2nd Sep '24 - Dixon Technologies: Priced for Perfection, Unlikely to Deliver. Book Profits Now, Consider Re-Entry Later.

Based on an in-depth analysis of Dixon's financial performance and valuation metrics, it becomes evident that the company's stock is currently overvalued and does not present a compelling investment opportunity. Read the full report to know the target price and understand the quantitative aspects of the Dixon Technologies stock.

The justified price of Dixon Technologies comes at around ₹8,690 based on the 3 Year Median PE of 116.46 and the TTM EPS of ₹74.61 (PE and EPS data according to Screener.in)

Image 1 - Dixon Stock Price

Image 2 - Dixon Stock PE

Image 3 - Dixon Stock EV / EBITDA

Image 4 - Dixon Stock Price to Book Ratio

Historically, the odds of Dixon sustaining a price-to-earnings (PE) ratio of 170 or increasing its earnings sufficiently to justify its current price and reach median PE levels are significantly low. Even if Dixon reports strong earnings per share (EPS) of 26.43 in Q2FY25, its trailing twelve months (TTM) EPS would only be 81.39, resulting in a PE of 154 if the price remains unchanged.

See image 5 for reference.

Image 5 - Previous 7 quarters of EPS and 4 quarters of expected EPS.

Currency: INR	Q3 '22	Q4 '22	Q1 '23	Q2 '23	Q3 '23	Q4 '23	Q1 '24	Q2 '24	Q3 '24	Q4 '24	Q1 '25
Reported	8.73	13.51	11.50	19.00	16.22	16.00	22.74	–	–	–	–
Estimate	9.41	13.51	11.39	23.69	18.95	19.75	20.49	26.43	29.08	37.23	27.97
Surprise	-7.22%	-0.07%	+0.99%	-19.81%	-14.39%	-18.97%	+10.99%	–	–	–	–

But it'll be hard for Dixon to report its highest ever quarterly EPS of ₹26.43 because of the following reasons:

1. Though the highest ever quarterly EPS was reported at ₹22.74 in the quarter gone by (Q1FY25), we need to remember that Dixon was relying heavily on its Mobile & EMS business whereas its other businesses were not making any significant positive contributions. The festive season of India can boost the sale of mobile phones and therefore driving up Dixon's revenues but that is only expected to happen in Q3. This makes the chances of Dixon meeting the high expectations of Q2 less.
2. Out of the previous 7 quarters, Dixon has only managed to beat the analyst expectations 2 times with one being in the very latest quarter.

Analysts are becoming increasingly bearish on the stock, and for the PE to reach median levels and justify the current price of 12,600, the TTM EPS would need to be around 108 at Q2FY25. However, it is unlikely that Dixon's EPS will grow rapidly enough to justify its current high price. The company operates in a sector that is experiencing growth, but not at such a hyper pace that would warrant Dixon's massive price surge.

Based on various valuation metrics, such as PEG ratio, EV/EBITDA, and Price to Book Value, Dixon's stock appears overvalued. In fact all these valuation metrics are at alarmingly high and dangerous levels. According to the principles of the book - The Intelligent Investor, these valuations are considered excessive, and it is not recommended to purchase the stock even at a price of 10,000.

See image 1, 2, 3 and 4 for chart or graphical based supportive information.

The expected TTM EPS for the fiscal year 2025 (FY25) is estimated to be 113. If the stock price remains at 12,600 until the FY25 annual results are released, the stock's PE would decline to 111.5, which would be reasonable. See equation below.
Dixon Current Stock Price is ₹12,600
Expected EPS for FY25 is ₹113
Expected 1 Year Forward PE comes at 111.5

The 1 Year Forward PE is 111.5 and it means that if everything goes according to the expectations and the plans, Dixon Tech stock would be nearly rightly priced after its Q4FY25 and the right price comes at ₹12,600. This means either the stock will not give a positive return from this price level or the stock should correct to account for a 'realistic' business environment.

Moreover, there is limited confidence that Dixon can consistently grow its earnings to reach an EPS of 111.5. The company has not consistently surpassed analysts' expectations in recent quarters, and management has guided for slower earnings growth due to increased capital expenditures (capex). Additionally, it may take some time for the company to realize the full benefits of its capex investments in terms of improved earnings.

Here are more details into Dixon Technologies' capex plans.

- Dixon expects IT to start playing a bigger role and becoming the next growth engine for the company after mobile phones over the next 12 to 15 months.
- In Mobile Phones, Dixon targets a more than 4x increase in manufacturing to 28-30 million in 2024-25 (April-March) and 40 million next year. In FY24, Dixon manufactured almost 6.7 million smartphones.

The massive increase in Dixon's Mobile Phone manufacturing capacity is largely factored into the current stock price and the 1 Year Forward PE is a testimony of this. But not so surprisingly, this increase in manufacturing would be realized as improved earnings at least after Q3FY25.

Given these factors, analysts and investors are expecting "perfect scenarios" for at least the next three quarters until Q4FY25, which makes it challenging for Dixon to achieve an EPS of 111.5. Therefore, it is prudent for investors to book profits and consider alternative investment opportunities. Even if Dixon successfully executes its plans, there will likely be better opportunities to purchase the stock at more reasonable valuations in the future. And I'll definitely be one of the first buyers of the stock at reasonable valuations.

Now that all the above information and analysis points towards a steep overvaluation in the stock, I'll now calculate a justified price. Historical and 1 Year Forward multiples, both point towards a median PE multiple of around 100 to 110.

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