

DXN Holdings Berhad (5318)



Jet-Fuelled Corporate Governance Concern

Sell (Trading)

TP: RM 0.40 (-16%)

Current Share Price: RM 0.49

Dividend
Yield

Investment Horizon
3 months

Valuation

Our target price is based on:

FY26F PE of 6.5x, lower average forward PE than its peers of 13x. We are cautious on its margin compression on extra expenses and cost inflation.

Questionable RPT from jet lease



DXN recently announced a charter agreement to lease a corporate jet for business travel, costing RM29mil (USD 6.6mil). This jet will primarily serve key executives and top performers who have reached "crown ambassador" status, allowing them to visit strategic international markets more frequently. However, this decision brings additional expenses with an estimated of RM32mil, including charter fees and administrative costs. It is a related party transaction in which the aircraft is owned by LSJ Logistics Ltd, a wholly-owned subsidiary of LSJ Global Sdn Bhd, a private company substantially owned by Datuk Lim Siow Jin and his spouse, Datin Leong Bee Ling. Given this ownership structure, questions have arisen regarding the rationale behind the jet lease. We believe this move may raise investor concerns about the additional costs potentially impacting the company's earnings.

Cloudy outlook



From a business performance perspective, we anticipate softer revenue ahead, primarily due to an increase in upfront purchases in 2QFY24 before price adjustment and declining in active members, by 20% from 4.5mil in FY22 to 3.6mil in FY24. Additionally, we are concerned about profitability pressures from rising raw material costs and increased shipping expenses, compounded by the added costs associated with the corporate jet lease. The fortified food and beverages segment contributes 71% of the group's total revenue and is expected to feel the most significant impact. As a result, we forecast lower earnings for FY26F.

Potential reputation risk

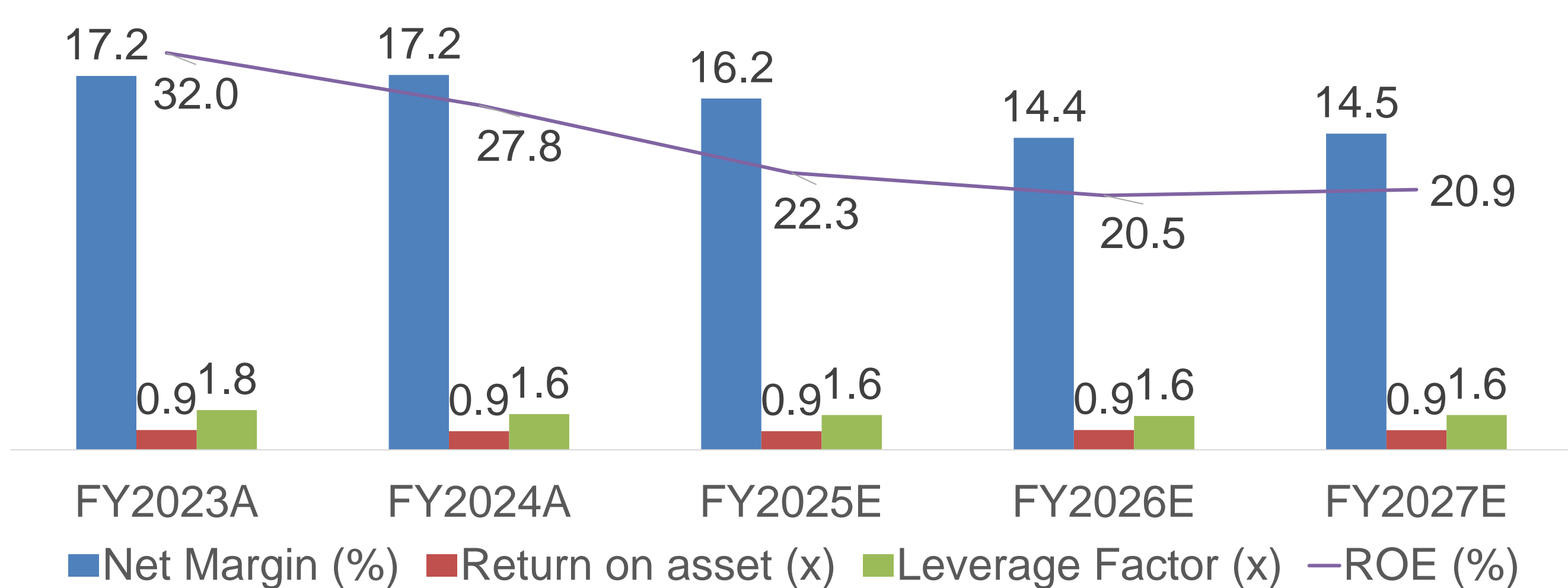


We believe DXN's continued undervaluation relative to its peers is primarily due to market fragmentation. Approximately 35% of its revenue originates from countries such as Peru, Bolivia and etc with minimal regulatory oversight, where direct selling business models may be considered non-compliant. This exposes the group to significant risks should these laws or regulations change, potentially impacting revenue. There is an inherent risk of fraud cases in these regions, which could further damage the company's reputation.

