

29 July 2024

Consumer Cyclical | Consumer Products

DXN Holdings (DXN MK)

Buy (Maintained)

Ever Mushrooming; Stay BUY

Target Price (Return): MYR0.93 (+46%)
Price (Market Cap): MYR0.64 (USD678m)
ESG score: 2.9 (out of 4)
Avg Daily Turnover (MYR/USD) 3.29m/0.70m

- **Maintain BUY and MYR0.93 TP, 46% upside with 6% FY25F (Feb) yield.** DXN's 1QFY25 results broadly met expectations, as key existing markets continued to deliver solid growth. The positive momentum should sustain, given its strategy to recruit new members and enhance overall member productivity. Its current valuation is attractive – in view of its consistent earnings track record post-listing, expansion of the Brazil market as a medium-term growth driver, and sturdy balance sheet (1QFY25 net cash: MYR469m or 9.4 sen/share) to facilitate generous dividend payouts.

- **DXN's 1QFY25 results are broadly within expectations.** Core net profit of MYR82m accounted for 22% of our and consensus' full-year forecasts but we expect better quarters ahead on deeper market penetration. As such, we make no changes to our earnings forecasts and DCF-driven TP of MYR0.93 (inclusive of a 2% ESG discount), which implies 12x P/E FY25F. The valuation is below the consumer sector average, to take into account the highly regulated directly selling industry DXN is in.

- **Results review.** YoY, 1QFY25 revenue rose 12% to MYR475m, primarily underpinned by robust growth in major existing markets including Peru Bolivia, and Mexico on the back of effective marketing strategies and new product launches. 1QFY25 GPM expanded by 0.8ppt to 80.2%, which we believe was driven by price adjustments and greater operational efficiency. That said, 1QFY25 core net profit fell 8% to MYR82m mainly due to the swing in FX adjustments (MYR12m) and higher donation amount (MYR4m). QoQ, 1QFY25 revenue and core net profit inched up by 1%.

- **Outlook.** DXN's earnings growth should be supported by the relentless growth momentum in major markets. The core strategies to recruit new members and enhance overall member productivity will continue to revolve around member engagements, complemented by launches of new quality products. Meanwhile, the recent capacity expansion should help DXN to capture rising demand and roll out new product categories to broaden the addressable markets. In addition, the consequent efficiency gain together with annual price adjustments will sustain the higher GPM of c.80% notwithstanding the rising input and overhead costs. On top of that, we look forward to the results of its entry into the Brazil market, as it leverages on its established network in Latin America. We expect to see significant earnings contributions from this venture in 3-4 years.

- **Downside risks to our recommendation** include major delays in expansion plans and unfavourable regulatory changes.

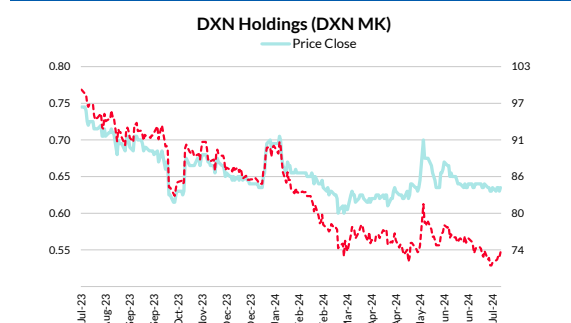
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	0.0	0.8	(3.1)	(12.4)
Relative	(10.9)	(1.4)	(1.6)	(10.2)	(23.7)
52-wk Price low/high (MYR)				0.60	–0.75



Source: Bloomberg

Forecasts and Valuation	Feb-23	Feb-24	Feb-25F	Feb-26F	Feb-27F
Total turnover (MYRm)	1,601	1,803	2,059	2,313	2,598
Recurring net profit (MYRm)	301	335	377	431	492
Recurring net profit growth (%)	26.2	10.9	12.7	14.2	14.2
Recurring P/E (x)	10.50	9.46	8.39	7.35	6.44
P/B (x)	3.3	2.5	2.2	1.9	1.6
P/CF (x)	12.81	8.77	7.47	6.33	5.57
Dividend Yield (%)	1.9	5.7	6.0	6.8	7.8
EV/EBITDA (x)	7.08	6.50	5.13	4.24	3.71
Return on average equity (%)	32.0	27.8	27.5	27.3	27.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 2.9 (out of 4)

E: GOOD

DXN has taken active steps to manage its environmental risks. It has established policies and procedures for responsible energy consumption management and scheduled waste disposal.

S: GOOD

It promotes equality with career advancement based on merit, regardless of race and gender. It supports employee development through sponsored training, and engages in charitable activities like educational tours, direct donations, health contributions, disaster relief matching, and blood drives. In 2020, DXN launched the One Dollar One Child campaign, distributing free Spirulina to underprivileged children and encouraging member donations.

