

China Shenshan Orchard Holdings Co. Ltd.

1 April 2022

Non-Rated

BBG	DKNG SP
Market cap	S\$25.5m
Price (1 April 2022)	S\$0.32
52-week range	S\$0.061 – S\$0.57
Target Price	Non-rated
Shares Outstanding	79.8m
Free Float	45.3%
Major Shareholder	Wang Peng 29.5% Employees 9.4%
P/BV (12/21)	0.1x
Net Debt to EBITDA (12/21)	Net cash

Source: Company data, Bloomberg, SAC Capital

A Chinese kiwifruit producer

Established in 2009, Shenshan cultivates and sells kiwifruits in China. Its output accounts for 0.1% of China's total kiwifruit production of ~3m tonnes in 2019. It develops varieties in-house and owns 6 premium kiwifruit variety rights, holding 83 trademarks and 56 patents.

Shenshan (previously Dukang Distillers Holdings Ltd) was listed in July 2021, when baijiu operations were sold back to major shareholder Wang Peng, in return for the kiwifruit operations at a valuation of RMB1.1bn. No cash or shares were issued. A new management team came on board.

About 40% of planted areas are mature acreage. Shenshan operates 9 plantations in Chibi City, Hubei Province, the PRC, with total planted area of 241 hectares. Of these, about 40% are mature acreage (between 5 to 10 years). The remainder are immature plants of below 4 years. Harvesting of kiwifruits begins after 4 years of cultivation, and harvest takes place every Sep/Oct. It produced 3,769 tonnes in FY21, at a yield of 40.3 tonnes/mature hectare. The products are sold in China via wholesalers, distributors and e-commerce retailers.

About 34.6% of total 696 hectares have been planted. The land use rights expire in 2058 and 2059. This includes a 42-hectare plot of land which it does not yet have valid rights of use, which accounts for ~6% of total acreage and 11-13% of production volume. Shenshan also holds the rights to 65,000 sqm of industrial land which houses the office and packing facilities.

To raise production output, Shenshan jointly develops farmland with land owners, or engages farmers to provide contract farming. For instance, it have a non-binding 30-year MOU with Chibi Green Industry Development Investment Co., Ltd to develop a 333-hectare land. Chibi Green will provide RMB150m investment while Shenshan will develop and operate the plantation.

Earnings are seasonal. Bulk of sales take place in late 3Q/early 4Q. Gross margin have risen steadily to 13.3% from economies of scale with growing mature acreage. Excluding non-recurring gain on bargain purchase (RMB10.5m) and profit from discontinued operations (RMB34.8m), the share trades at FY21 adjusted PE of 3.8x and EV/EBITDA of 0.7x. Seeka Ltd, the largest kiwifruit producer in Australia and New Zealand with a 26% market share, trades at 13.6x and 5.3x respectively. Both companies generated similar ROIC of 3-4%, though Shenshan's sales were only 8% that of Seeka's.

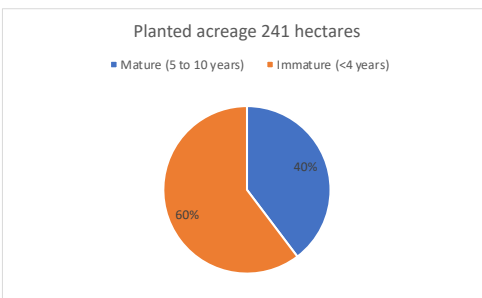
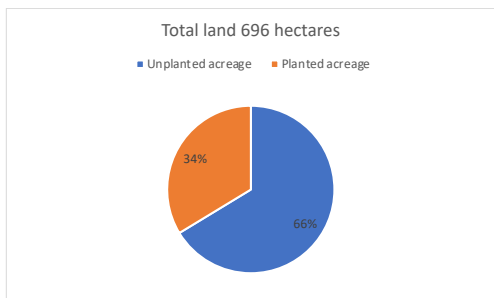
Dukang was placed on SGX watchlist on 4 Dec 2019. Shenshan's listing status will be in doubt by 4 Dec 2022 if its market cap does not hold above S\$40m on average for a 6-month period, unless SGX grants an extension.