Financial Exhibits

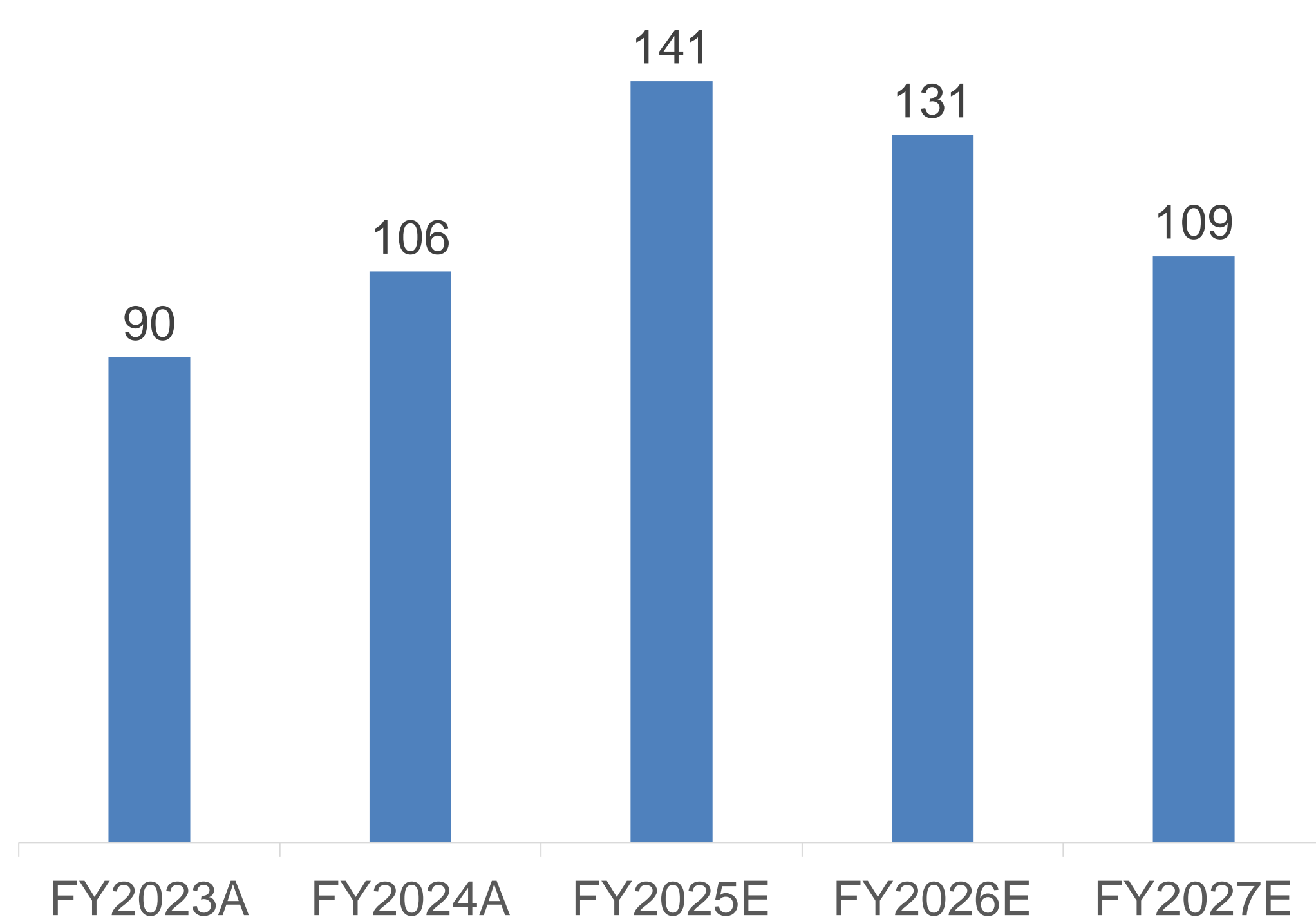
| FYE 28 Feb | FY2023A | FY2024A | FY2025E | FY2026E | FY2027E |
|-----------------------|---------|---------|---------|---------|---------|
| Revenue (RMm) | 1,600.8 | 1,803.2 | 1,983.5 | 2,181.9 | 2,509.2 |
| EBITDA (RMm) | 486.6 | 537.1 | 525.6 | 534.6 | 560.3 |
| Pretax profit (RMm) | 455.5 | 479.0 | 505.8 | 501.8 | 537.0 |
| Net profit (RMm) | 289.3 | 324.0 | 333.8 | 326.2 | 349.0 |
| EPS (sen) | 5.8 | 6.5 | 6.7 | 6.5 | 7.0 |
| PER (x) | 8.4 | 7.5 | 7.3 | 7.5 | 7.0 |
| Core net profit (RMm) | 275.4 | 311.0 | 320.5 | 313.1 | 335.1 |
| Core EPS (sen) | 5.5 | 6.2 | 6.4 | 6.3 | 6.7 |
| Core EPS growth (%) | | 12.9 | 3.0 | (2.3) | 7.0 |
| Core PER (x) | 8.9 | 7.9 | 7.6 | 7.8 | 7.3 |
| Net DPS (sen) | 0.25 | 3.60 | 3.60 | 3.60 | 3.60 |
| Dividend Yield (%) | 0.5 | 7.3 | 7.3 | 7.3 | 7.3 |
| ROE (%) | 32.0 | 27.8 | 22.3 | 20.5 | 19.2 |
| P/BV (x) | 2.4 | 1.8 | 1.6 | 1.4 | 1.4 |