G: GOOD

DXN has applied and adopted the majority of the best practices of the Malaysian Code on Corporate Governance. The company boasts a diverse board of skilled directors, with women representing over 30% of the Board. It provides timely, consistent, and accurate information to shareholders.

Financial Exhibits

Asia	Financial summary (MYR)	Feb-23	Feb-24	Feb-25F	Feb-26F	Feb-27F
Malaysia	Recurring EPS	0.06	0.07	0.08	0.09	0.10
Consumer Cyclical	DPS	0.01	0.04	0.04	0.04	0.05
DXN Holdings	BVPS	0.19	0.26	0.29	0.34	0.39
DXN MK	Return on average equity (%)	32.0	27.8	27.5	27.3	27.2
Buy						
Valuation basis	Valuation metrics	Feb-23	Feb-24	Feb-25F	Feb-26F	Feb-27F
DCF	Recurring P/E (x)	10.50	9.46	8.39	7.35	6.44
	P/B (x)	3.3	2.5	2.2	1.9	1.6
	FCF Yield (%)	4.9	7.7	9.6	12.0	8.5
	Dividend Yield (%)	1.9	5.7	6.0	6.8	7.8
Key drivers	EV/EBITDA (x)	7.08	6.50	5.13	4.24	3.71
i. New market ventures;	EV/EBIT (x)	6.47	5.75	4.59	3.80	3.31
ii. Innovative product launches;						
iii. Capacity expansion.						
Key risks	Income statement (MYRm)	Feb-23	Feb-24	Feb-25F	Feb-26F	Feb-27F
i. Major delay in expansion plans;	Total turnover	1,601	1,803	2,059	2,313	2,598
ii. Unfavourable regulatory changes;	Gross profit	1,303	1,437	1,651	1,855	2,087
iii. Country risks.	EBITDA	419	426	517	585	661
	Depreciation and amortisation	39	56	62	69	81
	Operating profit	457	482	579	654	741
	Net interest	(2)	(3)	(0)	5	9
	Pre-tax profit	456	479	578	659	751
	Taxation	(166)	(155)	(187)	(213)	(243)
	Reported net profit	275	311	377	431	492
	Recurring net profit	301	335	377	431	492
Company Profile	Cash flow (MYRm)	Feb-23	Feb-24	Feb-25F	Feb-26F	Feb-27F
DXN is principally involved in marketing health-orientated and wellness consumer products through a direct selling model. Other business activities include conducting laboratory testing services for third parties, offering of lifestyle products, and operating a café.	Change in working capital	(52)	29	(15)	5	5
	Cash flow from operations	247	361	424	500	568
	Capex	(91)	(119)	(120)	(120)	(300)
	Cash flow from investing activities	(95)	(97)	(120)	(120)	(300)
	Dividends paid	(70)	(105)	(189)	(215)	(246)
	Cash flow from financing activities	(103)	(113)	(189)	(323)	(237)
	Cash at beginning of period	410	459	633	748	805
	Net change in cash	50	152	115	57	32
	Ending balance cash	459	611	748	805	837
	Balance sheet (MYRm)	Feb-23	Feb-24	Feb-25F	Feb-26F	Feb-27F
	Total cash and equivalents	503	642	757	814	846
	Tangible fixed assets	646	753	811	862	1,081
	Total assets	1,760	2,099	2,344	2,516	2,836
	Short-term debt	188	162	162	50	50
	Total long-term debt	50	3	3	3	3
	Total liabilities	735	741	797	754	828
	Total equity	1,025	1,358	1,547	1,762	2,008
	Total liabilities & equity	1,760	2,099	2,344	2,516	2,836
	Key metrics	Feb-23	Feb-24	Feb-25F	Feb-26F	Feb-27F
	Revenue growth (%)	28.8	12.6	14.2	12.4	12.4
	Recurrent EPS growth (%)	26.2	10.9	12.7	14.2	14.2
	Gross margin (%)	81.4	79.7	80.2	80.2	80.3
	Operating EBITDA margin (%)	26.1	23.6	25.1	25.3	25.4
	Net profit margin (%)	17.2	17.2	18.3	18.6	18.9
	Dividend payout ratio (%)	21.8	57.7	50.0	50.0	50.0
	Capex/sales (%)	5.7	6.6	5.8	5.2	11.5
	Interest cover (x)	78.4	36.0	50.0	92.1	215.0

