

DXN Holdings (DXN MK)

The King of mushrooms

Global direct selling network

DXN is a global health and wellness direct selling group with a health and wellness consumer product portfolio of 452 SKUs under their belt. The group has a global distribution footprint, with 79 sales branches and 12 external distribution agencies across 48 countries as at 31 Mar 2023. These strategically-situated branches and agencies support DXN's 14.9m registered members and 3.6m active members in over 180 countries.

Vertically integrated business

DXN is vertically integrated throughout its value chain. It exerts full control from research to cultivation to manufacturing, which ensures that strict production quantity and quality standards are met. Its facilities are also strategically located to be close to key markets along with added local advantages relating to labour, land and climate factors. Based on gross revenue contribution, c.90% of its direct selling products sold are manufactured in-house historically. With this, supply constraints or production bottlenecks can also be quickly rectified.

3-year net profit CAGR of 12%

We estimate a 3-year (FY23-FY26E) core net profit CAGR of 12%, largely driven by a 3-year revenue CAGR of 16%, stable operating margins of 29% from FY24-FY26E, and an effective tax rate of 37% p.a.. Topline growth will mainly be driven by higher active member growth and average revenue/active members in the Latin American countries.

Target price of MYR0.90

We peg DXN's earnings to 11x CY24E PER to derive our MYR0.90 target price. Our target PER multiple implies a 10% premium to CY24E domestic peer average of 10x (market weighted) given DXN's steady 3-year forward net profit CAGR of 12% and superior ROAEs of 27%-31% p.a. compared to its peer range of 21%-22%. DXN's PEG of 0.7x, at current share price, also compares favourably relative to its domestic peer's average of 1.1x.

FYE Feb (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	1,243	1,601	1,947	2,282	2,416
EBITDA	401	496	603	695	734
Core net profit	237	306	342	401	426
Core EPS (sen)	4.9	6.3	7.1	8.3	8.8
Core EPS growth (%)	25.2	29.2	11.6	17.3	6.3
Net DPS (sen)	2.5	1.5	3.5	4.2	4.4
Core P/E (x)	na	na	10.2	8.7	8.2
P/BV (x)	na	na	2.8	2.4	2.1
Net dividend yield (%)	na	na	4.9	5.8	6.1
ROAE (%)	36.2	32.0	30.9	29.8	27.4
ROAA (%)	17.0	18.9	17.4	17.3	16.4
EV/EBITDA (x)	8.5	6.7	5.1	4.2	3.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	325	373	422
MIBG vs. Consensus (%)	-	-	5.3	7.4	1.1

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BUY

Share Price MYR 0.72
12m Price Target MYR 0.90 (+29%)

Company Description

DXN Holdings distributes consumer products globally under a direct selling model

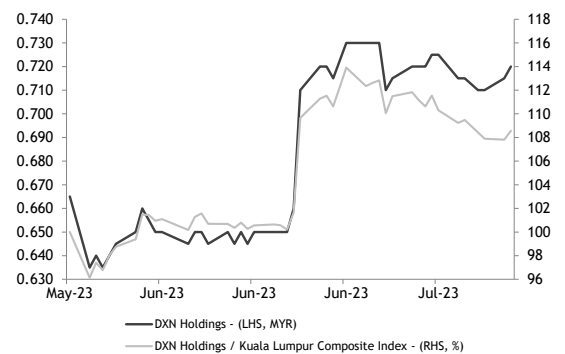
Statistics

52w high/low (MYR)	na/na
3m avg turnover (USDm)	1.9
Free float (%)	na
Issued shares (m)	4,825
Market capitalisation	MYR3.5B USD760M

Major shareholders:

LSJ Global Sdn Bhd	68.0%
Gano Global	13.3%

Price Performance



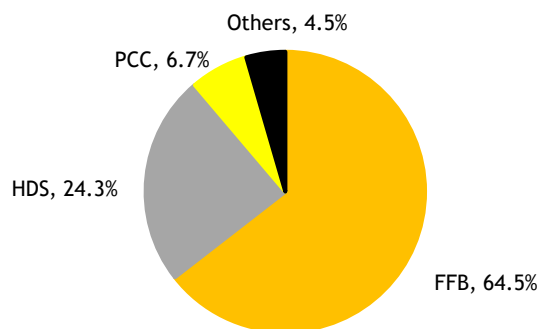
	-1M	-3M	-12M
Absolute (%)	1	na	na
Relative to index (%)	(1)	na	na

Source: FactSet

Value Proposition

- DXN is a global health and wellness direct selling group with 14.9m registered members and 3.6m active members spanning across >180 countries as at 31 Mar 2023.
- It is vertically integrated with 2 research facilities, 6 cultivation facilities and 10 manufacturing facilities in strategic locations worldwide.
- DXN's main product categories are fortified food and beverage (FFB), health dietary supplements (HDS), personal care (PCC) and other products.
- As at 31 Mar 2023, DXN has 452 SKUs under their belt with 327 SKUs manufactured in-house.

Revenue breakdown by product category (FY23)

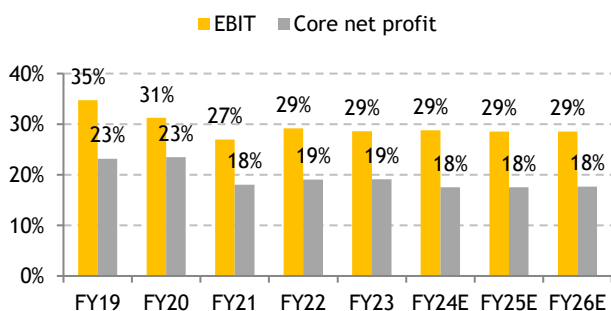


Source: Company

Financial Metrics

- We project a 3-year (FY23-FY26E) revenue CAGR of 15% predominantly from incremental increases in DXN's active member base coupled with growth in average revenue/active members in its top 10 countries.
- Our model has imputed for annual 3%-38% growth in active members and 3%-4% growth in blended annual revenue/active member p.a..
- FY24-FY26E operating margins are expected to be stable at 29% while effective tax rate is estimated to be higher at 37%.
- 30-50% target dividend payout policy with lower maintenance capex and positive FCF generation of >MYR340m p.a. in FY24-FY26E.

EBIT and core net profit margins



Source: Company

Industry outlook

Retail sales via direct selling for selected countries (USDm)

	CAGR	CAGR
	2016-2022E	2022E-2026F
Global	0.2%	4.6%
Peru	2.7%	7.1%
Mexico	1.4%	2.6%
India	4.6%	6.9%
Bolivia	4.8%	6.6%
Philippines	-0.7%	4.0%
Malaysia	9.6%	9.3%
US	1.1%	2.8%
Thailand	-1.8%	7.5%
Morocco	2.2%	8.7%

Source: Company, Maybank IBG Research

- Global retail sales in direct selling are expected to grow at a CAGR (2022E-2026E) of 4.6%, with faster pace growth of >5% in Peru, India, Bolivia, Malaysia, Thailand and Morocco.
- According to Frost & Sullivan, the FFB segment accounted for 8.7% of the global direct selling industry in 2022. FFB is forecasted to grow at a relatively faster CAGR of 10.1% from 2022 to 2026.
- The HDS segment comprised 17.1% of the global direct selling industry in 2021 and its projected CAGR from 2022 to 2026 is 3.6%.

Swing Factors

Upside

- Stronger-than-expected growth in active members, particularly in Latin America, Middle East and African countries.
- Faster pace of recovery in consumer spending in moderate growth regions (eg. South East Asia).
- Ramp-up in new product launches/innovations to keep up with changes in consumer preferences.

Downside

- Unexpected disruptions within in-house cultivation and production facilities.
- Product contamination or recalls could be detrimental to DXN's brand equity and future sales.
- Heavy reliance on external distribution agencies in certain key regions like the Middle East.

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1. Investment thesis

1.1 Introduction

DXN is a global health and wellness direct selling group with a health and wellness consumer product portfolio of 452 SKUs under their belt, of which 327 SKUs (or 72%) are manufactured in-house as at 31 Mar 2023. It has a global distribution footprint, with 79 sales branches and 12 external distribution agencies across 48 countries as at 31 Mar 2023. These strategically-situated branches and agencies support DXN's 14.9m registered members and 3.6m active members in over 180 countries.

1.2 Competitive edge

The group's key advantage lies with its vertically integrated business where it has full control over in-house research, raw material cultivation and processing, manufacturing functions, and marketing and distribution. This ensures that the standard of product quality and quantity produced are upheld and potential production bottlenecks or constraints can be addressed in a timely, optimal manner. DXN's strategically located facilities also allow the group to benefit from cost advantages in relation to labour, land, and climate factors.

1.3 Earnings growth drivers

Earnings growth in the near future will be driven predominantly by its ability to (i) grow its active membership base globally, and (ii) increase revenue growth/active member in DXN's top 10 markets. Penetration into new markets within Latin American and African countries are also vital to build the foundations for the group's next leg of growth in the medium-term. We project a 3-year FY23-FY26E net profit CAGR of 12%.

1.4 Risk factors

Main risk factors include: (i) negative consumer perception of the efficacy and safety of the natural ingredients used in its products, (ii) operational risks arising from DXN's own facilities given that majority of products are manufactured in-house, (iii) heavy reliance on external distribution agencies in key markets eg. the Middle East, (iv) reliance on third party suppliers for a portion of its natural ingredient requirement, (v) regulatory risks from global network jurisdictions, and (vi) foreign currency risk.

1.5 Target price of MYR0.90

We peg DXN's earnings to 11x CY24E PER to derive our MYR0.90 target price. Our target PER multiple implies a 10% premium to CY24E domestic peer average of 10x (market weighted) given DXN's steady 3-year forward net profit CAGR of 12% and superior ROAEs of 27%-31% p.a. compared to its peer range of 21%-22%. DXN's PEG of 0.7x, at current share price, also compares favourably relative to its domestic peer average of 1.1x.

2. The story begins with a mushroom

2.1 Where it began

DXN's history dates back to 1995 when its founder Datuk Lim Siow Jin (DLSJ) established DXN Marketing in Kedah, Malaysia. Back then, Ganoderma (a.k.a. Lingzhi / Reishi), a type of mushroom historically used in traditional and herbal medicines in Asia, was the primary ingredient used by DXN in its products to promote its health benefits. Today, DXN's business operations have expanded across the globe to include facilities for research and development, cultivation and manufacturing. Product ranges have also widened to include a variety of natural ingredients, i.e. Ganoderma, Spirulina, Cordyceps, Roselle, Beggarticks, Lion's Mane mushroom, Tiger Milk mushroom, pineapples, aloe vera and Noni.