Analyst

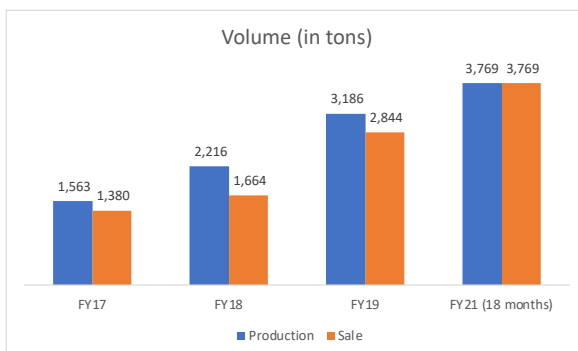
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YE 31 Dec (RMBm)	FY17A	FY18A	FY19A	FY21A *
Revenue	49.5	61.7	99.5	111.2
EBIT	19.7	25.6	55.1	54.6
Net profit	19.5	25.4	53.5	46.9
EPS (cents)	24.4	31.8	67.0	58.8
DPS (cents)	-	-	-	-
Net cash / (debt)	(33.9)	(13.4)	24.1	80.3
Valuation				
EBIT margin (%)	39.8	41.4	55.4	49.1
ROIC (%)	10.2	11.2	41.4	2.7
EV/EBITDA (x)	5.6	3.9	1.5	0.7
P/E (x)	6.1	4.7	2.2	3.8
Dividend yield (%)	-	-	-	-

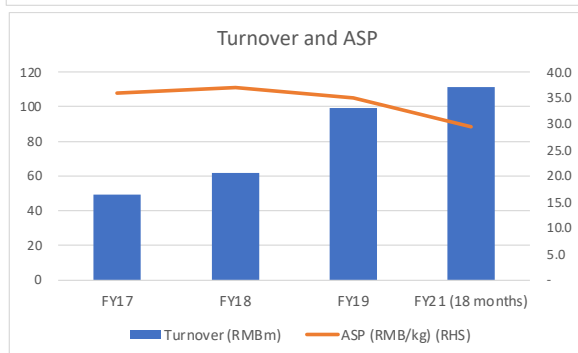
* For 18 months and adjusted for non-recurring items



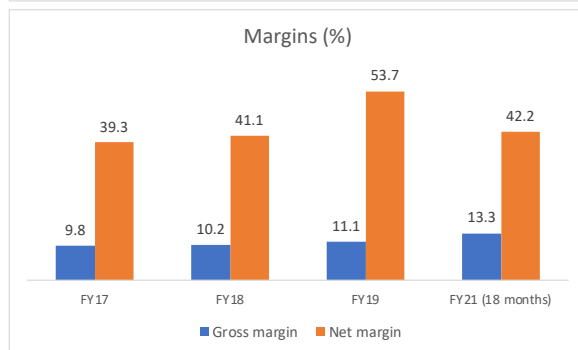
About 35% of land have been planted. Of these, about 40% are mature acreage. The average age of the trees is 4.4 years.



Harvest takes place every Sep/Oct. Almost all output are sold, to wholesalers, distributors and e-commerce retailers.



Turnover growth is driven by volume increase. The average selling prices have held at RMB30-35/kg.



Gross margin is improving due to operating leverage with increased output. Increase in fair value of biological assets lifted net margin to 42.2%.

Peer comparison

	Mkt cap	Revenue	EBITDA	Net profit	Net margin	PE	P/B	EV/EBITDA	ROIC	ROE	ROA
	S\$m	S\$m	S\$m	S\$m	%	x	x	x	%	%	%
Shenshan	25.5	23.8	19.2	10.0	42.2%	3.8	0.1	0.7	2.7%	4.6%	6.8%
Seeka	191.3	292.4	53.6	14.0	4.8%	13.6	0.8	5.3	3.9%	6.0%	11.8%

Shenshan's revenue, EBITDA and net profit are for 18 months ended Dec 21. The returns are annualized.

Income Statement

YE 31 Dec (RMBm)	FY17A	FY18A	FY19A	FY21A
Revenue	49.5	61.7	99.5	111.2
Cost of sales	(44.6)	(55.4)	(88.5)	(96.3)
Gross profit	4.9	6.3	11.0	14.8
Other income	0.0	0.1	0.0	0.4
Gain on biological assets	39.7	53.6	80.7	90.8
Selling/distribution	(2.8)	(3.7)	(7.4)	(4.6)
Admin expense	(11.9)	(18.0)	(19.0)	(38.3)
Other expenses	(11.3)	(13.8)	(17.1)	(19.1)
EBITDA	27.6	33.9	64.4	89.7
Gain on bargain purchase	-	-	-	10.5
Depreciation	(7.9)	(8.4)	(9.3)	(45.6)
EBIT	19.7	25.6	55.1	54.6
Finance costs	(0.0)	(0.1)	(0.1)	(0.1)
Pretax profit	19.7	25.5	55.0	54.5
Tax expense	(0.2)	(0.2)	(1.6)	2.9
Discontinued operations	-	-	-	34.8
Net profit	19.5	25.4	53.4	92.2

