SHARIAH-COMPLIANT FUNDAMENTAL RESEARCH

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DAGANG NEXCHANGE BERHAD

Industry: **Digital Services**
Lastest FY: **2019**
Country of Origin: **Malaysia**
Currency: **RM'000**
Date of Analysis: **12 January 2021**

Report Sections:

Does the firm have sufficient equity to pay liabilities?

YES

Liabilities-to-Equity: 35.2%

Is the firm profitable?

YES

Profit Margin (after tax): 12.2%

Is the firm growing?

NO

Sales Growth: -1.0%

FINANCIAL HEALTHCHECK

Sales for the firm had been very neutral and reflected a muted performance. Demand for its goods and services were not apparent. Modest increase in costs was experienced by the firm during the period. Every dollar of sales generated had resulted to a higher cost of operations for the firm compared to the previous period. Average profit margins were experienced by the firm during the period. Weakened profit margins may be due to a weakening business model.

Nominal returns to shareholders were experienced by the firm during the period. There would be a strong likelihood that the firm's underlying valuation would likely be affected during the period. The firm's solvency risk profile was likely under control when its low liability exposure was measured against its shareholder funds . There is very little risk that the liability exposure would affect the firm's underlying valuation for the period. There was a notable decline in the firm's overall profitability compared to the previous period. Average profit margins were experienced by the firm during the period. Valuation for the firm based on earnings need to be significantly improved for subsequent period if it wants to improve its valuation further.

FINANCIAL RISK AREAS

The firm's revenue performance had weakened over the period; with declining demand for its goods and services.

50.0%
Business Performance

Quite constrained level of shareholder returns were attained during the period. The overall valuation of the firm need to be improved.

49.6%
Shareholders' Value

The firm's revenue performance reduced slightly over the period; with demand for its goods and services proving to be uninspiring.

74.2%
Risk & Liabilities

Experienced a major decline in the value of its overall assets.

48.3%
Productivity

FINANCIAL OUTLOOK

1. Need to review the firm's product/service mix and their contribution to profitability by product/service line.

   Business Performance

2. Assess the cost structure between the two periods.

   Shareholders' Value

3. Assess the market place for products and services which may be used as a replacement or substitute for the firm's existing products and services.

   Risk & Liabilities

4. Perform an analysis of the costs in the business over the two most recent financial years.

   Productivity

SHARIAH INDICATORS

AAOIFI Status: **COMPLIANT**

	SOLVENCY RISK EXPOSURES (SRE)	LIQUIDITY STATUS INDICATOR (LSI)	RECEIVABLE EXPOSURE LEVEL (REL)
FTSE	Total Debt / Total Assets **10.53%** **COMPLIANT**	(Cash + Short Term Investment + Other Investment) / Total Assets **8.65%** **COMPLIANT**	(Cash + Net Receivables) / Total Assets **23.12%** **COMPLIANT**
MSCI	Total Debt / Total Assets **10.53%** **COMPLIANT**	(Cash + Short Term Investment + Other Investment) / Total Assets **8.65%** **COMPLIANT**	(Cash + Net Receivables) / Total Assets **23.12%** **COMPLIANT**
AAOIFI	Total Debt / Total Assets **10.53%** **COMPLIANT**	(Cash + Short Term Investment + Other Investment) / Total Assets **8.65%** **COMPLIANT**	(Cash + Net Receivables) / Total Assets **23.12%** **COMPLIANT**
DJ	Total Debt / Average Market Value **0.02%** **COMPLIANT**	(Cash + Short Term Investment + Other Investment) / Average Market Value **0.01%** **COMPLIANT**	(Cash + Net Receivables) / Average Market Value **0.04%** **COMPLIANT**
S&P	Total Debt / Average Market Value **0.02%** **COMPLIANT**	(Cash + Short Term Investment + Other Investment) / Average Market Value **0.01%** **COMPLIANT**	(Cash + Net Receivables) / Average Market Value **0.04%** **COMPLIANT**

VALUE INVESTING INDICATORS

** Ratios in asterisk were extracted from 3rd party sources*

ATTRACTIVE VALUATION? **NO**

FUNDAMENTALLY SOUND? **NO**

Was the company worth less than its book value now?

YES

Price-to-Book *

0.87

A lower value indicates the company is trading below its original value and may indicate a "cheap" buy, but not necessarily all the time.