Fig 1: Natural ingredients used in DXN's products



Ganoderma



Spirulina



Cordyceps



Roselle



Beggarticks



Lion's Mane



Tiger Milk Mushroom



Aloe Vera



Noni

Source: en.wikipedia.org, Company

2.2 Privatisation exercise in 2011...

The growth of the business culminated in the listing of DXN Holdings on the Main Board of the then KLSE (now Bursa Malaysia) on 30 Sep 2003. DXN was subsequently delisted on 27 Dec 2011 after their major shareholders, Deras Capital Sdn Bhd (now known as DXN Global Sdn Bhd), DXN Group Sdn Bhd, Temasek Sejati Sdn Bhd, Dato' Lim Boon Yee and Lim Yew Lin launched an offer to acquire DXN at MYR1.75/share. The privatisation was conducted on the grounds of internal restructuring, reorganisation and rationalisation of its business structure. The privatisation offer valued DXN Holdings at MYR394m back then. Based on FY11 financials (FYE Feb), the respective valuations at the offer price were as follows:

Fig. 2: Privatisation terms based on FY11 financials

	PER (x)	PB(x)	EV/EBITDA (x)
DXN Holdings	9.5	1.8*	6.2

Source: Company * Based on BVPS of MYR0.9963 as at 31 Aug 2011

2.3 ...followed by extensive restructuring

Since its privatisation, the group has:

Exponentially grown its health & wellness consumer products division. Sales of health and wellness consumer products totalled MYR255.2m back in FY11. With much of management's efforts concentrated on strengthening this business and broadening its reach, sales have grown at an exponential rate, with a 10-year CAGR (FY11-FY21) of 16%, to MYR1.2b in FY21.

Expanded into existing and new markets. The group has continued to deepen its penetration through sales branches and distributors, into its 36 existing markets (as at 2011) over the past decade. Simultaneously, it expanded its business presence into 14 new markets, namely Greece, Bolivia, Bulgaria, Germany, Italy, Spain, Panama, Ecuador, Turkey, Morocco, Uzbekistan, Nigeria, Mauritania and Poland.

Invested in production facilities across its product value chain. DXN now boasts a strategic network of production facilities in key geographical regions that ensures its research and development, cultivation and manufacturing requirements are supported. As at 31 Mar 2023, the group operated two research facilities, 6 cultivation facilities and 10 manufacturing facilities across Malaysia, China, India, Indonesia and Mexico.

Invested in other business activities that support its core businesses including its foray into (i) a F&B retail outlet (DXN Café) to promote engagement between members and its customers, (ii) the construction of DXN Cyberville (completed in 3QCY22), a wellness and retreat centre for its members to receive natural health treatments using its products, and (iii) the acquisition of Amazing Discovery Sdn Bhd which owns Boulder Valley, a lifestyle resort in Penang, Malaysia, offering accommodation and space for small parties and events.

Disposed of non-core businesses. Between FY13 and FY21, the group's clean-up of its corporate structure also involved the disposal of:

- DXN Comfort Tours Sdn Bhd, which operated flights and hotel booking services as well as inbound and outbound tour packages;
- DXN Land Sdn Bhd and its subsidiaries, which were involved in property development and property investment; and
- DXN Plantation Sdn Bhd which was involved in forest plantation, timber logging and related forestry support services.

2.4 Founder-led management team

DLSJ (aged 63) is currently the group's Executive Chairman. DXN has been under his stewardship since he founded the company in 1995. From 1996 to May 2022, DLSJ was the Chief Executive Officer (CEO) of the group. Currently, he is well supported by an experienced management team, all of whom have been with the group for at least 14 years.

At DXN's helm (CEO, since Jun 2022) is Teoh Hang Ching, who has over 14 years of experience in the direct selling industry. Mr Teoh has held positions in various fields before joining DXN as a senior manager in the CEO's office in 2003. He subsequently left the company and re-joined DXN in 2012 as regional manager, responsible for the Philippines branch and oversaw operations in India. Before he assumed his current role as CEO, he served as the group's Chief Marketing Officer since 2016.

CFO of the group is Lim Yew Lin, who joined the group back in 1994 as an accounts executive. She rose up the ranks over her >25 year career in DXN, undertaking various roles within its accounting and finance department before stepping into her current position as CFO in 2021.

CTO of DXN is Teoh Thean Yong, who is also the group financial controller. He has served the group for over 15 years. He joined DXN as an information system senior manager in 2003 and was subsequently promoted to IT Director in 2007, and to COO in 2016. Mr Teoh left the company in 2018 but re-joined as group financial controller in 2021. He was appointed CTO in Jan 2022.

COO of the group is Tan Hiyin Tiong, charged with overseeing DXN's product management and registration over the last 15 years. Mr Tan joined DXN as a pharmacist in 2003 and has rotated into various roles within the group's product department before being promoted to COO in May 2022.

Additionally, the Chief Marketing Officer (Prajith Pavithran) and Chief Manufacturing Officer (Kuah Lee Peng) have extensive experience in their respective fields. Mr Pavithran has 20 years of experience in sales and marketing and was involved with DXN's international business department before assuming his current role in May 2022. Ms Kuah also holds over 20 years of experience in quality assurance and manufacturing operations within F&B, traditional pharmaceutical and cosmetic industries. She has held various managerial positions in the group since she joined in 2002 before being promoted to Chief Manufacturing Officer in May 2022.

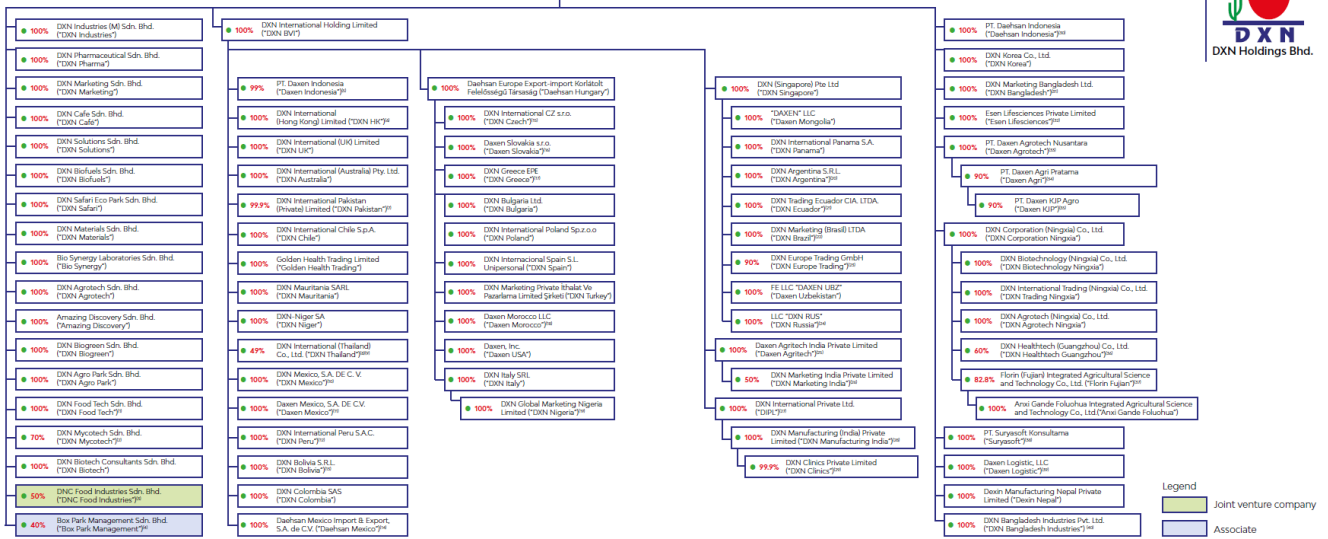


Datuk Lim Siow Jin, DXN Holding's founder and executive chairman.

2.5 Corporate structure

Fig 3: Current corporate structure

CORPORATE STRUCTURE



Source: Company

3. Products & distribution

3.1 Business overview

DXN traces its roots back to 1995, when DLSJ established DXN Marketing in Kedah, to promote the benefits of Ganoderma (also known as Lingzhi or Reishi), a type of mushroom, on human health. Since then, DXN has evolved into a vertically integrated business, while its product range has broadened to include various other natural ingredients such as Spirulina, Cordyceps, Roselle, Beggarticks, Lion's Mane mushroom, Tiger Milk mushroom, pineapples, aloe vera and Noni.

Of the key ingredients, Ganoderma is traditionally believed to balance disrupted body functions and assist in the maintenance of general well-being. Spirulina contains nutrients such as protein, anti-oxidants (eg beta-carotene), chlorophyll, phycocyanin, vitamins, minerals and essential fatty acids, and is a dietary supplement for health and energy. Cordyceps are fungi that contain active ingredients such as cordycepin acids, amino acid, glutamic acid and polysaccharides that promote stamina and a healthy respiratory system.

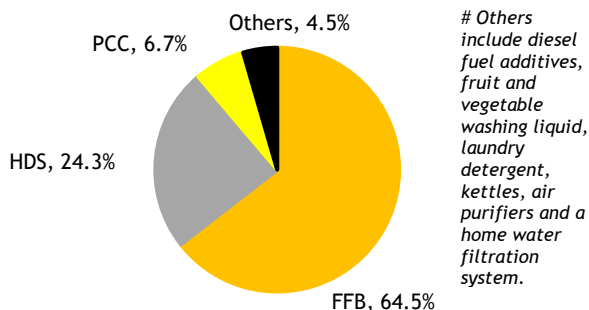
3.2 A diverse range of products

DXN has four main categories of products: (i) Fortified food and beverages (FFB), (ii) Health and dietary supplements (HDS), (iii) Personal care and cosmetics (PCC), and (iv) other products (i.e. a water system, laundry detergent and other household cleaning solutions) to cater to a wide range of consumption patterns in various markets.

As at 31 Mar 2023, DXN has 452 SKUs under its belt, split between FFB (191 SKUs), HDS (112 SKUs), PCC (86 SKUs) with other products making up the remainder (63 SKUs). Out of its total 452 SKUs, 327 SKUs (or 72% of total) are produced in-house.

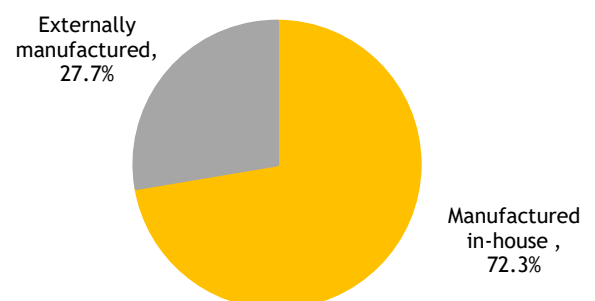
The largest contributors to revenue for in FY23 were FFB and HDS at 64.5% and 24.3% of total group revenue respectively, while PCC accounted for 6.7% and other products 4.5%. In-house manufactured products are a main revenue contributor, at 91% of gross revenue historically.

