Dongxiao Biotechnologyâ??s first-half profit falls as Lysine prices and export curbs pressure margins

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Dongxiao Biotechnology reported a 2.03% decline in first-half revenue and a 51.76% fall in net profit as lower lysine prices, new trade barriers and weak demand from the pig-breeding sector squeezed margins

Dongxiao Biotechnology Co., Ltd. reported revenue of RMB 3.795 billion for the first half of 2026, down 2.03 per cent from the same period a year earlier, as its animal-nutrition business faced weaker lysine pricing, export restrictions and tougher industry competition.

Net profit attributable to shareholders fell 51.76 per cent year-on-year to RMB 129 million, while profit excluding non-recurring items declined 57.58 per cent to RMB 123 million. Earnings per share stood at RMB 1.38 and return on net assets was 5.32 per cent. Net operating cash flow per share was RMB 0.3547.

The results underline the pressure facing China's amino-acid industry. Dongxiao's core animal-nutrition business, led by lysine products, remains its largest revenue source but has been hit by a combination of overseas trade measures, expanding domestic capacity and weak demand from downstream livestock producers.

Gross margin for the company fell to 9.65 per cent in the first half, down 4.89 percentage points from a year earlier. The decline reflects a squeeze from both sides: selling prices for amino-acid products have weakened since the second half of 2025, while raw-material, energy and freight costs have remained difficult to reduce.

Dongxiao said anti-dumping duties imposed by the European Union, the United States and Brazil on Chinese lysine products had restricted export channels. The U.S. Department of Commerce issued a preliminary affirmative determination in its anti-dumping investigation into L-lysine imports from China in March 2026, highlighting the trade risks facing Chinese producers in overseas markets.

The company's animal-nutrition segment generated RMB 1.425 billion in revenue during the first six months of 2026, down 13.69 per cent year-on-year. Despite the decline, it remained Dongxiao's largest business line.

The segment's gross margin fell to 5.21 per cent, down 10.37 percentage points from the comparable period a year earlier. That sharp reduction shows the extent of the challenge in the lysine market: even a relatively small fall in selling prices can have a disproportionate effect on profitability when feedstock, energy and manufacturing costs remain high.

Dongxiao's animal-nutrition portfolio includes L-lysine sulphate, L-lysine hydrochloride, corn-processing by-products and L-arginine. Lysine is a key amino acid used in animal feed, particularly in swine and poultry nutrition, because it helps balance protein requirements and can reduce dependence on more expensive protein inputs.

But the market is cyclical. When amino-acid capacity expands faster than demand, prices can weaken rapidly. The pressure becomes more severe when downstream livestock producers are themselves under financial stress and reduce purchases or negotiate harder on price.

Dongxiao cited deep losses in pig breeding as one factor weakening feed demand. China’s pig industry has faced volatile margins as changes in hog supply, feed costs and pork prices affect producer profitability. When farms lose money, they may reduce stocking, delay purchases or switch to lower-cost feed formulations, affecting demand for feed additives.

The combination of weak domestic demand and constrained exports has made it harder for amino-acid producers to manage supply. Capacity expansion across the industry has intensified competition, leaving companies to contend with lower selling prices at a time when corn, energy, freight and other operating expenses cannot be reduced as quickly.

Dongxiao also faced pressure from higher ocean freight rates, which raised the cost of serving international markets. For a producer operating in a globally traded commodity market, logistics costs can directly affect export competitiveness.

The company’s first-half performance is consistent with risks it had identified earlier in 2026. Before the period ended, Dongxiao forecast that first-half revenue would fall within a range of RMB 3.78 billion to RMB 4.05 billion and projected net profit of RMB 110 million to RMB 150 million, representing a year-on-year decline of 48.90 per cent to 62.53 per cent. The reported revenue and net profit both fell within those ranges.

Dongxiao’s business extends beyond animal nutrition. The company focuses on corn refining and deep processing, using synthetic biology, precision fermentation and microencapsulation as its principal technology platforms.

Its wider portfolio includes powdered beverages, food additives, organic acids and healthy sweeteners. This diversification gives the company exposure to food and beverage ingredients as well as animal-feed markets, although the animal-nutrition segment remains especially important to overall revenue.

The company’s operating model illustrates both the opportunity and risk of corn-based deep processing. A single agricultural raw material can be converted into multiple products for food, feed and industrial markets. But that also leaves producers exposed to fluctuations in corn prices, energy costs, global trade rules and end-market demand.

Dongxiao has sought to build value through higher-value processing rather than relying only on commodity products. Synthetic biology and fermentation can help create specialised ingredients, while microencapsulation can improve stability, delivery and shelf life for selected products.

The difficulty is timing. Investments in new capacity and technology can raise depreciation and operating costs before new facilities achieve full utilisation. Dongxiao has previously said that newer production lines were still in a ramp-up phase, with additional depreciation and operating expenses weighing on profits.

The company’s first-half numbers therefore reflect both an external market downturn and the internal cost of building for longer-term growth.

For investors, the key issue is whether Dongxiao can protect margins as lysine pricing remains under pressure. The company’s ability to rebalance sales toward higher-value food ingredients, speciality nutrition products and other less commodity-sensitive lines will be important.

The recovery path will also depend on whether export markets reopen or diversify. Anti-dumping actions in key markets restrict access to customers and may push Chinese producers to compete more aggressively in markets where trade barriers are lower. That can intensify price pressure across the sector.

The company will need to manage working capital and operating costs closely while demand remains uncertain. In a lower-margin environment, inventory discipline, customer credit control, freight management and procurement efficiency can have a greater effect on cash generation.

Dongxiao’s challenge is not unique. China’s amino-acid industry is adjusting to a period of oversupply, changing trade conditions and cautious feed demand. But Dongxiao’s reliance on animal nutrition means that the recovery of lysine prices and pig-sector profitability will have an outsized effect on its financial performance.

The first-half results show a company still profitable but operating with far less room for error. Revenue fell only modestly, but the drop in margins led to a much sharper decline in net income.

That gap is the central message from Dongxiao’s first-half report. In amino acids, the difference between a stable top line and a resilient business lies in the ability to protect margins when product prices fall faster than costs.