Was the company undervalued?

NO

Fair Value *

(0.08)

Share Price *

0.23

A value of its EPS x 8.1 that is below its share price suggests that it is overvalued (assuming it is not loss making).

Was the company financially strong generally?

NO

Credit Score

55.5%

The credit score takes into account balance sheet and P&L of the company. A higher score indicates a stronger credit position.

Was the P/E lower than its peers?

NO

Company *

N.A

Peer Average *

18.50

The P/E indicates how much premium investors are willing to pay for each profit earned. A lower P/E indicates "less premium"(assuming no lossses)

Did the company have buffer for its short-term obligations?

YES

Current Ratio

1.72

A higher current ratio indicates a higher liquidity position but need to check the level of inventories and actual cash levels- in order to meet short-term dues.

Did the company pay dividends?

N.A

Dividend Yield *

0.00%

A company that has been paying dividends suggests that the company is doing well and continues to be optimistic about the future.

Were the profit levels growing?

NO

Pre-Tax Profit

-28.6%

A company that is showing consistent earnings growth indicates a positive outlook. A company that shows negative growth may indicate tougher times ahead.

Did the company have free cashflow?

NO

Qterly Per Share *

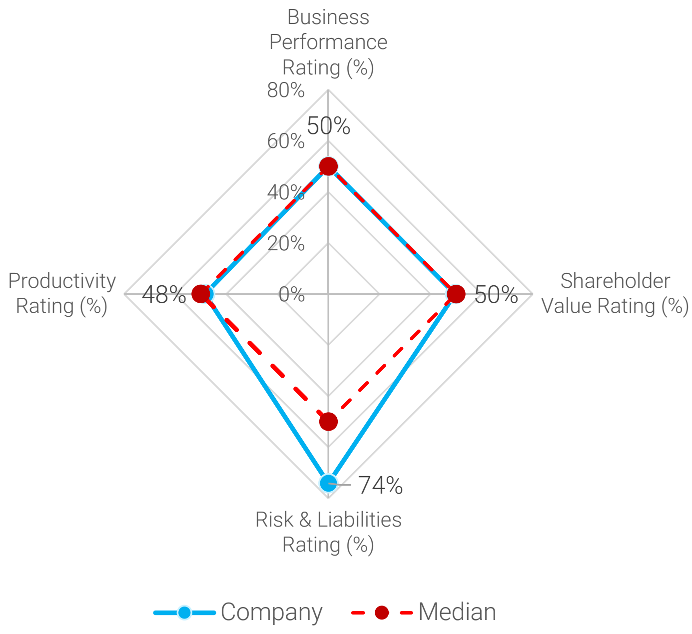
0

FCF must be sufficiently positive because it signals a company's ability to pay debt, pay dividends, buy back stock and facilitate the growth of business.

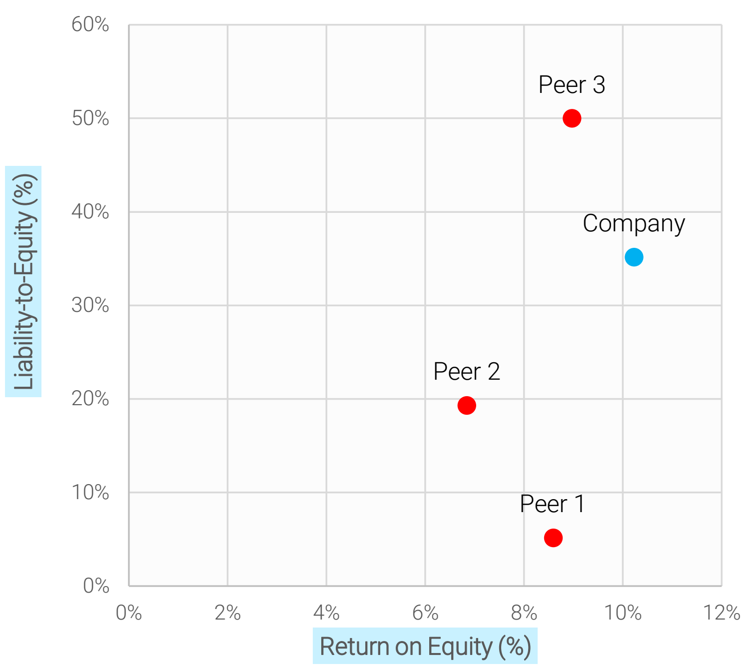
Source Data: **Bursa/WSJ/i Saham**

Data Source Date: **29/12/2020**

Peer Analysis: Overall Financial Performance



Peer Analysis: Risk Return



BUSINESS PERFORMANCE RATING (BPR)	6.0

Sales for the firm had been very neutral and reflected a muted performance. Demand for its goods and services were not apparent. Modest increase in costs was experienced by the firm during the period. Every dollar of sales generated had resulted to a higher cost of operations for the firm compared to the previous period. Average profit margins were experienced by the firm during the period. Weakened profit margins may be due to a weakening business model.