Fig 4: Net revenue breakdown by product category (FY23)



Source: Company

Fig 5: No. of SKUs manufactured in-house vs. externally (as at 31 Mar 2023)



Source: Company

Fig 6: DXN’s product categories and selected key products in FY23

Product Category	No. of Products	Selected Key Products / Main Revenue Contributors			
FFB	191				
		Lingzhi Coffee	Cocozhi	Cordyceps Coffee	
HDS	112				
		Spirulina Cereal	Cordypine	Morinzhi	Morinzyme
PCC	86				
		Reishi Gano	Ganocelium	Reishilium Powder	Spirulina
Others	63				
		Ganozhi Toothpaste	Ganozhi Soap	Ganozhi Shampoo	Gano Massage Oil
Others	63				
		Energy Plus Water System	Laundry Detergent - Dyna Clean	Household Cleaning Solutions	

Source: Company

3.3 A vertically integrated business

DXN has a fully integrated supply chain with research & development, cultivation, and manufacturing functions under one roof. It operates:

Two research & development (R&D) facilities - one in Kedah, Malaysia and one in Ningxia, China, where it focuses on developing techniques to improve internal manufacturing and processing output. Its R&D team also work on product innovation, design, development, and testing.

Six cultivation facilities - one in Malaysia (Kedah), two in China (Ningxia & Anxi) and three in India (Pondicherry, Odisha & Telangana). Its main cultivation output includes Reishi Gano (Ganoderma fruiting body) and Ganocelium (Ganoderma mycelium). Other natural ingredients cultivated at DXN's facilities include Cordyceps, Roselle, Lion's Mane mushroom, Tiger Milk mushroom, pineapples, aloe vera and Noni. DXN is in the process of disposing its 80% stake in Florin Fujian. Once completed, its cultivation facility in Anxi, China will no longer be owned by the group.

Ten manufacturing facilities - two in Malaysia (Kedah), two in China (Ningxia & Anxi), three in India (Himachal Pradesh & Pondicherry), one in Indonesia (West Java) and two in Mexico (Tlaxcala).

With control over the entire product value chain, DXN is not only capable of controlling product quality, it also has the flexibility to develop and test new products. Its production facilities are also strategically located across the globe to support key markets whilst lowering its risk of supply chain disruptions and regulatory compliance issues (eg. licensing requirements, locally manufactured product requirements, etc).

3.4 Distribution via direct selling/branches

DXN operates a direct selling model. Finished goods (of which c.90% were manufactured in-house in FY23, based on gross revenue contribution) are shipped across its distribution network, which comprised 79 sales branches, 12 exclusive external distribution agencies and 3.6m active members (out of 14.9m registered members) in over 180 countries.

Sales branches are its local offices and distribute goods to members. External distribution agencies are responsible for local operations and marketing functions. Products are sold to external distribution agencies at an intermediate price pursuant to a cost-plus structure. The external distribution agencies on-sell and distribute the products to other members at a distributor price or to non-members at a retail price.

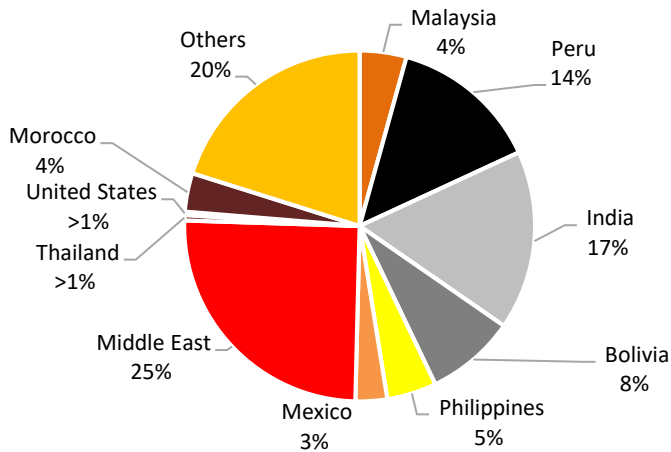
DXN's direct selling network comprises 3.6m active members (i.e. members who have purchased a product in the preceding calendar year). Members (including stockists) are both consumers and distributors of its products, who can also sell the products online through personal e-commerce shopfronts hosted on DXN's website or via the DXN app. Members who are appointed as stockists can sell the products to other members at a distributor price, or to non-members at a retail price, for which they own a commission as well as a bonus, for their purchases. DXN's bonus payments to members are based on DXN's worldwide sales, under a "One World One Market" platform.

Fig 8: Registered vs active members*

(million)	2019	2020	2021	2022
Registered members	9.3	10.6	12.0	14.9
YoY growth	16.3%	13.3%	13.7%	24.6%
Active members	2.9	3.2	3.4	3.6
YoY growth	36.5%	11.8%	6.0%	8.2%

*Total registered and active members are calculated on a calendar year (Jan to Dec) basis.
Source: Company

Fig 9: Geographical distribution of active members globally*

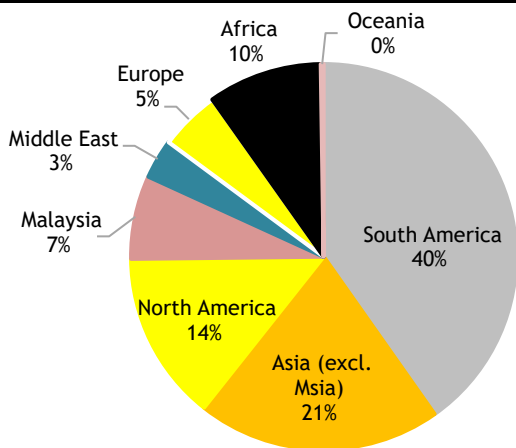


*Data as at 31 Dec 2022 (latest available data)
Source: Company

3.5 Global sales

In FY23, Malaysia accounted for just 7.0% of DXN’s total gross sales. Its top revenue contributors are made up of countries from South America (40.2%), Asia (excluding Malaysia, 20.4%), and North America (14.2%) which totals 74.8% of DXN’s group sales.

Fig 10: FY23 gross revenue contribution by geographical market

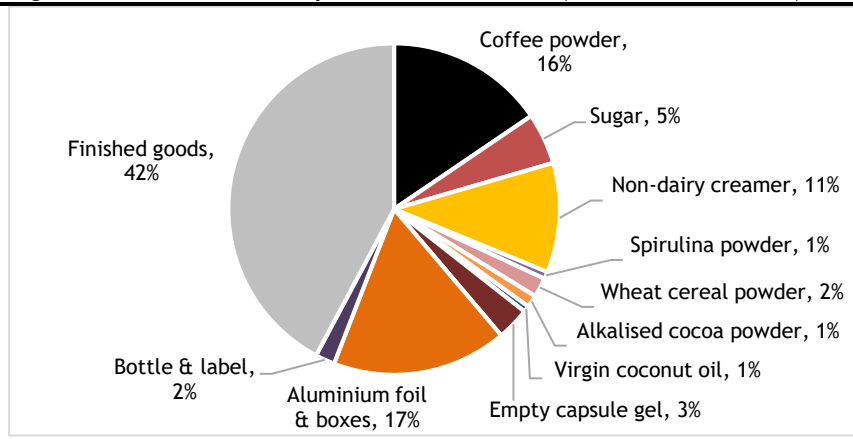


Source: Company

3.6 Purchases and suppliers

DXN's primary raw materials that are used in its finished products are coffee powder, non-dairy creamer, sugar, cocoa powder and wheat cereal powder. Primary packaging materials include aluminium foil, empty capsules, labels and plastic containers. Based on latest available data, from 1 Mar 2022 to 31 Oct 2022 (8MFY23), raw and packaging materials accounted for 57.8% of total purchases, while the remaining 42.2% comprised finished goods.

Fig 11: Breakdown of total purchases in 8MFY23 (latest available data)



Source: Company

From 1 Mar 2022 to 31 Oct 2022 (8MFY23), DXN's top five suppliers accounted for 25.9% of total purchases and they were Olam International Ltd (6.5% of purchases; spray dried soluble coffee), Custom Food Ingredients Sdn Bhd (5.7%; non-dairy creamer), Kerry Ingredients (M) Sdn Bhd (5.4%; non-dairy creamer), Top Choice Food International Joint Stock Company (4.3%, spray dried instant coffee powder), Dan Kaffe (M) Sdn Bhd (4.0%; instant coffee powder, coffee powder, spray dried coffee powder).

4. Competitive strength

4.1 Strong presence in high growth markets

DXN's core markets are namely Peru, Mexico, India, Bolivia, Malaysia, Philippines, the Middle East, United States, Thailand and Colombia. According to Frost & Sullivan, DXN was ranked among the top three players in FFB in high growth markets such as Peru and Bolivia in 2022. In terms of FFB retail sales through direct selling alone, DXN's market share in these two countries was 33% and 36% respectively. Despite the adverse impact from the COVID-19 pandemic, 2-year (FY19-FY21) revenue CAGR in Peru, Mexico, Bolivia, Philippines, the Middle East and United States was a fairly rapid rate of 12.7%, 17%, 12.5%, 15.3%, 11.4% and 10.2% respectively.

The table below summarizes the estimated market size growth rates over a 4-year period (2022E-2026E), as projected by Frost & Sullivan, as well as DXN's estimated market share in 2022.

Fig 12: Market size growth rates (%) & DXN's estimated market share (%)

	Market size growth 5-year (2022E-2026E) CAGR			DXN's market share in 2022E	
	FFB	HDS	PCC	FFB	HDS
Peru	6.9	8.6	7.1	33	3
Mexico	4.1	4.9	3.4	9	1
India	14.6	8.2	5.0	10	3
Bolivia	8.9	7.6	7.3	36	2
Philippines	7.2	6.0	3.9	16	6
Malaysia	12.6	14.0	10.1	3	3
US	6.1	2.7	3.4	<1	<1
Thailand	9.3	10.3	7.7	<1	1
Morocco	10.1	11.0	6.7	20	16

Source: Frost & Sullivan

4.2 Highly scalable business model

DXN's international distribution footprint has proven its ability to successfully penetrate new markets by leveraging on the scalability of its business model. Geographical diversification lessens the impact on potential sales volatility in individual markets towards the group as a whole. There are also low entry costs into new markets without the need for heavy capital expenditure on physical infrastructure or high set-up costs for its distribution network as members within bear the majority of DXN's consumer marketing expenses. Low entry costs also allow for an easier market exit if the group finds that business dynamics in any particular countries turn unfavourable.

4.3 A wide product range, bulk of which is manufactured in-house

Building on its initial expertise in Ganoderma, DXN has expanded its health and wellness product range to include a variety of natural health ingredients. Its broad product portfolio caters to diverse consumer consumption patterns and the products are selectively rolled-out based on consumer demand and regulatory constraints in the respective countries. In FY23, FFB sales contributed to 64.5% of gross revenue, HDS sales 24.3% and PCC 6.7%. DXN exclusively sells its own-branded products. In FY23, c.90% of

gross revenue was attributed to direct-selling products that were manufactured in-house based on gross revenue contribution.

4.4 Vertically integrated production facilities

DXN is vertically integrated from research to cultivation to manufacturing, and it exerts control over every part of the supply chain which ensures that strict production quantity and quality standards are met. Its facilities are strategically located to be close to key markets on top of added local advantages relating to land, labour and climate factors. Given that its facilities are spread out globally, supply bottlenecks can also be quickly rectified.

