

Trading idea – DXN Holdings

More consolidation ahead

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Information

BURSA	5074/DXN
BLOOMBERG	DXN MK
Issued Shares (m)	240.76
Price (RM)	1.37
Market cap (RM'm)	329.84
3M avg daily vol ('000)	531
52-wk High/Low	1.57/0.77
KLCI component	No
Listing date	30 Sep 03
Internet access	www.dxn2u.com

Major shareholders

Dato Dr Lim Siow Jin	48.8%
Lim Boon Yee	17.5%

Price Performance

	1M	3M	6M	12M
Absolute (%)	13.2	12.2	-0.7	90.3
Relative (%)	15.1	11.1	-2.6	76.5

Summary Earnings Table

FYE Feb	FY09	FY10	FY11	FY12E
PAT (RM'm)	20.3	28.4	41.5	38.0
Issued shrs (m)	240.8	240.8	240.8	240.8
EPS (sen)	8.4	11.8	17.2	15.8
Dividend (sen)	1.3	3.5	9.8	7.9
Book value (RM)	0.77	0.86	0.95	1.05
P/E (x)	16.2	11.6	8.0	8.7
P/B (x)	1.8	1.6	1.4	1.3
Yield (%)	0.9	2.6	7.1	5.8
Netdebt (RM'm)	(76.5)	(36.0)	11.7	*13.4

Bursa, Company, HLIB

*As at 1QFY12

BUSINESS PROFILE

- DXN's main products are made from lingzhi extracts. It has > 90 types of products consisting of health food supplements, herbal candies, F&B, personal care, skin care and household products. DXN has presences in over 150 countries and its own brand name is recognized internationally. Its largest market is the Philippines (about 29% to FY11 turnover), followed by Mexico (19%), Malaysia (10%) and India (8%).

1QFY12 RESULTS REVIEW

- 1Q12 revenue came in at RM68.1m (+0.4% yoy, 5.6% qoq) while 1Q12 EBIT was RM13.2m (+3.9% yoy, 17% qoq). EBIT margins also improved to 19.4% (4Q11:17.5%; 1Q11:18.7%). The better performance was mainly attributed to higher sales from MLM segment.
- 1Q12 net profit came to RM9.1m (-9.5% yoy) mainly due to higher effective tax rates of 28.8% (1Q11: 19.3%) as certain foreign subsidiaries are subjected to higher corporation taxes. However, on qoq basis, net profit surged 34% in the absence of provision in tax and members bonuses.

OUTLOOK & PROSPECTS:

- DXN is anticipating topline growth within the 10% range, as it is aggressively penetrating more overseas markets such as Latin America (i.e. Peru and Mexico) to mitigate the softer markets in Middle East, arising from the rising geopolitical risks, as well as weak economic performance in U.S. and the sovereign debts crisis in European countries.
- Despite the topline growth, bottomline is likely to be affected by the escalating raw material costs and concern of weakening greenback. Although DXN is able to increase its product selling prices, rising raw material costs (i.e. coffee and cocoa powder jumped over 20% yoy) will continue to crimp margins, as these two components contributed over 50% to MLM sales.
- Moreover, the continued slump in US\$ versus RM (as exports account for >85% MLM sales) will adversely affect its earnings despite adopting a hedging policy between 35-40% of its sales proceeds.
- Potential dilution in EPS as DXN is contemplating to raise funds for its coffee making plant (capex RM30-40m) via private placements or borrowings.
- Given the uncertainty ahead and management is cautiously guiding for flattish earnings growth in FY12 on the back of projected 10% growth in turnover.
- We believe DXN share prices are likely to find its base around RM1.35, implying 8.5x P/E (30% discount to industry) on FY12 net profit guidance of RM38m or EPS of 15.8sen.
- The discount is due to its potential negative EPS growth, smaller liquidity, limited institutional shareholdings and potential earnings dilution from a private placement.

Further consolidation ahead amid negative indicators

TECHNICAL VIEW:

- After breaking out from the key downtrend line resistance (from 17 Jan) on 18 Jul, DXN surged to as high as RM1.49 (25 Jul) before closing lower at RM1.37 last Friday following a bearish three outside down candlesticks formation.
- As DXN is trending below 10-d SMA and major indicators are showing signs of lethargy, the bulls are likely exhausted. Major support is 200-d SMA (RM1.33), followed by RM1.31 (mid Bollinger band) and RM1.27 (50-d SMA). Strong support is seen around the downtrend line resistance near RM1.23. A cluster of strong resistance zones are RM1.49 to RM1.57 (52-week high).
- **Sell into strength is a better option here but remember to cut loss at RM1.49.**

DXN DAILY CHART: MORE CONSOLIDATION AHEAD AMID NEGATIVE INDICATORS



DXN WEEKLY CHART: LIKELY TO CONSOLIDATE NEAR 10-D SMA BEFORE UPTREND RESUMES



RESULTS REVIEW

F Y E Feb 28	1 Q 11	4 Q 11	1 Q 12	C h g s y - y	C h g s q - q
Turnover	67.8	64.5	68.1	0.4%	5.6%
E B I T	12.7	11.3	13.2	3.9%	17.0%
P B T	12.5	11.2	13.1	4.5%	16.8%
Tax	(2.4)	(4.3)	(3.8)		
N e t P r o f i t	10.1	6.8	9.1	-9.5%	34.0%
I s s u e d s h r s	240.8	240.8	240.8		
E P S (s e n)	4.2	2.8	3.8	-9.5%	34.0%
D P S (s e n)	2.00	2.00	2.25	12.5%	12.5%
B V / s h r (R M)	0.89	0.95	0.97	8.9%	2.5%
N e t c a s h (R M ' m)	(37.54)	11.70	13.4	> 100%	14.5%
E B I T M a r g i n	18.7%	17.5%	19.4%		
P B T M a r g i n	18.5%	17.4%	19.2%		
E f f e c t i v e t a x r a t e s	19.3%	38.8%	28.8%		

Source: Bursa

Peers comparison

Stocks	FYE	29-Jul	Mktcap	FY11	FY12	FY12/11 EPS	FY11	FY12	FY11	FY12
			(RM'm)	EPS	EPS	growth	P/E	P/E	DY	DY
				RM	RM		(x)	(x)	(%)	(%)
DXN	28-Feb	1.37	330	0.18	0.16	-14%	7.5	8.7	7.1	5.8
AMWAY	31-Dec	9.40	1,545	0.56	0.61	7%	16.7	15.5	6.1	6.4
HAIO	30-Apr	2.07	419	0.13	0.16	18%	15.6	13.2	3.6	4.3
ZHULIAN	30-Nov	1.76	810	0.21	0.23	10%	8.6	7.8	7.1	8.0
Average							13.6	12.2	5.6	6.2

Source:Bloomberg, HLIB

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