

24th Oct '24 - Dixon Tech Q2FY25 results review and Intrinsic Value

Q2FY25 results review:

1. Revenue up 120% YoY to ₹11,534 crore.
2. EBITDA jumped 114% YoY to ₹426 crore. Margins squeezed 30 bps to 3.7%.
3. Net Profit up 265% YoY to ₹412 crore on the back of increased mobile production and an exceptional gain of ₹209.6 crore in Q2FY25.
4. After exceptional gain, Net Profit would be ₹203 crore which is still a EPS of 39 and still beats the street estimates. The exceptional gain came from divesting 50% stake in its JV AIL-Dixon to Aditya Infotech.
5. Mobile Phone manufacturing business contributed 57% of the revenue and 47% of operating profit.
6. Dixon invested ₹1,532 crore in capex as compared to ₹379 crore YoY.
7. Consumer Electronics and appliance division and lighting products division saw their contribution falling but they were profitable too.
8. Dixon Tech sees significant potential for expansion in the IT hardware sector.

Intrinsic Value:

Since the last time I had made a research report on Dixon Technologies, the company has made significant steps further to solidify its fundamentals. The management is confident to beat estimates for FY25 as the company is well placed to profit from the increasing opportunities in the mobile and the IT hardware segment. The company is constantly investing in its facilities to cater to the growing demand. The Q2FY25 report displayed strong performance, increased optimism and growth visibility. The Current TTM EPS now stands at ₹119.52 and reduces to ₹92.32 if I exclude the extraordinary gains. The company is expected to report FY25 EPS at ₹126.59. With the current growth visibility, the company is nicely placed to beat the expectations. I've calculated the intrinsic value of Dixon Tech based on Current TTM EPS excluding extraordinary gains (Current TTM Core EPS as I say it).

Current Valuation Status:

I believe DIXON TECH stock at 13,940 per share appears slightly overvalued at 150x Current TTM Core EPS. The stock also commands a premium in its valuations.

However, the stock trades at 110x FY25E EPS which is very much aligned to the 3 year and 5 year median PE values. These factors may prevent any major downside in the stock. The stock has also been very resilient in the past 20 days.

Target Price:

The DIXON TECH stock is a BUY at current levels with a Target Price of ₹16,218 per share based on 128x FY25E EPS, including a 10% premium.

This is a report by Chaitanya Sabharwal for guruspakes.com/markets

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