The group's integrated manufacturing capabilities and technological know-how in cultivation and production provide high economies of scale which is difficult to replicate for new competitors in the industry. This vertically integrated structure is one of the reasons why DXN has been able to maintain high gross profit margins of above 80% from FY19 to FY23. Moreover, with c.90% of its direct-selling products sold being manufactured in-house (based on gross revenue contribution for FY23), there is substantial production flexibility, allowing the group to meet surges in demand and minimise supply constraints.

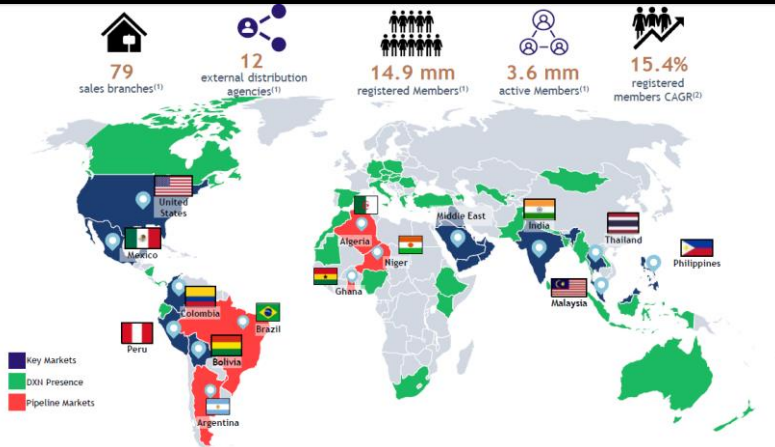
4.5 In-house R&D facilities

DXN's in-house R&D comprises more than 81 research staff across two research facilities in Malaysia and China. It is through its biotechnological strengths in tissue culture, eco-farming, nano fermentation, centrifuge filtration and cold dehydration that the group has been able to introduce new products to the market on a regular basis.

4.6 Expanding global distribution network

With DXN's international distribution footprint spanning across 48 countries as at end-FY23, the group is well positioned to benefit from a growing global market in direct selling, estimated to reach USD186b in sales by 2026, according to Frost & Sullivan.

DXN's member base grew at a 3-year CAGR of 15.4% between 2019 and 2022. Incremental increases to its member base of 14.9m is expected in light of DXN's unique "One World One Market" compensation plan where members are primarily rewarded on sales rather than recruitment, or upfront and annual membership fees. Membership is valid worldwide and the group prioritises timeliness of bonus payments to reward its members.

Fig 13: An expansive global distribution network


(1) As at end-FY23

(2) Between 31 Dec 2019 to 31 Dec 2022

Source: Company

4.7 In-house developed global technology ecosystem

DXN's IT systems are developed internally together with Suryasoft, which it acquired in April 2022. The group owns the source codes and blueprints for all of its existing software applications that support its entire IT ecosystem worldwide. These include its eWorld website, DXN app, DChat app, personal websites, Online Billing System (OBS), Enterprise Resource Planning System (ERPS), Accounting Information System and Centralised Processing System.

In 2015, DXN launched ePoints. Since then, member incentives and bonuses are paid out in ePoints in the majority of its countries of presence which helps the group save on bank transfer fees while improving its working capital positions. Member payout in ePoints amounted to MYR277m in FY22 (or 22% of group revenue) for the group's top 10 geographical markets (excluding United States and the Middle East, which do not use ePoints). Members' ePoints credit can also be used as cash for product purchases and cash withdrawals upon prior approval.

4.8 An experienced founder-led management team

DXN has been under the leadership of its founder, DLSJ since its incorporation in 1995. Day-to-day operations are led by an experienced team of seven senior management members whom have been with the group for at least fifteen years. Together, the team has built the business up from a predominantly domestic-centric business to a multinational one.

5. Future plans

Future plans of the group include the following:

5.1 Growth in new and existing markets

DXN has identified five new markets to support the business' next leg of growth in the next few years. These markets are all neighbouring countries to the group's existing markets in Latin America and Africa. The ease of crossing borders between both its existing and new markets will allow for better organic growth in membership.

As a rule of thumb, DXN only considers opening dedicated sales branches or appointing external distribution agents once its member base reaches 500 active members with monthly sales of at least USD50,000, with a positive trend in that particular market. This model has been tried and tested in its Latin American and African markets by first setting up sales branches in Mexico and Morocco respectively, before branching out into neighbouring countries.

Typically, it takes a period of 24 to 36 months to enter a new market with a total set-up cost of MYR2m to MYR3m, largely consisting of company incorporation costs, product registration and initial start-up sales inventory. DXN allocates 2-4% of revenue each year for marketing activities to build brand awareness.

For existing markets, further growth will be driven by launches of new products along with the set-up of production facilities to support increasing member demand. Sales branches and service centres, which will include temporary stockists and mobile stockists, will also be located in remote areas to widen its presence in existing markets. Ongoing promotional exercises will also be conducted for new member recruitment and general brand awareness.

Fig 14: Expansion plans into new markets

Country	Expected launch	Expansion model	No. of members as at 31 Mar 2023		Current status
			Total	Active	
Argentina	2023/2024	Subsidiary	36,935	26.4%	<ul style="list-style-type: none"> Company has been registered Product registration in progress for some products
Brazil	2023/2024	Subsidiary	5,380	13.4%	<ul style="list-style-type: none"> Company has been registered In the process of appointing new consultant for product registration
Niger	2023/2024	Subsidiary	815	45.3%	<ul style="list-style-type: none"> Company has been registered Product registration in progress
Algeria	2023/2024	Agency	34,230	58.0%	<ul style="list-style-type: none"> Company of the agency has been registered Product registration in progress
Ghana	2023/2024	Subsidiary	3,006	34.5%	<ul style="list-style-type: none"> Liaising with authorities on the requirements for company formation

Source: Company

5.2 Focused on consumer preferences & member engagement

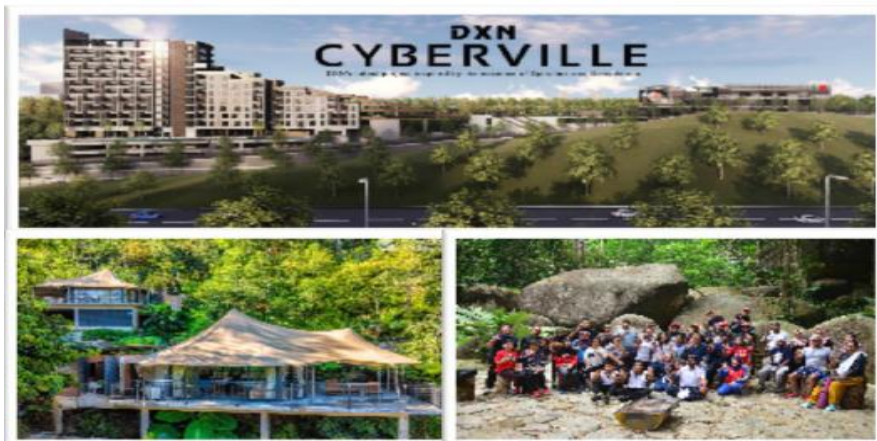
With ever-changing consumer needs and preferences, product innovation and regular refreshment in its product offering will put the group at the forefront of consumer demand changes within the direct selling industry.

That the group has its own R&D facilities allows for product ideation, development, and launch, with its 452 SKUs in its product portfolio being testimony to this. One such example is DXN's launch of Lion's Mane fortified tea products in China in 2022 to capitalize on China's conventional tea market.



Source: Company

Building on DXN's strength in its products, the group intends to lift member engagement through a wide offering of leisure and lifestyle options, of which members can opt to pay a subscription fee via ePoints. These include courses on motivational speaking, product introduction and other conferences. Members will also have access to its wellness and retreat centre, DXN Cyberville, and Boulder Valley, a lifestyle resort in Penang.

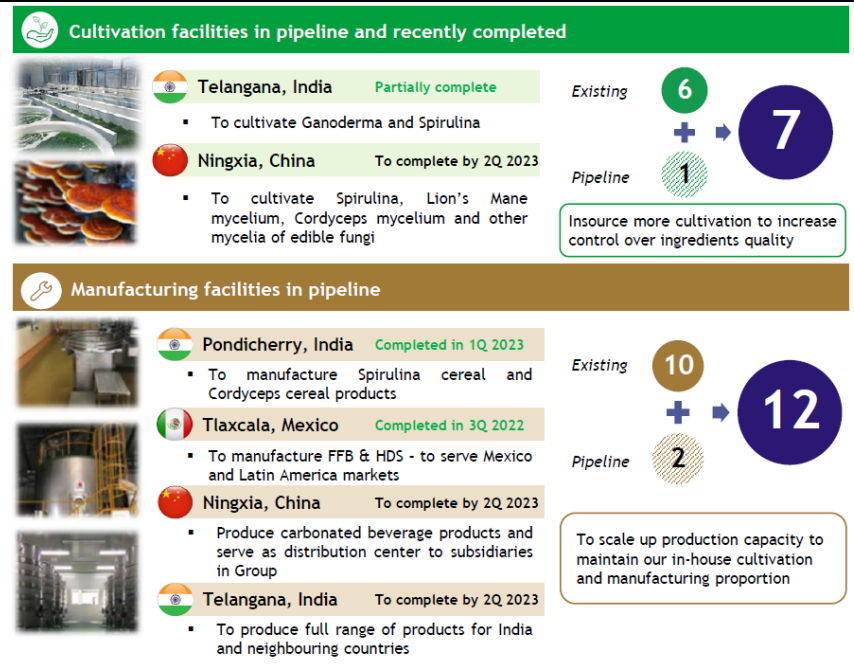


Source: Company

5.3 Capacity expansion

Growing demand for its products has prompted DXN to increase its production capacity. In the cultivation segment, it has completed two facilities - one in China and one in India in 2QCY23 along with two new manufacturing facilities- one in China, and one in India.

Fig 15: Cultivation and manufacturing facilities in the pipeline



Source: Company

5.4 Enhancing its technological ecosystem

The social media platform allows for high levels of engagement amongst the group and its members - the launch of its eWorld website and DXN app, for instance, saw a combined total of 0.9m unique monthly visitors in 2022. Additional recruitment drives will be done through online marketing videos whilst information on the release of new products and other marketing materials will be disseminated through DXN's social media accounts.

To improve its IT infrastructure, DXN is in the process of upgrading its enterprise resource planning software and accounting information system for deeper integration before rolling them out to local factories and finance teams across its international offices. DXN also plans to integrate a chat function into its portal, eWorld, to allow seamless communication between distribution leaders and their downlines.

6. Industry outlook

According to Frost & Sullivan, the global direct selling industry grew at a compounded annual growth rate (CAGR) of 2.2% from 2016 to 2018. The industry however declined 5.4% in 2019 due to lower sales in China, but recovered in 2020 (+2.3%) and expanded by 4.5% in 2021. Cumulatively, global retail sales via direct selling grew at a 6-year (2016-2022E) CAGR of 0.2% and is projected to expand at a faster CAGR of 4.6% over the next four years (2022E-2026F).