SHAREHOLDER VALUE RATING (SVR)	6.0

Nominal returns to shareholders were experienced by the firm during the period. There would be a strong likelihood that the firm's underlying valuation would likely be affected during the period. There was a notable decline in the firm's overall profitability compared to the previous period. Average profit margins were experienced by the firm during the period. Valuation for the firm based on earnings need to be significantly improved for subsequent period if it wants to improve its valuation further.

RISK AND LIABILITIES RATING (RLR)	8.9

Does not appear to be heavily dependent on short-term creditors to support working capital needs. The firm's relatively low liability exposure relative to its shareholder funds suggested that its solvency risk profile was manageable. There were highly sufficient shareholder funds to cover all of the firm's obligations. The pace for revenue growth was higher than the liability growth for the firm during the period. The firm's mode of expansion had been driven by sales management and resulted to a faster sales growth compared to liability growth. There is unlikely to be any movement in the direction of sales for the firm and indicated an indifferent growth position. Little evidence of any demand changes for its goods and services.

PRODUCTIVITY RATING (PRR)	5.8

The firm's profitability experienced some negative growth compared to previous period when compared against its asset base. The capacity of the firm's assets to generate profits was above average. It was able to utilise its assets to generate moderate levels of profitability. In comparison over the two most recent years, the profitability of the firm experienced a notable decline. The growth of the firm's total assets was fairly benign during the period. The firm's expansion plans do not appear to be aggressive from asset-based expansion.

STRATEGIC RISK CHECKLIST

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A Digital AI Labs project by BulleB / MyFinB

ACTION STEPS

BUSINESS PERFORMANCE	PHASE 1	Need to review the firm's product/service mix and their contribution to profitability by product/service line.	Assess the quality of clientele/customers and pricing effectiveness.	Seek information on the strategic direction of the firm and assess its viability to turn around the profit trends.	To check if there are any structural or one-off expenditures that materially affect the firm's bottomline.	Evaluate the quality of management running the firm's revenue generating activities.
BUSINESS PERFORMANCE	PHASE 2	Compare the cost behaviour against sales and profitability performance.	Clarify how sustainable the cost containment will be.	Identify trends and drivers in the industry that may affect expenditure levels in the future.		
SHAREHOLDERS' VALUE	PHASE 1	Assess the cost structure between the two periods.	Evaluate major sources of revenue and detect for any significant withdrawal of major clients during the period.	Examine the primary and secondary inputs utilised to generate profits for the firms.	Conduct price margin analysis between the two periods.	Detect for any concentration risk of clients that resulted in decline in profitability rate.
SHAREHOLDERS' VALUE	PHASE 2	Perform a comparison analysis between the trends of the levels of liability and sales in the business, over the two most recent operating years of the business.	Perform an analysis of the payment policies for suppliers of the firm, as well as its banking facilities to gain a better understanding of the liability management of the firm.	Determine how easy it is for the firm to obtain financing for its operations over the short and long-term.	Review the current business plans/strategies for future business expansion and/or capital raising.	Establish whether the firm can rely on expanding its internal financing or manage its working capital to efficiently run the business as a going concern.
RISKS & LIABILITIES	PHASE 1	Assess the market place for products and services which may be used as a replacement or substitute for the firm's existing products and services.	Perform an assessment of the changes in demand for the goods and services, at different varying prices.	Identify the individual products which contribute least to the topline and consider removing them from the product range.	Perform a price analysis to determine whether there had been any price adjustments which resulted in higher volumes but lower prices.	Develop and review a customer/client database and individually assess each customer/client for their potential to the firm.
RISKS & LIABILITIES	PHASE 2	Evaluate liability trends in past years and compare against revenue.	Assess creditor payment policies and drawdown facilities to have better understanding how the firm manages its liabilities.	Examine the firm's access to trade finance and long-term financing facilities.	Obtain insights on the firm's expansion plans and financing strategies.	Ascertain the extent the firm relies on internal financing to expand or manage its working capital needs.
PRODUCTIVITY	PHASE 1	Perform an analysis of the costs in the business over the two most recent financial years.	Perform an assessment of clients contribution to revenues and determine whether any single or significant clients have materially affected the reduced level of sales.	Inspect in detail the main and supporting contributors to profits of the firm.	Evaluate the profit margins by prices of the various products and/or services over the two most recent financial years.	Determine whether the severe decline in profitability was as a result of over reliance on a single client.
PRODUCTIVITY	PHASE 2	Establish management antecedents of the firm's expansion plans if any.	Examine the firm's current level of resources in terms of its current assets and how these are being deployed.	Evaluate historical trends of asset levels - both for fixed and current levels.	Ascertain the use and functions of the asset types that were acquired.	