Balance Sheet

YE 31 Dec (RMBm)	FY17A	FY18A	FY19A	FY21A
Assets				
PPE	226.0	233.8	241.3	1,156.0
Prepayments	1.7	1.8	6.2	0.3
Intangible assets	7.3	6.9	7.4	6.4
Non-current assets				
Cash	8.6	7.2	53.9	98.3
Trade receivables	4.8	3.2	7.6	55.9
Prepayments & other receivables	0.8	1.2	2.8	1.0
Current assets	14.8	15.2	68.7	156.5
Total assets	249.9	257.6	323.6	1,319.2
Liabilities				
Bank loans	(30.0)	(3.0)	(4.4)	(4.4)
Trade payables	(2.5)	(3.7)	(9.4)	(3.2)
Accruals and provisions	(17.6)	(16.5)	(10.0)	(30.9)
Due to shareholders	-	(5.0)	(116.0)	-
Lease liabilities	(0.0)	(0.0)	(0.0)	(0.4)
Deferred government grants	(0.5)	(0.5)	(0.5)	(0.5)
Income tax payable	(0.2)	(0.1)	(0.2)	(0.3)
Current liabilities	(50.8)	(28.8)	(140.5)	(39.1)
Bank loans	(12.5)	(17.5)	(25.4)	(13.6)
Deferred tax	-	-	-	(231.5)
Lease liabilities	(9.4)	(9.3)	(9.3)	(9.2)
Other payables	-	-	(0.3)	-
Deferred government grants	(14.4)	(14.0)	(13.5)	(12.5)
Non-current liabilities	(36.3)	(40.8)	(48.5)	(266.9)
Net assets	162.8	188.0	134.6	1,013.3
Equity				
Share capital	-	-	-	279.5
Other reserves	162.8	188.0	134.6	733.7
Total equity	162.8	188.0	134.6	1,013.3

Cash Flow

YE 31 Dec (RMBm)	FY17A	FY18A	FY19A	FY21A
Pretax profit	19.7	25.5	55.0	54.5
Discontinued operations	-	-	-	35.0
Depreciation & amortisation	7.9	8.4	9.3	45.6
Net finance expense	0.0	0.0	0.0	7.3
Non-fund items	(36.6)	(51.9)	(80.6)	(200.8)
Working capital changes	36.8	50.2	71.9	29.0
Interest paid	(2.9)	(2.0)	(2.4)	(8.1)
Dividend from associates	-	-	-	-
Tax paid	(0.9)	(0.2)	(1.6)	-
Operating cash flow	24.0	30.1	51.7	(37.6)
Capex	(2.9)	(5.1)	(5.2)	(2.7)
Bearer plants	(3.0)	(7.5)	(6.8)	-
Fixed assets disposall	-	0.1	-	0.2
Others	(1.4)	(1.2)	(5.7)	(12.1)
Investing cash flow	(7.3)	(13.7)	(17.7)	(14.6)
Free cash flow	16.7	16.3	34.0	(52.1)
Dividend paid	-	-	-	-
Borrowings	(17.6)	(17.8)	3.5	29.4
Equity	-	-	9.2	-
Financing cash flow	(17.6)	(17.8)	12.7	29.4
Net change	(1.0)	(1.5)	46.7	(22.7)

Ratios

YE 31 Dec (RMBm)	FY17A	FY18A	FY19A	FY21A
Profitability (%)				
Gross margin	9.8	10.2	11.1	13.3
EBIT margin	39.8	41.4	55.4	49.1
Liquidity (x)				
Current ratio	0.3	0.6	0.5	4.0
Net Debt/EBITDA	1.2	0.4	Net cash	Net cash
Interest coverage ratio	n.m.	n.m.	n.m.	n.m.
Net Debt to Equity	0.2	0.1	Net cash	Net cash
Valuation (x)				
P/E	6.1	4.7	2.2	3.8
P/B	0.7	0.6	0.9	0.1
EV/EBITDA	5.6	3.9	1.5	0.7
Cash Conversion Cycle				
Trade receivable days	35	19	28	122
Inventory days	5	24	18	4
Trade payable days	20	24	39	8

FY21A covers 18 months ended 31 Dec, exclude non-recurring items

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