The Fortified Food & Beverages (FFB) segment accounted for 8.9% of the global direct selling industry in 2021 and is forecasted to grow at a steady 10.1% CAGR from 2022E-2026F, versus a historical 6-year CAGR of 8.9%.

The Health & Dietary Supplements (HDS) segment accounted for 16% of the global direct selling industry in 2021 and is forecasted to grow at a faster forward 4-year CAGR of 3.6% versus a historical 6-year CAGR of 2.8%.

Meanwhile the Personal Care & Cosmetics (PCC) market accounted for 27.5% of the global direct selling industry in 2021 and is expected to grow at a faster pace of 2.0% per annum over the next six years versus a historical 4-year CAGR of -0.5% (impacted in large part by the COVID-19 pandemic lockdowns).

Fig 16: Retail sales growth via direct selling - total, FFB, HDS and PCC

	Total		FFB		HDS		PCC	
	CAGR 2016-2022E	CAGR 2022E-2026F	CAGR 2016-2022E	CAGR 2022E-2026F	CAGR 2016-2022E	CAGR 2022E-2026F	CAGR 2016-2022E	CAGR 2022E-2026F
Global	0.2%	4.6%	8.9%	10.1%	2.8%	3.6%	-0.5%	2.0%
Peru	2.7%	7.1%	5.9%	6.9%	10.1%	8.6%	2.8%	7.1%
Mexico	1.4%	2.6%	5.2%	4.1%	6.7	4.9%	3.7%	3.4%
India	4.6%	6.9%	15.9%	14.6%	13.3%	8.2%	3.8%	5.0%
Bolivia	4.8%	6.6%	17.9%	8.9%	13.4%	7.6%	1.1%	7.3%
Philippines	-0.7%	4.0%	-1.9%	7.2%	3.9%	6.0%	-5.3%	3.9%
Malaysia	9.6%	9.3%	10.2%	12.6%	16.4%	14.0%	9.2%	10.1%
US	1.1%	2.8%	6.2%	6.1%	5.3%	2.7%	3.0%	3.4%
Thailand	-1.8%	7.5%	-2.1%	9.3%	8.5%	10.3%	-1.4%	7.7%
Morocco	2.2%	8.7%	18.3%	10.1%	18.7%	11.0%	1.9%	6.7%

Source: Frost & Sullivan

Demand drivers are said to include the following:

- Consumers' preference for products with natural ingredients;
- Growing awareness on health & wellness products and propensity for self-medication;
- An ageing population;
- Urbanisation and rising income;
- An expanding personal care products range;
- Government support & acceptance in complementary medicine; and
- Demand for personalised services through direct selling.

In profiling DXN's competitors, Frost & Sullivan benchmarked the group to selected players in the industry that are present in all three product categories i.e. FFB, HDS and PCC. Key takeaways are as follows:

- Three of the six players have vertically integrated operations and DXN has more cultivation and manufacturing facilities than its peers.

- DXN produces a larger percentage of its products in-house relative to its peers.
- DXN has a rapidly growing member count, with more active members than its competitors.
- DXN is the only company that has the same compensation model and marketing plan across different countries, while other players have localised compensation and marketing models.

Fig 17: DXN and competitors' current structure

	Distribution footprint in 2022 (# countries)	R&D	Cultivation	Manufacturing	% of products produced in-house % of 2022 sales value
DXN	50	Yes	Yes	Yes	~91%
Amway Corporation	>100	Yes	Yes	Yes	35-55%
Herbalife Nutrition	95	Yes	Yes	Yes	~51%
Nu Skin Enterprises	~50	Yes	NA	Yes	~23%
Oriflame Holdings	>60	Yes	No	Yes	>70%
USANA Health Sciences	24	Yes	No	Yes	~65%

Source: Frost & Sullivan

Fig 18: DXN and competitors' current structure

	Membership fee	Members 2022 (m)	Members CAGR 2020-2022	Details of Members 2022	Unified compensation model & bonus structure
DXN	No	14.3	16.1%	4.4m active members (purchased in the preceding calendar year)	Yes
Amway Corporation	No	~10-20	NA	~7.0m-8.0m active members (purchased in the preceding calendar year)	No
Herbalife Nutrition	Yes	6.2	0%	~0.8m active members (purchased in the preceding calendar year)	No
Nu Skin Enterprises	No	NA	NA	1.1m active members (purchased in the preceding 3 months)	No
Oriflame Holdings	Yes	2.9	-12.9%	~1.0m-1.5m active members (purchased in campaigns in the preceding calendar year)	No
USANA Health Sciences	Yes (for associate)	NA	NA	490,000 Associates and Preferred Customers (members who purchased in the recent 3 mths)	No

Source: Frost & Sullivan

7. Financial analysis

7.1 A review of 4QFY23 results

Fig 19: 4QFY23 results summary

FYE: Feb (MYRm)	Quarterly					Cumulative		
	4Q23	4Q22	% YoY	3Q23	% QoQ	12M23	12M22	% YoY
Net revenue	405.0	339.4	19.3	439.2	(7.8)	1,600.8	1,242.9	28.8
EBITDA	124.3	112.9	10.1	110.9	12.1	496.4	401.4	23.7
Pre-tax profit	112.4	101.1	11.2	109.4	2.7	455.5	362.9	25.5
Tax expense	(54.6)	(37.3)	46.4	(38.2)	42.8	(166.2)	(117.5)	41.5
Minority interest	(2.7)	5.4	(150.2)	(3.9)	(31.4)	(13.9)	(2.5)	452.4
Net profit	55.2	69.2	(20.2)	67.3	(18.0)	275.4	242.9	13.4
Exceptional items	(19.7)	(1.5)	1,252.0	-	n.m.	(30.3)	6.2	n.m.
Core net profit	362.9	287.3	26.3	67.3	11.3	305.7	236.8	29.1
			+/- ppts YoY		+/- ppts QoQ			+/- ppts YoY
EBITDA margin (%)	30.7	33.3	-2.6	25.2	5.4	31.0	32.3	-1.3
PBT margin (%)	27.8	29.8	-2.0	24.9	2.8	28.5	29.2	-0.7
Tax rate (%)	48.5	36.9	11.7	34.9	13.6	36.5	32.4	4.1

Source: Company

Fig. 20: Gross revenue breakdown by region (MYRm)

Geographical region	FY23	FY22	% YoY
South America	676.8	511.7	32.3
Asia (excl. Msia)	343.8	311.3	10.4
North America	238.1	213.6	11.5
Malaysia	117.7	107.6	9.4
Middle East	55.6	33.9	64.1
Europe	85.3	59.5	43.2
Africa	161.0	63.5	153.6
Oceania	4.0	4.8	(17.6)

Source: Company

DXN's FY23 net revenue (including revenue from rendering of services and costs of consideration due/paid to customers) grew by 29% YoY on the back of positive sales growth in the fortified F&B category in the majority of its geographical regions except for the Oceania region (-18% YoY). Its top three regions, South America, Asia (ex-Malaysia) and North America, grew 32% YoY, 10% YoY and 12% YoY respectively. Notably, Africa gross sales rose 154% YoY, consistent with DXN's ongoing expansion in the region.

FY23 Pre-tax profit expanded by 26% YoY (PBT margin: -0.7 ppts YoY) predominantly due to higher other operating expenses as a % of revenue of 44% (FY22: 45%). Effective tax rate was higher at 37% in FY23 (FY22: 32%) due to taxes on foreign sourced income.

7.2 3-year forward revenue CAGR of 13%

We derive a 3-year (FY23-FY26E) revenue CAGR of 13% primarily from the continued growth in its registered and active member base along with strong sales contribution from its Latin American and Middle East regions.

Key assumptions include the following:

- Registered and active membership base to grow annually from CY23-CY25E. With DXN's continued demand growth in its existing

markets and its focus on penetrating new markets, we estimate that both registered and active members would grow by 13%/13%/10% and 38%/13%/3% in CY23/CY24/CY25, respectively. Using historical data as a guide, active members are forecast to account for 28-30% of total registered members in CY23-CY25E. Note that DXN calculates its total membership base on a calendar year (Jan to Dec) basis.

Fig 21: No. of registered and active members (m)

	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23E	Dec-24E	Dec-25E	Dec
Registered members (m)	9.3	10.6	12.0	14.9	16.9	19.1	21.0	
Growth (%)		13%	14%	25%	13%	13%	10%	
Active members (m)	2.9	3.2	3.4	3.6	5.1	5.7	5.9	
Growth (%)		12%	6.0%	8.2%	38%	13%	3%	
% of active members	31%	30%	28%	25%	30%	30%	28%	

* DXN calculates total membership base on a calendar (Jan to Dec) basis.

Source: Company, Maybank IBG Research

- **Average revenue/active member growth of 4%-6% p.a. for DXN's high growth countries (within its list of top 10 revenue contributors) and moderate growth of 1%-2% p.a. for those in South East Asia and the United States (Fig. 23).** Out of the list of countries within DXN's top 10 revenue contributors, we have estimated for Peru, India, Bolivia, Mexico and the Middle East to grow by 3%-6% p.a. while South East Asian countries (Philippines, Thailand) are estimated to grow at a slower pace of 1%-2% p.a. We have projected for negative revenue growth of 1%-2% p.a. in Malaysia given its matured market and expectations for a slower recovery in high performing active members.

Fig. 22: Derived average annual revenue/active member by top 10 countries

#Avg revenue/active member (MYRm)	FY20	FY21	FY22	FY23*	FY24E	FY25E	FY26E
Malaysia	562	518	596	572	561	555	550
Peru	443	437	638	670	709	752	782
India	281	242	254	266	280	295	307
Bolivia	584	559	663	692	717	738	760
Philippines	559	608	615	622	630	637	644
Mexico	1856	1732	1813	1896	1984	2076	2,159
Middle East	879	800	424	445	467	490	48
Thailand	997	1008	1094	1061	1061	1082	1,104
United States	2495	2919	3234	3331	3431	3534	3,640
Morocco	n.a.	328	440	459	480	502	524
Others	278	232	239	245	252	258	278

Derived by dividing revenue by country on a financial year (FEB) basis, with the most current calculated active membership base (December).

*Derived from estimated top 10 market revenue breakdown in FY23

Source: Company, Maybank IBG Research

Fig. 23: Derived average annual revenue/active member by top 10 countries (cont'd)

#Avg revenue/active member (MYRm)	FY21	FY22	FY23	FY24E	FY25E	FY26E
<u>Growth (%)</u>						
Malaysia	-8%	15%	-4%	-2%	-1%	-1%
Peru	-1%	46%	5%	6%	6%	4%
India	-14%	5%	5%	5%	5%	4%
Bolivia	-4%	18%	5%	4%	3%	3%
Philippines	9%	1%	1%	1%	1%	1%
Mexico	-7%	5%	5%	5%	5%	4%
Middle East	-9%	-47%	5%	5%	5%	4%
Thailand	1%	8%	-3%	0%	2%	2%
United States	17%	11%	3%	3%	3%	3%
Morocco	17%	11%	3%	3%	3%	5%
Others	-14%	-10%	3%	3%	3%	3%

Derived by dividing revenue by country on a financial year (FEB) basis, with the most current calculated active membership base (December).

