

25th July '24 - Finding fair valuation of Dixon Tech Stock

During the past 10 years, the only time Dixon Stock went to PE levels of over 160 was during January 2021 to January 2022. And from January 2022 to February 2023, the stock was beaten up so badly that the PE ratio crashed from 160 to 68. And surprisingly during this time, the TTM EPS was increasing only except one time in January 2022 and the only thing that comes to my mind after looking at the chart image below is that the slight fall in EPS in January 2022 is the one thing that triggered the crash.

The crash started around ₹5,500 per share in the start of January 2022 and ended around ₹2,600 per share in late January 2023 eroding around half of the value of the Dixon stock.



BHARWAL



I don't feel the odds are in favor if you invest any money in the Dixon stock at such exorbitantly high price levels.

The factors which you may argue that are working in the favor of the stock are already factored in. In fact the same factors were also working before January 2022. The only thing that triggered the massive sell off was probably that slight fall in the EPS in January 2022 which might have missed the investor expectation significantly and that is why the upcoming earnings on 30th July 2024 may be termed as the do or die zone for Dixon stock.

However, the chances of dying may be much higher. I can imagine the picture. Investors, including me, hovering the mouse over the sell button for Dixon stock while keeping a close eye on the Q1FY25 earnings and any forward looking statements from the management.

I tell you, if the upcoming TTM EPS misses the 'high' expectations, the stock is definitely going to get beaten up. In fact, I've seen many stocks getting corrected due to a 'sluggish' or 'not so confident' commentary of the management, even if their reported earnings go up by a mile. One little example is of Tata Motors stock in May 2024 after it announced its all time record earnings but commented that the H1FY25 may be softer. Take a look.



Quick addition - I don't think the 5% reduction in customs duty for imported mobile phones will have any significant impact on the financials of Dixon Technologies.

Now I'd love to get into the numbers for this very interesting case.

All figures as on 25th July 2024 during market hours.

	Current	3 Year Multiple	5 Year Multiple
PE ratio	177	116	112
EV / EBITDA ratio	89.2	58.8	56.5
Market Cap / Sales	3.7	2.4	2.4
Price to Book Value	38.5	27	24.9

Other ratios:

Current PEG Ratio = 4.17

I'm not using Industry PE of 47.7 in this analysis because Dixon Technologies is undoubtedly the undisputed player in the electronics manufacturing industry in India and currently, there's no relevant listed competitor of the company. The only player that would have stood against it is Tata Electronics but it is not listed.

Here are the premiums the stock currently trades at.

	Premium over 3 Year Multiple	Premium over 5 Year Multiple
PE ratio	52.5%	58%
EV / EBITDA ratio	51.7%	57.8%
Market Cap / Sales	54.1%	54.1%
Price to Book Value	42.6%	54.6%

So if I had to summarize the above table and the premiums for all the metrics, I'd clearly say that Dixon stock currently trades at a 50% premium over all its historical ratios.

I agree that Dixon stock commands a premium due to the lack of sizable listed players from this industry but these premiums should be supported by the earnings.

Now I want you to have a look at the weekly chart of Dixon stock



Sorry for these blue lines but they are key price levels.

In the chart, you can see the 20MA (Moving Average) hovering at around ₹9,500 and the 50MA hovering at nearly ₹7,300. You'll also see a very nice upward channel pattern starting from July 2023 all the way up to late April or early June 2024 where the stock broke the ceiling of the channel pattern and rallied exponentially towards ₹13,000 price level. Careful now.

₹10,780 is the magic number. At the time of this writing, the Dixon stock once broke the blue line representing this magic number. If the stock breaks this level decisively and on a closing basis, we're heading back to ₹9,500. Also don't be shocked to see ₹9,500. Remember the stock once closed at a price level of more than ₹5,500 only to end up at ₹2,600 in a matter of one year.

Add the Fibonacci levels to the chart, you'll again notice that ₹9,500 level is a good support. Even the ₹9,500 price level ends up at a PE ratio of nearly 155 so that isn't very attractive either but definitely better than what it is today.



Also ₹9,500 isn't a very deep correction. For a stock that previously corrected more than 50%, a 25% to 30% correction for the same reason is just fine and justified. However it'll all depend on the upcoming earnings because it will be the event deciding the fate of the stock for the next 5-6 months.

Right now the only thing I remember is that the last time Dixon went over 160 PE levels, it saw a slight dip in its EPS and the investors didn't think twice to sell it.