The Grande Holdings Group, has established a distribution/sales network with Japanese, American and European key players in the market. One of The Grande Holdings subsidiaries is also involved in the sales of audio products under the Nakamichi brand-name.