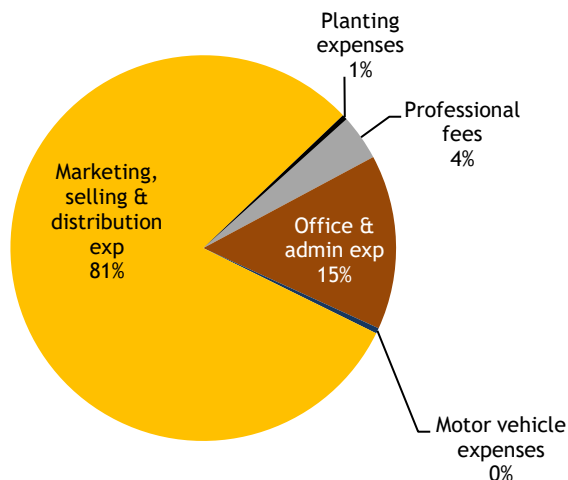
*Based on estimated top 10 market revenue breakdown

Source: Company, Maybank IBG Research

7.3 Employee benefits and other expenses

With a staff force of 2,822, employee benefit expenses accounted for 10% of revenue in FY23. This included wages and salaries as well as contributions to employees' provident funds, state insurance and state-specific welfare funds. We estimate a 22%/17%/6% p.a. growth for this cost in FY24E/FY25E/FY26E, reflecting a 10% of revenue share p.a., as it rises in tandem with DXN's business growth globally.

Other expenses mainly comprise of marketing, selling & distribution expense (including member benefits i.e. group effort-related performance bonuses and travel seminar incentives), office & administrative expense, professional fees, motor vehicle expense and planting expense. We estimate that other operating expenses will grow by 6%-20% p.a. over FY24-FY26E which is equivalent to 43% of revenue p.a., similar to its historical average (FY19-FY23) of 43%.

Fig 24: Breakdown of other operating expenses in 8MFY23 (latest data available)


Source: Company

7.4 Effective tax expense

DXN reported an average 29% effective tax rate from FY19-FY21 before rising to a higher 32% in FY22 due to Malaysia's one-off prosperity tax (*Cukai Makmur*), which amounted to an additional MYR9m in corporate tax. FY23's effective tax rate further increased to 37% due to taxes on foreign sourced income. We have imputed 37% p.a. effective tax rate for FY24-FY26E. The group's effective tax rate is expected to be higher than Malaysia's corporate tax rate of 24% due to certain non-deductible expenses, higher tax rates in some of its markets ex-Malaysia, and taxes on foreign sourced income.

7.5 3-year net profit CAGR of 12%

Taking into account the above assumptions, we expect DXN to record a 3-year (FY23-FY26E) core net profit CAGR of 12% with expectations for FY24E/FY25E/FY26E core net profit growth of 12%/17%/6%, respectively.

Fig 25: Gross revenue, gross profit, EBITDA, EBIT, pretax profit and net profit forecasts

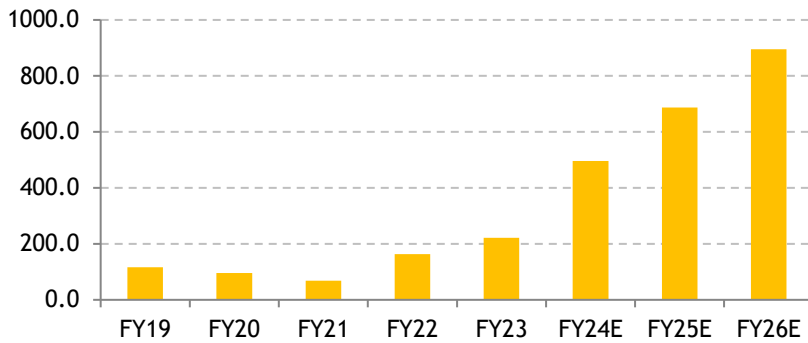
	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Gross revenue	1,171.4	1,155.5	1,286.9	1,660.0	2,069.5	2,430.0	2,574.4
Rendering of services	14.2	15.6	19.0	22.2	22.2	22.2	22.2
(Less) Consideration due/paid to customers	(81.0)	(120.9)	(63.1)	(81.3)	(144.9)	(170.1)	(180.2)
Net revenue	1,104.6	1,050.2	1,242.9	1,600.8	1,946.8	2,282.0	2,416.3
Gross profit	913.1	870.3	1,011.6	1,303.1	1,566.0	1,835.0	1,942.7
<i>Gross profit margin</i>	<i>83%</i>	<i>83%</i>	<i>81%</i>	<i>81%</i>	<i>80%</i>	<i>80%</i>	<i>80%</i>
Other operating income	26.3	35.3	22.4	17.1	17.1	17.1	17.1
Changes in WIP & manufactured inventories	6.8	28.1	51.3	57.3	71.4	83.8	88.8
Raw mat & trading inventories sold	(162.9)	(163.0)	(224.3)	(286.8)	(357.6)	(419.9)	(444.8)
Other expenses	(604.8)	(636.8)	(690.9)	(891.9)	(1,074.4)	(1,268.5)	(1,343.8)
EBITDA	370.1	313.9	401.4	496.4	603.2	694.5	733.6
<i>EBITDA margin</i>	<i>34%</i>	<i>30%</i>	<i>32%</i>	<i>31%</i>	<i>31%</i>	<i>30%</i>	<i>30%</i>
Depreciation & amortisation	(25.1)	(31.0)	(38.6)	(38.9)	(42.2)	(43.1)	(43.9)
EBIT	345.0	282.8	362.8	457.5	561.0	651.4	689.7
<i>EBIT margin</i>	<i>31%</i>	<i>27%</i>	<i>29%</i>	<i>29%</i>	<i>29%</i>	<i>29%</i>	<i>29%</i>
Interest income/(expenses)	2.9	4.4	0.1	(2.0)	(1.3)	1.3	3.1
Pretax profit	347.8	287.3	362.9	455.5	559.7	652.8	692.8
<i>Pretax profit margin</i>	<i>31%</i>	<i>27%</i>	<i>29%</i>	<i>28%</i>	<i>29%</i>	<i>29%</i>	<i>29%</i>
Tax	(92.6)	(86.4)	(117.5)	(166.2)	(204.2)	(238.2)	(252.8)
<i>Tax rate</i>	<i>-27%</i>	<i>-30%</i>	<i>-32%</i>	<i>-36%</i>	<i>-36%</i>	<i>-36%</i>	<i>-36%</i>
Net profit	241.7	191.6	242.9	275.4	341.6	400.7	426.1
<i>Net profit margin</i>	<i>22%</i>	<i>18%</i>	<i>20%</i>	<i>17%</i>	<i>18%</i>	<i>18%</i>	<i>18%</i>
Core net profit	259.3	189.2	236.8	305.7	341.6	400.7	426.1
Growth rates, YoY							
Gross profit	20%	-5%	16%	29%	20%	17%	6%
EBITDA	11%	-15%	28%	24%	22%	15%	6%
EBIT	9%	-18%	28%	26%	23%	16%	6%
Pretax profit	9%	-17%	26%	26%	23%	17%	6%
Net profit	15%	-21%	27%	13%	24%	17%	6%
Core net profit	23%	-27%	25%	29%	12%	17%	6%

Source: Company, Maybank IBG Research

7.6 Stable net cash position

As at end-FY23, DXN's cash balance stood at MYR459m with total short-term debt of MYR188m and long-term debt of MYR50m. This puts it in a net cash position of MYR222m. With DXN's heavy capex cycle coming to its tail-end in FY23, we project for its net cash position to steadily grow to MYR497m/MYR687m/MYR895m in FY24E/FY25E/FY26E.

Fig 26: Net cash position for FY24-FY26E (MYRm)

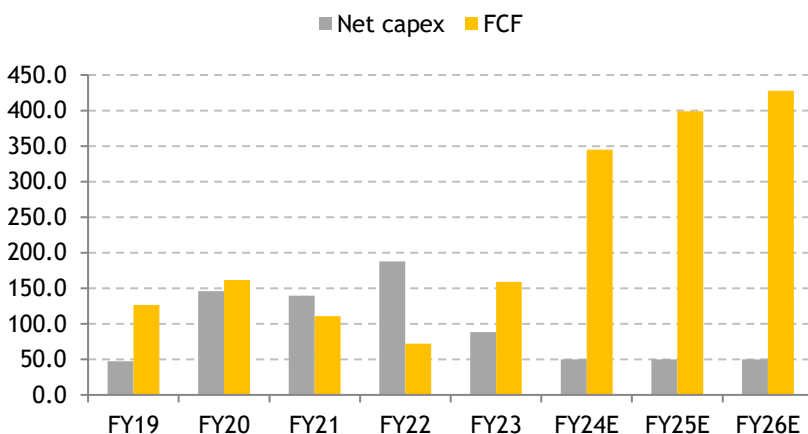


Source: Company, Maybank IBG Research

7.7 Capital expenditure requirements

Heavy capex requirements (from FY20-FY22) centred on DXN's plans to build six new facilities - two cultivation facilities, and four manufacturing facilities - across China, India, and Mexico to support its growing business worldwide. DXN's capex plans are well underway with its new facilities having been completed in 2QCY23. Following which, capex is expected to significantly reduce. After considering the above, we estimate FY24E to FY26E net capex to be MYR50m p.a.