Source: Company data, RHB

Results At a Glance

Figure 1: DXN's results review

FYE Feb (MYRm)	1QFY24	4QFY24	1QFY25	QoQ (%)	YoY (%)	Comments
Revenue	424.0	470.6	475.1	0.9	12.0	Key markets like Peru, Bolivia and Mexico continue to grow strongly
EBITDA	136.8	132.6	151.9	14.5	11.0	
EBITDA Margin (%)	32.3	28.2	32.0	3.8	(0.3)	
Depreciation	(12.1)	(15.9)	(16.4)	3.3	36.2	
EBIT	124.7	116.7	135.5	16.1	8.6	
EBIT Margin (%)	29.4	24.8	28.5	3.7	(0.9)	
Net finance costs	(0.6)	0.3	0.9			
Pretax profit	124.1	117.0	136.3	16.5	9.8	
Pretax Margin (%)	29.3	24.9	28.7	3.8	(0.6)	
Tax	(43.3)	(35.0)	(49.2)	40.8	13.6	
Effective tax rate (%)	(34.9)	(29.9)	(36.1)	6.2	1.2	
Minority interests	3.2	3.0	1.5			
Net profit	77.6	79.0	85.6	8.3	10.3	
Net Margin (%)	18.3	16.8	18.0	1.2	(0.3)	
Extraordinary Item(s)	(11.4)	(2.2)	3.7			1QFY25: Reversal of provision for contingency. 1QFY24: IPO expenses and impairment loss on PPE. 4QFY24: Provision for customs duty charges in Morocco.
Core net profit	89.0	81.2	81.8	0.8	(8.1)	At 22% of full-year forecasts. YoY decline mainly due to negative swing in FX adjustments (MYR11.6m), and higher donations (MYR3.5m).
Net Margin (%)	18.3	16.8	18.0	1.2	(0.3)	Declared first interim DPS of 0.9 sen vs 1QFY24: 0.8 sen

Source: Company data, RHB

Emissions And ESG

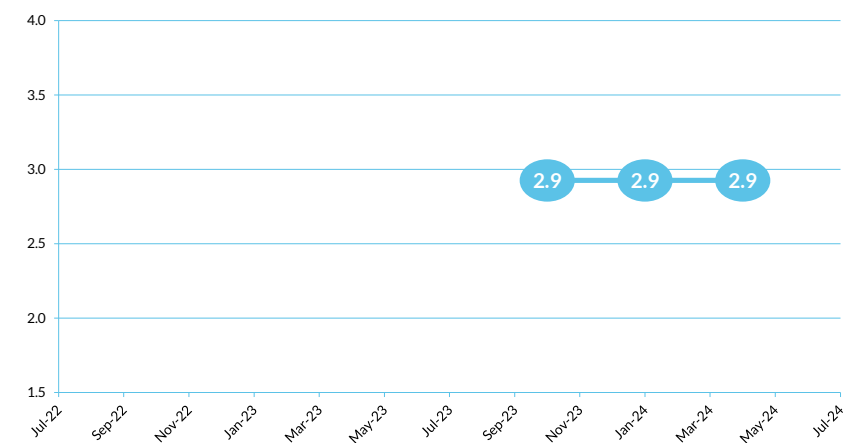
Trend analysis	Emissions (tCO2e)	Feb-22	Feb-23	Feb-24
N/A	Scope 1	na	2,755	na
	Scope 2	na	na	na
	Scope 3	na	na	na
	Total emissions	na	2,755	na

Source: Company data, RHB

Latest ESG-Related Developments

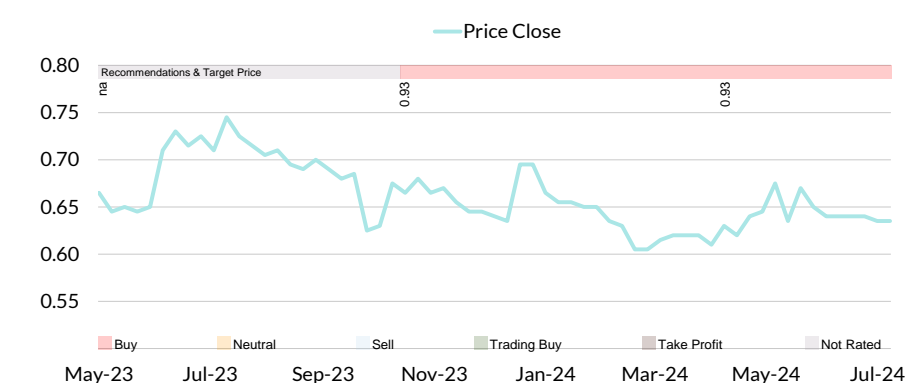
- DXN has formulated sustainability policies to provide an underlying structure for its internal control and support governance.
- It integrated ESG practices into its product manufacturing and distribution processes by implementing a comprehensive quality control procedure at each stage of production.
- In FY23, DXN was involved with various sponsorships and made donations exceeding MYR5m as part of its efforts to contribute to the betterment of society.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-04-24	Buy	0.93	0.63
2023-10-31	Buy	0.93	0.67

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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