Return of Equity

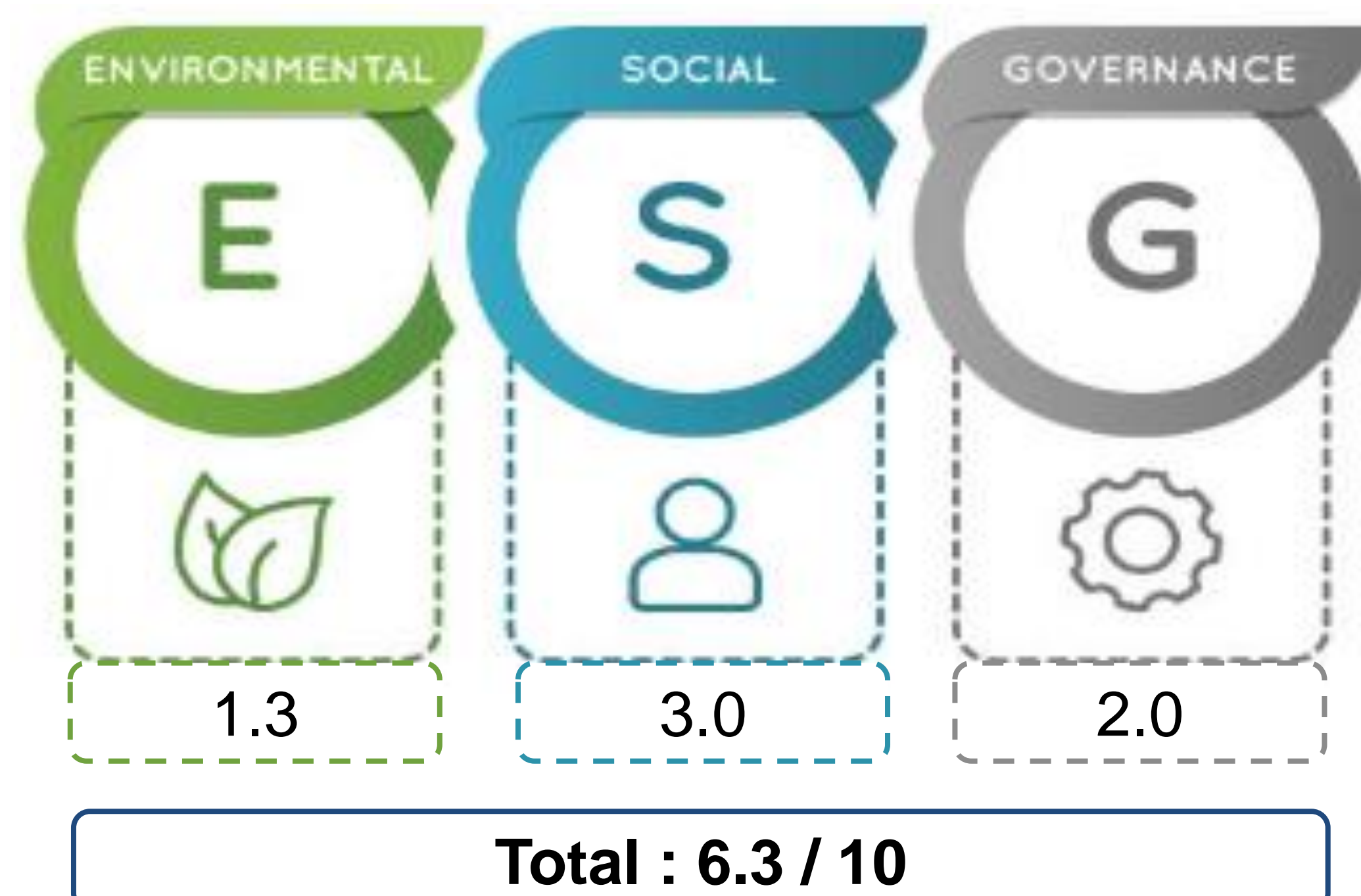


➡➡➡ We project the ROE to stay above 22% from FY25F to FY27F, as effective management and potentially attractive growth and better profit margin

Cash Conversion Cycle




ESG Matrix



Based on FY23 annual report

Key Assumptions

| Revenue Growth | FY2024E | FY2025E | FY2026E |
|---|---------|---------|---------|
|  South America | 10% | 10% | 10% |
| Asia (excluding Malaysia) | 8% | 8% | 8% |

Company Background

DXN primarily focuses on the sale of health and wellness consumer products, including fortified foods and beverages (FFB), health and dietary supplements (HDS), personal care and cosmetics (PCC), and other related items. Its diverse product portfolio is distributed through a direct-selling network and company-operated sales branches. DXN also benefits from a fully integrated supply chain, with 2 R&D centers, 6 cultivation sites, and 10 manufacturing facilities across Malaysia, China, India, Indonesia, and Mexico. Its direct selling network comprises over 14.9mil registered members in more than 180 countries.

SWOT Analysis

Strengths

- Established brand and global presence
- Vertically integrated supply chain
- Diverse product portfolio
- Strong network marketing model

Weakness

- Dependence on raw material
- Higher operational cost

Opportunities