Fig 27: Capex planned for FY24-FY26E (MYRm)



Source: Company, Maybank IBG Research

Fig 28: Balance sheet summary

FYE: Feb (MYRm)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Inventories	125.3	166.1	217.2	323.1	413.2	485.2	514.0
Receivables	79.6	93.1	77.5	114.4	139.1	163.1	172.7
Cash/ST investments	405.3	519.8	443.4	503.4	778.5	968.7	1,177.0
Other current assets	9.1	14.1	54.2	12.1	12.1	12.1	12.1
Total current assets	619.4	793.1	792.3	953.1	1,343.0	1,629.1	1,875.8
PPE	346.2	450.6	584.9	646.5	663.9	680.4	696.2
Right-of-use assets	25.0	28.8	31.1	32.8	32.8	32.8	32.8
Intangible assets	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other non-current assets	179.1	47.0	65.2	127.6	127.6	127.6	127.6
Total non-current assets	550.4	526.5	681.3	806.9	824.3	840.8	856.6
Total assets	1,169.8	1,319.7	1,473.6	1,759.9	2,167.3	2,469.9	2,732.3
ST borrowings	141.5	241.5	213.6	187.9	187.9	187.9	187.9
Payables	256.6	378.7	337.0	396.8	507.4	595.8	631.2
Lease liabilities	6.3	7.0	8.1	8.9	8.9	8.9	8.9
Other current liabilities	24.1	25.5	42.2	60.3	60.3	60.3	60.3
Total current liabilities	428.6	652.7	600.9	653.9	764.5	852.9	888.3
LT borrowings	14.8	16.4	32.6	49.7	49.7	49.7	49.7
Lease liabilities	10.6	11.7	14.8	12.5	12.5	12.5	12.5
Other non-current liabilities	5.2	9.2	13.7	18.7	18.7	18.7	18.7
Total non-current liabilities	30.5	37.3	61.1	80.9	80.9	80.9	80.9
Total liabilities	459.1	690.0	662.0	734.8	845.4	933.8	969.2
Share Capital	60.2	60.2	60.2	60.2	172.2	172.2	172.2
Retained earnings	618.4	529.9	702.9	908.3	1,079.1	1,279.4	1,492.5
Translation reserve	(3.2)	(9.0)	(2.3)	(5.4)	(5.4)	(5.4)	(5.4)
Shareholder's equity	675.3	581.2	760.7	963.1	1,245.9	1,446.2	1,659.3
Minority interest	35.4	48.5	50.9	62.1	76.0	89.9	103.8
Total equity	710.7	629.7	811.6	1,025.1	1,321.9	1,536.1	1,763.1
Total liabilities & equity	1,169.8	1,319.7	1,473.6	1,759.9	2,167.3	2,469.9	2,732.3

Source: Company, Maybank IBG Research

Fig 29: Cash flow summary

FYE: Feb (MYRm)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net cash from operating activities	307.4	250.4	260.0	247.1	394.8	448.8	477.8
Net capex	(145.9)	(139.5)	(187.9)	(88.2)	(50.0)	(50.0)	(50.0)
Others	(96.8)	(44.0)	160.8	(6.8)	(5.3)	(2.7)	(0.9)
Net cash from investing activities	(242.7)	(183.5)	(27.1)	(95.0)	(55.3)	(52.7)	(50.9)
Dividends	(55.0)	(80.0)	(122.7)	(70.0)	(170.8)	(200.3)	(213.1)
Proceeds from debt	85.2	101.5	21.8	14.7	-	-	-
Repayment of debt	(21.5)	(1.1)	(35.6)	(29.2)	-	-	-
Change in debt	63.7	100.5	(13.9)	(14.5)	-	-	-
Change in equity	-	-	-	-	112.0	-	-
Payment of lease liabilities	(7.1)	(8.6)	(8.5)	(9.2)	-	-	-
Others	(69.1)	(99.7)	8.9	5.6	(5.6)	(5.6)	(5.6)
Net cash from financing activities	(3.8)	12.6	(150.0)	(102.5)	(64.4)	(205.9)	(218.7)
Net increase/(decrease) in cash	61.0	79.6	82.9	49.5	275.1	190.2	208.3
Free cash flow	161.5	110.9	72.1	158.9	344.8	398.8	427.8

Source: Company, Maybank IBG Research

7.8 Imputing a dividend payout ratio of 50%

DXN has set a 30-50% dividend payout policy, out of net profit. Hence, our forecast assumes a payout ratio of 50% which is at the top end of DXN's range. Our estimates are based on healthy cash flows to fund capital expenditure and working capital requirements. We estimate a payout of MYR170m/MYR199m/MYR212m for FY24E/FY25E/FY26E, respectively. This implies a dividend yield of 4%/5%/5% in FY24E/FY25E/FY26E.

7.9 Foreign currency exposure

The main currencies which DXN is exposed to, through sales and borrowings (its reporting currency is MYR), are PEN, MXN, BOB, INR, USD and EUR, while the majority of its purchases are denominated in either MYR or USD. On average, MYR denominated sales accounted for only 7% to 11% of gross revenue in FY19-FY23. Simplistically, assuming all sales outside Malaysia are transacted in EUR, DXN's forecasted revenue (FY24E-FY26E) will be impacted by c.9% for every 10% of appreciation or depreciation in EUR/MYR currency exchange.

8. Valuation

8.1 Favouring a PER methodology

We believe that DXN is well positioned for a robust 3-year (FY23-FY26E) net profit CAGR of 12% as it continues to grow its membership base and sales per member in both its existing and new markets, especially within the Latin American and African regions. With DXN's long-term growth potential, we favour a PER valuation methodology to value the stock.

8.2 Target price of MYR0.90

We peg DXN's earnings to 11x CY24E PER to derive our target price of MYR0.90. Our target PER multiple implies a 10% premium to its CY24E domestic peer average of 10x (market weighted); the peers are Amway Malaysia (AMW MK, CP: MYR5.35, Not Rated) and Beshom Holdings (BESHOM MK, CP: MYR1.03, Not Rated).

DXN's consistent 3-year (FY23-FY26E) net profit CAGR of 12% is on the back of its vertically integrated operations, global geographical sales diversification benefits and distribution footprint. DXN's superior ROAEs of 27%-31% p.a. also compares favourably relative to its peer range of 22%-23%. DXN's PEG of 0.7x, at current share price, also compares favourably relative to its domestic peers average of 1.1x.

Fig 30: Malaysia direct selling sector peer comparison

Stock	Shr px	Mkt cap	PER (x)		P/B (x)		EV/ EBITDA (x)		ROAE (%)		Div Yld (%)
	(Local)	(MYRm)	CY23E	CY24E	CY23E	CY24E	CY23E	CY24E	CY23E	CY24E	CY23E
Amway Malaysia	5.31	872.9	12.1	11.4	3.7	3.7	6.5	6.2	27.3	28.3	7.3
Beshom Holdings	1.03	309.1	11.3	6.8	1.0	1.0	7.4	6.2	6.0	7.3	6.3
Simple avg			11.9	9.1	2.3	2.3	6.9	6.2	16.7	17.8	6.8
Mkt cap weighted avg			11.9	10.2	3.0	3.0	6.7	6.2	21.7	22.8	7.0

*As at 21 Jul 2023 closing prices

Source: Bloomberg, Maybank IBG Research

9. Risks

9.1 Negative perception of product safety and brand reputation

DXN has a large focus on innovative ingredients used in their health supplements and food products such as fermented Noni, probiotic fruit juice, mycelium and others, with limited documented experience with human consumption. Any negative public perception on the safety and/or effectiveness of their products would adversely impact DXN's brand reputation, which is pivotal in attracting and retaining its members and driving sales for its products.

9.2 Operational risks arising from DXN's facilities

DXN operates two R&D facilities, six cultivation facilities, and ten manufacturing facilities, where a significant portion of its natural ingredients are developed and manufactured. These facilities are subject to operational risks such as industrial accidents, malicious damage, and other interruptions that might impact DXN's regular business operations. Additionally, the cultivation of its natural ingredients like Ganoderma and Spirulina, which requires specific controlled environments, is subject to inherent agricultural risks, such as climate irregularities, insects, natural disasters and others.

9.3 Heavy reliance on, but limited control over external distribution centres and members

DXN relies on its external distribution agencies and members to drive a significant portion of its marketing efforts and sales. DXN also relies on its agencies' direct selling marketing licences to distribute its products in those jurisdictions. Failure to maintain the licenses or relationships with these agencies and members could have an adverse impact on the company's business prospects.

Additionally, while DXN retains control over the structure of the member bonus remuneration plan, marketing plan, IT systems and all its intellectual property rights, due to the scale of DXN's global network, it cannot guarantee its external agencies and members' compliance with its policies and regulations. This could lead to violations which could adversely affect DXN's business and reputation and could result in civil or criminal penalties. Examples include tampering to DXN's products by members prior to the receipt by customers, or misrepresentation of the efficacy of DXN's products by members.

9.4 Reliance on third-party suppliers

DXN purchases raw materials and packaging components from third-party suppliers, including natural ingredients such as Ganoderma and Spirulina. Any disruptions to the operations of these suppliers may have an impact on DXN's supply and overall sales performance. We however identify minimal concentration risks, with no single supplier accounting for more than 10% total purchases. Moreover, DXN's top suppliers vary every year.

9.5 Disruptions from pandemic restrictions

DXN has, in the past, faced interruptions to its operations due to restrictions imposed by the pandemic. Examples include labour shortages, logistical disruptions in product shipment, and the closure of production facilities due to positive cases of COVID-19. Any further restrictions arising from any unforeseen increases in COVID-19 cases or another pandemic outbreak will adversely impact DXN's business activities.

9.6 Highly competitive industry

The health and wellness consumer products industry is highly competitive, with DXN facing a large number of competitors in the jurisdictions that it operates in, from small localised companies to large multinational companies with different product offerings and geographical presence. Additionally, DXN faces heavy competition from other direct selling competitors, both local and international companies, in recruiting and retaining their members.

9.7 Regulatory risks from global network of jurisdictions

Due to the global scale of its operations, DXN is subject to the laws and regulations of multiple jurisdictions, some of which may impose limitations on its operations. Examples include delays in product approvals, restrictions on local manufacturing facilities, tax liabilities and profit remittance complications.

9.8 Foreign currency risk

DXN is exposed to multiple exchange rate fluctuations, particularly with respect to the EUR, USD and MYR. Its exports to external distribution agencies are primarily denominated in USD and EUR. Sales to members occur in local currencies before being converted back into USD and EUR and repatriated to Malaysia. Our earnings forecasts have not incorporated volatility in foreign currencies against the MYR, its reporting currency.