KEY FINANCIAL RATIOS

FINANCIAL DATA

RM'000	2019	2018	% Change
Sales	290,486.00	293,452.00	-1.0%
Profit Before Tax	47,577.00	66,647.00	-28.6%
Profit After Tax	35,497.00	51,892.00	-31.6%
Total Asset	629,037.00	628,068.00	0.2%
Total Liabilities	163,671.00	186,558.00	-12.3%
Current Liabilities	134,197.00	161,070.00	-16.7%
Shareholders' Fund	465,366.00	441,510.00	5.4%
Total Debt	66,269.00	47,575.00	39.3%
Cash + Short Term Investment + Other Investment	54,399.00	38,998.00	39.5%
Net Receivable + Cash	145,402.00	77,996.00	86.4%

PERFORMANCE METRICS

Business Potential Ratios

	%
Rate of Sales Growth	-1.0%
Rate of Cost Growth	7.1%
Cost/Sales Growth	6.3%
Profit Margin (after tax)	12.2%
Profit Margin Growth	-5.5%
Return On Assets Growth	-2.6%
Return on Assets (after tax)	5.6%
Profit Before Tax Growth	-28.6%
Asset Growth	0.2%

Risk & Valuation Ratios

	%
Return on Equity (pre-tax)	10.2%
Total Liabilities-to-Equity Ratio	35.2%
Profit Before Tax Growth	-28.6%
Profit Margin (after tax)	12.2%
Current Liability Ratio	21.3%
Total Liability Growth vs Sales Growth	-11.3%
Rate of Sales Growth	-1.0%

COMPANY AND INDUSTRY SENTIMENTS

Last 6 Months News Coverage (*Additional info may be requested upon new terms.)

Company: Dagang Nexchange Berhad
Industry: ICT Service
Date of Report: 31 December 2020

Interpretation: This text has a sentiment score of **44.5**. This means that the overall sentiment or tone of this text is somewhat positive / enthusiastic.

NEWS SENTIMENTS

POSITIVE

COMPANY:

#1: Group upbeat about new growth area in semiconductor industry (7 Dec, 2020 – New Straits Times)

Dagang NeXchange Bhd (DNeX) is upbeat about exploring a new growth area in the semiconductor segment with the bidding for SilTerra Malaysia Sdn Bhd. Group managing director Datuk Seri Syed Zainal Abidin Syed Mohamed Tahir said DNeX would want to be given the opportunity to turn around the semiconductor manufacturer. "We have the expertise as we have managed to turn around Time Engineering Bhd. Our partner Beijing CGP Investment Co Ltd is willing to provide transfer of technology and market access to SilTerra," he told the New Straits Times. "We also want the bidding process to be based on merit. We believe we have the right partner, technology and market access. We have been working closely with the government to present our case. At the end of the day, it is up to Khazanah Nasional Bhd (the owner of SilTerra) to make the decision.