- Rising demand for health and wellness products
- Expansion in emerging markets
- Product innovation and diversification

Threat

- Raw material price volatility
- Intense market competition and lesser active member
- Fraud cases in direct selling business model
- Economic uncertainty and consumer sentiment

Peer Comparison

| Name | Last price (RM) | Market Cap (RM'm) | FYE | Earnings Growth | | | PE | | Div. Yield | ROE |
|---|-----------------|-------------------|---------|-----------------|-------------|-------------|-------------|-------------|------------|-------------|
| | | | | 1-yr Fwd | 2-yr Fwd | Hist. | 1-yr Fwd | 2-yr Fwd | 1-yr Fwd | Hist. |
| BESHOM HOLDINGS BHD | 0.89 | 253.5 | 04/2025 | 53.4 | 17.1 | 24.0 | 15.1 | 13.0 | 4.1 | 3.4 |
| AMWAY MALAYSIA HOLDINGS BHD | 6.92 | 1127.7 | 12/2024 | -9.3 | 3.4 | 8.3 | 10.8 | 10.4 | 7.2 | 51.5 |
| Simple Avg | | | | 22.0 | 10.3 | 16.2 | 12.9 | 11.7 | 5.7 | 27.4 |
| DXN HOLDINGS BHD <small>As 7 November 2024</small> | 0.515 | 2436.4 | 02/2025 | 6.4 | 16.8 | 7.8 | 6.9 | 6.0 | 6.7 | 27.8 |

Investment Risk

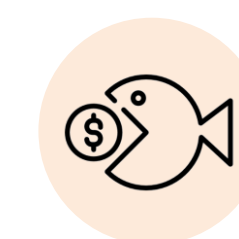
The following represent the greatest risks to our investment thesis:



Regulatory and compliance risk



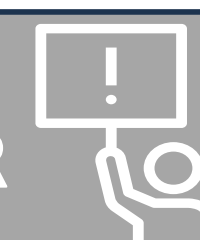
Lack of new active members



Commodity Price Fluctuations



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