10. Appendix

10.1 Board of Directors

Name	Date of Appointment	Designation	Experience
Datuk Lim Siow Jin	3 April 1996	Non-Independent Executive Chairman	<ul style="list-style-type: none"> Datuk Lim Siow Jin is the founder of DXN. He holds a Bachelor of Technology from the Indian Institute of Technology Kharagpur, India. He has extensive experience of over 25 years in the direct selling industry and the business operations of DXN.
Teoh Hang Ching	9 February 2022	Non-Independent Executive Director and Chief Executive Officer	<ul style="list-style-type: none"> Teoh Hang Ching holds a Chartered Institute of Management Accountants (CIMA) qualification. He has over 37 years of experience in various industries, 14 of those are in the direct selling industry. He joined the Group as Senior Manager - CEO Office in 2003 and left in 2008, before returning to the Group in 2012 as Regional Manager. He assumed his current position as CEO in May 2022.
Dato' Lim Boon Yee	22 November 1998	Non-Independent Non-Executive Director	<ul style="list-style-type: none"> Dato' Lim Boon Yee holds a Bachelor of Business Administration in International Trade and Accounting from Soochow University, Taipei, Republic of China in 1991 and a Master of Business Administration from National University of Singapore in 2001. He has been a director of DXN Marketing since 1997 and is primarily responsible for management, administration and licensing, as well as in assisting in setting up DXN's branches.
Vibhav Panandiker	12 May 2017	Non-Independent Non-Executive Director	<ul style="list-style-type: none"> Vibhav Panandiker holds a Bachelor of Engineering (Honours) in the Electrical and Electronics branch and Master of Science (Honours) in Economics from the Birla Institute of Technology and Science, India. He also holds a Post Graduate Diploma in Management from the Indian Institute of Management in Bangalore, India. He co-founded and is currently a partner of KV Asia Capital, a private equity firm headquartered in Singapore.
Datuk Noripah Binti Kamso	10 February 2022	Senior Independent Non-Executive Director	<ul style="list-style-type: none"> Datuk Noripah holds a Master of Business Administration from Marshall University, US in 1981, a Bachelor of Science from Northern Illinois University, US in 1980 and a Diploma in Business Studies from Institut Teknologi Mara, Malaysia in 1978. She was with the CIMB Group until 2014, and held the CEO position of CIMB Principal Asset Management and advisor to CIMB Islamic Wholesale Banking.
Tunku Afwida Binti Tunku A. Malek	10 February 2022	Independent Non-Executive Director	<ul style="list-style-type: none"> Tunku Afwida is a qualified Chartered Accountant of the Institute of Chartered Accountants in England and Wales and she holds a Bachelor of Science (Honours) in Economics and Accountancy. She is currently the Chairman of Affin Hwang Investment Bank.
Stefan Heitmann	10 February 2022	Independent Non-Executive Director	<ul style="list-style-type: none"> Stefan Heitmann graduated with a degree in Business Administration (Diplom- Betriebswirt (FH)) from the University of Applied Sciences, Rheinland Pfalz, Germany (Fachhochschule Rheinland Pfalz) in 1993. He is well-versed in the pharmaceutical field and has been providing healthcare consultancy services since 2012. He is now the Managing Director and co-owner of Windira (HK) Ltd.
Abraham Verghese A/L T V Abraham	10 February 2022	Independent Non-Executive Director	<ul style="list-style-type: none"> Abraham Verghese is a member of the Malaysian Institute of Accountants (MIA) and a member of the Malaysia Institute of Certified Public Accountants. He is also a Fellow member of the Association of Chartered Certified Accountants (ACCA). He held various senior positions during his 37 years with Ernst and Young and was a Partner of the firm from 2002 to 2016.
Wong Wen Miin	10 February 2022	Independent Non-Executive Director	<ul style="list-style-type: none"> Wong Wen Miin holds a Masters in Economics from Universiti Malaya and a Bachelor of Science from Universiti Putra Malaysia. She garnered 28 years of experience in the Ministry of Finance Malaysia before her retirement in 2018. In 2017, she held the position of Deputy Director General (Special Projects) Public Private Partnership Unit of the Prime Minister's Department.

10.2 Senior management

Name	Date of Appointment	Designation	Experience
Lim Yew Lin	2021	Chief Financial Officer & Company Secretary	<ul style="list-style-type: none"> Lim Yew Lin obtained her CIMA qualification in 2000 and was admitted as an associate member of CIMA in 2002. She has been a member of MIA since 2003. Having joined DXN in 1994, she has been with the Group for over 25 years, holding various finance positions. She has been the Group's Company Secretary since 2015 and she assumed her current position of CFO in 2021. She oversees DXN's corporate financial planning, budgeting, treasury, investment, insurance coverage, tax and payroll matters.
Teoh Thean Yong	January 2022	Chief Technology Officer & Group Financial Controller	<ul style="list-style-type: none"> Teoh Thean Yong obtained his CIMA qualification in 1992 and was admitted as an associate member of CIMA in 1997. He is also a member of MIA. He has been with DXN for over 15 years primarily in various senior management roles, overseeing among others, operations related and internal audit matters prior to his current designation. He was appointed the Group's Group Financial Controller in 2021 and he currently oversees DXN's accounts and reporting, budgeting, management control, taxation, transfer pricing and procurement matters. He was also appointed Chief Technology Officer in Jan 2022 and he manages DXN's IT development team.
Tan Hiyin Tiong	May 2022	Chief Operating Officer	<ul style="list-style-type: none"> Tan Hiyin Tiong holds a Bachelor of Pharmacy (Hons) from Universiti Sains Malaysia. He has been with DXN for over 15 years, overseeing its product management and registration. His was appointed to his current position in 2022, with the added responsibilities of being in-charge of the business operations and human resource matters of the Group.
Prajith Pavithran	May 2022	Chief Marketing Officer	<ul style="list-style-type: none"> Prajith Pavithran holds a a Bachelor of Commerce from Utkal University, India in 1999 and a Post Graduate Diploma in Management from the SCMS Cochin (School of Communication and Management Studies), India in 2001. He joined DXN in 2001 as a Sales and Training Executive and has been with the Group since then, with experience in sales and marketing across India, South Asia, US and Latin America. In 2010, he was promoted to Regional Manager of Latin America, and was further promoted as its Regional Manager of North and South America at Daxen USA in 2012 until 2016, when he became its Regional President (US and Latin America). He assumed his current position as Chief Marketing Officer in May 2022.
Kuah Lee Peng	May 2022	Chief Manufacturing Officer	<ul style="list-style-type: none"> Kuah Lee Peng holds a Bachelor of Science (Food Studies) from Universiti Putra Malaysia. She has over 20 years of experience in quality assurance and manufacturing operations She joined DXN in 2002 as a Quality Assurance Executive and held various positions before she was promoted to Factory General Manager in 2021. She assumed her current position as the Group's Chief Manufacturing Officer in May 2022, where she is responsible for the Group's overall production operations.

Source: Company

FYE 28 Feb	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	na	na	10.2	8.7	8.2
Core P/E (x)	na	na	10.2	8.7	8.2
P/BV (x)	na	na	2.8	2.4	2.1
P/NTA (x)	na	na	2.8	2.4	2.1
Net dividend yield (%)	na	na	4.9	5.8	6.1
FCF yield (%)	na	na	9.9	11.5	12.3
EV/EBITDA (x)	8.5	6.7	5.1	4.2	3.7
EV/EBIT (x)	9.4	7.3	5.5	4.5	3.9

INCOME STATEMENT (MYR m)

Revenue	1,242.9	1,600.8	1,946.8	2,282.0	2,416.3
EBITDA	401.4	496.4	603.2	694.5	733.6
Depreciation	(38.5)	(38.5)	(42.0)	(42.9)	(43.8)
Amortisation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	362.8	457.8	561.0	651.4	689.7
Net interest income / (exp)	0.1	(2.0)	(1.3)	1.3	3.1
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	6.2	(30.3)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	362.9	455.8	559.7	652.8	692.8
Income tax	(117.5)	(166.2)	(204.2)	(238.2)	(252.8)
Minorities	(2.5)	(13.9)	(13.9)	(13.9)	(13.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	242.9	275.7	341.6	400.7	426.1
Core net profit	236.8	306.0	341.6	400.7	426.1
Preferred Dividends	0.0	0.3	0.0	0.0	0.0

BALANCE SHEET (MYR m)

Cash & Short Term Investments	409.6	459.0	734.1	924.3	1,132.6
Accounts receivable	77.5	114.4	139.1	163.1	172.7
Inventory	217.2	323.1	413.2	485.2	514.0
Property, Plant & Equip (net)	584.9	646.5	663.9	680.4	696.2
Intangible assets	0.1	0.1	0.1	0.1	0.1
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	184.3	216.8	216.8	216.8	216.8
Total assets	1,473.6	1,759.9	2,167.3	2,469.9	2,732.3
ST interest bearing debt	213.6	187.9	187.9	187.9	187.9
Accounts payable	337.0	396.8	507.4	595.8	631.2
LT interest bearing debt	32.6	49.7	49.7	49.7	49.7
Other liabilities	79.0	100.0	100.0	100.0	100.0
Total Liabilities	662.0	734.8	845.4	933.8	969.2
Shareholders Equity	760.7	963.1	1,245.9	1,446.2	1,659.3
Minority Interest	50.9	62.1	76.0	89.9	103.8
Total shareholder equity	811.6	1,025.1	1,321.9	1,536.1	1,763.1
Total liabilities and equity	1,473.6	1,759.9	2,167.3	2,469.9	2,732.3

CASH FLOW (MYR m)

Pretax profit	362.9	455.8	559.7	652.8	692.8
Depreciation & amortisation	38.6	38.6	42.2	43.1	43.9
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(32.4)	(72.9)	(4.2)	(7.5)	(3.0)
Cash taxes paid	(112.1)	(183.8)	(204.2)	(238.2)	(252.8)
Other operating cash flow	3.4	7.9	0.0	0.0	0.0
Cash flow from operations	260.0	247.1	394.8	448.8	477.8
Capex	(187.9)	(88.2)	(50.0)	(50.0)	(50.0)
Free cash flow	72.1	158.9	344.8	398.8	427.8
Dividends paid	(122.7)	(70.0)	(170.8)	(200.3)	(213.1)
Equity raised / (purchased)	0.0	0.0	112.0	0.0	0.0
Change in Debt	(13.9)	(14.5)	0.0	0.0	0.0
Other invest/financing cash flow	147.3	(24.9)	(10.9)	(8.3)	(6.5)
Effect of exch rate changes	0.8	(0.3)	0.0	0.0	0.0
Net cash flow	83.7	49.2	275.1	190.2	208.3

FYE 28 Feb	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	18.3	28.8	21.6	17.2	5.9
EBITDA growth	27.9	23.7	21.5	15.1	5.6
EBIT growth	28.3	26.2	22.5	16.1	5.9
Pretax growth	26.3	25.6	22.8	16.6	6.1
Reported net profit growth	26.8	13.5	23.9	17.3	6.3
Core net profit growth	25.2	29.2	11.6	17.3	6.3
Profitability ratios (%)					
EBITDA margin	32.3	31.0	31.0	30.4	30.4
EBIT margin	29.2	28.6	28.8	28.5	28.5
Pretax profit margin	29.2	28.5	28.8	28.6	28.7
Payout ratio	50.5	25.4	50.0	50.0	50.0
DuPont analysis					
Net profit margin (%)	19.5	17.2	17.5	17.6	17.6
Revenue/Assets (x)	0.8	0.9	0.9	0.9	0.9
Assets/Equity (x)	1.9	1.8	1.7	1.7	1.6
ROAE (%)	36.2	32.0	30.9	29.8	27.4
ROAA (%)	17.0	18.9	17.4	17.3	16.4
Liquidity & Efficiency					
Cash conversion cycle	(234.1)	(95.4)	(55.9)	(58.6)	(61.6)
Days receivable outstanding	24.7	21.6	23.4	23.8	25.0
Days inventory outstanding	298.4	326.7	348.1	361.7	379.7
Days payables outstanding	557.2	443.6	427.5	444.2	466.3
Dividend cover (x)	2.0	3.9	2.0	2.0	2.0
Current ratio (x)	1.3	1.5	1.8	1.9	2.1
Leverage & Expense Analysis					
Asset/Liability (x)	2.2	2.4	2.6	2.6	2.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	nm	nm	na	na
Debt/EBITDA (x)	0.6	0.5	0.4	0.3	0.3
Capex/revenue (%)	15.1	5.5	2.6	2.2	2.1
Net debt/ (net cash)	(163.4)	(221.5)	(496.6)	(686.8)	(895.0)

Source: Company; Maybank IBG Research

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