#2: DNEX Launches New Promotional Packages Targeting SMEs (2 Dec, 2020 – Bernama: The Malaysian National News)

Dagang NeXchange Berhad ("DNeX") has launched new promotional packages to assist businesses namely small and medium enterprises ("SMEs") adopt digitalisation in their trade processes. The packages, effective 1 January 2021, are aimed at helping SMEs stay competitive and sustainable amidst challenges posed by the Covid-19 pandemic. From 1 January 2021 to 30 June 2021, new customers can benefit from a waiver of registration fee worth up to RM500 for all services provided by DNeX's wholly-owned subsidiary, Dagang Net Technologies Sdn Bhd. Meanwhile, existing customers namely customers of declaration and manifest services can benefit from a waiver of mailbox fee for three months, and worth RM270 per mailbox beginning January 2021. ePermit users on the other hand can opt for the eValue Plan which allows customers to waive existing RM200 annual subscription fee. Under the eValue Plan, customers are charged only a flat fee of RM8 comprising RM5 approved permit fee and RM3 administration fee for each transaction.

#3: DNeX proposes to undertake private placement (28 Jul, 2020 – Contify Energy News)

Dagang NeXchange Berhad ("DNeX") has proposed to undertake a private placement of up to 20 per cent of its total issued shares to third party investors to be identified later. Based on the indicative issue price of RM0.22 per placement share and assuming the Group's outstanding convertible securities are fully exercised prior to implementation of the proposed private placement, DNeX is expected to raise gross proceeds of up to RM109.14 million from the corporate exercise as it looks to fund its next growth phase. The Group intends to utilise the gross proceeds to mainly finance suitable and viable potential growth opportunities which in turn can generate positive returns moving forward. In addition, the gross proceeds will also be used as partial repayment of bank borrowings, working capital, and for expenses associated with the exercise. According to Encik Mohd Azhar Mohd Yusof, Acting Group Managing Director of DNeX, such growth opportunities include investments that will expand and complement the company's focus on its core business.

INDUSTRY:

#1: Growth opportunities for cloud services providers during and after Covid pandemic (31 Dec, 2020 – The Sun Daily)

Cloud services provider AVM Cloud Sdn Bhd sees growth opportunities in managing a larger load of users and data as well as maintaining reliable uptime and strong security measures amid and post-Covid pandemic. AVM Cloud chief technology officer Kenny Lim (pix) said Covid-19 has propelled a new wave of business models that previously only relied on the traditional brick-and-mortar model. Now users expect business and even government bodies to have presence online and allow for transactions and agreements to be conducted digitally, hence bsinesses are forced to accelerate or enhance their digital transformation. "For businesses to enjoy a successful digital transformation experience, they need to invest in the right technology solutions that enable them to support remote workers effectively, plan for data and storage capacity optimally, as well as ensure that all business-critical applications are available to remote workers and performing exceptionally," he told SunBiz, adding that AVM Cloud and its partner NetApp can help organisations increase their IT capacity to manage the demands of a remote workforce while optimising their infrastructure and protecting their data.

#2: Builder.AI Empowers SMEs Digital Transformation Via Studio Rapid Technology (30 Dec, 2020 – Bernama Daily Malaysian News)

In the quest to spur small and medium enterprises (SMEs) towards the digital world, Builer.ai, a no-code software development provider, is offering to grow their digital platform via its Studio Rapid technology. Builder.ai co-founder and chief executive officer Sachin Dev Duggal said Studio Rapid provides enterprises to build quick and comprehensive applications that can be adjusted and collaborated in real time. "An enterprise can go from idea to working application in less than 24 hours without having to write a line of code. "We build a platform that uses artificial intelligence to help customers develop their own software application without really understanding the technology and how to code," he told Bernama recently. Duggal said while apps are typically developed in months, Studio Rapid technology delivers simple applications that can be instantly adjusted in a few hours. He added that Studio Rapid will help create live reusable features that can be put into their customer's app and let them build the software without having to hire a developer and learn to code.

#3: Visa records 50% contactless transactions (30 Dec, 2020 – The Malaysian Reserve)

Malaysia has achieved a new milestone with contactless payments representing more than 50% of all Visa face-to-face transactions, the credit card company said. According to Visa, this is largely driven by usage in key categories such as food and groceries, quick service restaurants, department stores and drug stores in the country. "The Covid-19 pandemic has fuelled the adoption of digital payments in Malaysia, especially contactless payments and e-commerce," said Ng Kong Boon (picture), country manager for Visa Malaysia. "In the past couple of years, we have seen strong growth in contactless payments due to the expansion of contactless acceptance across the country. Consumer behaviours are also changing with a growing preference for digital purchases," he added. Ng further said small businesses and merchants should focus on enabling digital payments acceptance and establish a digital presence to adapt in this changing environment.

AI:X

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