

China Shenshan Orchard Holdings Co. Ltd.

9 May 2022

BUY

BBG	DKNG SP	
Market cap	S\$30.3m	
Price (6 May 2022)	S\$0.38	
52-week range	S\$0.061 – S\$0.57	
Target Price	S\$0.70	
Shares Outstanding	79.8m	
Free Float	45.3%	
Major Shareholder	Wang Peng	29.5%
	Keping Guo	10.8%
	Employees	9.4%

P/BV (12/21)	0.1x
Net Debt to EBITDA (12/21)	Net cash

Source: Company data, Bloomberg, SAC Capital

An Undervalued 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 has 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.

Initiate BUY with TP of S\$0.70. Our earnings estimates only factored in organic growth from its owned plantation over the next two years. Volume harvested is projected to increase by 10% annually as more plants mature while average selling price is expected at ~RMB30-35/kg. Gross margin is expected to improve from its current ~13% due to the economies of scale with growing mature acreage. However, we expect net margin to maintain at ~43% as Shenshan invests in brand building and network expansion. Seeka Ltd, the largest kiwifruit producer in Australia and New Zealand with a 26% market share trades at forward PE of 12.3x and EV/EBITDA of 6.4x. Taking into account Shenshan's nascent brands, shorter operating history and trading track record, we accord a FY22E EV/EBITDA of 2.6x to arrive at our TP of S\$0.70. This translates to FY22E P/E of 5.1x

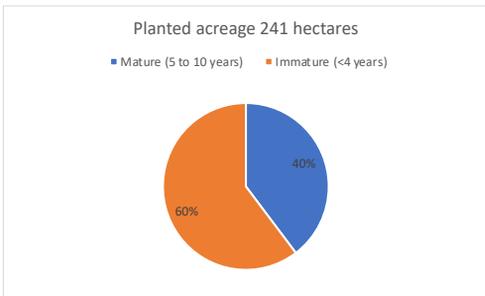
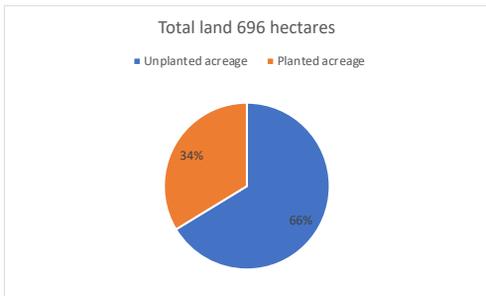
Analyst

Lam Wang Kwan

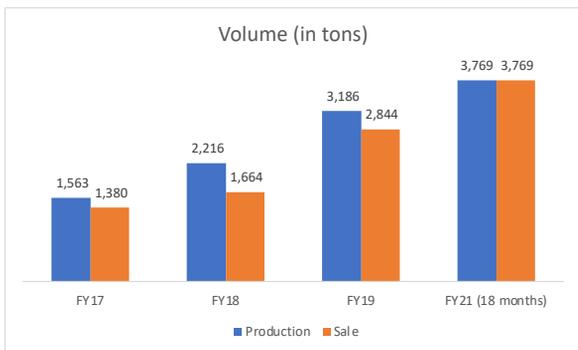
lamwk@saccapital.com.sg

YE 31 Dec (RMBm)	FY18A	FY19A	FY21A *	FY22E	FY23E
Revenue	61.7	99.5	111.2	124.4	136.8
EBIT	25.6	55.1	54.6	53.3	58.6
Net profit	25.4	53.5	46.9	53.2	58.5
EPS (cents)	31.8	67.0	58.8	66.7	73.3
DPS (cents)	-	-	-	-	-
Net cash / (debt)	(13.4)	24.1	80.3	161.3	207.0
Valuation					
EBIT margin (%)	41.4	55.4	49.1	42.8	42.8
ROIC (%)	11.4	42.4	3.2	4.6	5.0
EV/EBITDA (x)	1.9	1.0	1.1	0.9	0.8
P/E (x)	5.8	2.7	4.7	2.7	2.5
Dividend yield (%)	-	-	-	-	-

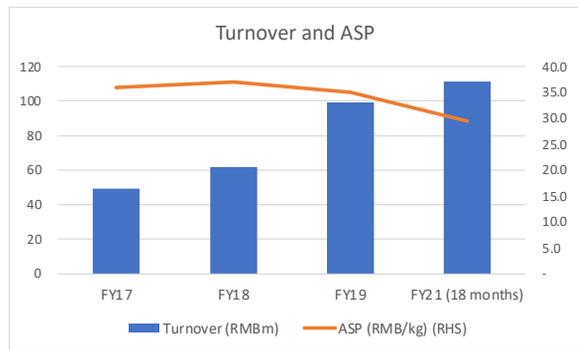
* For 18 months and adjusted for non-recurring items



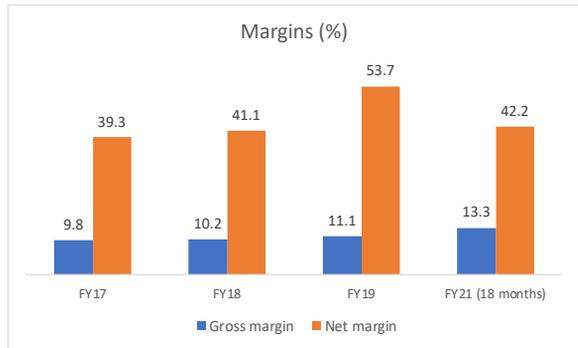
About 35% of land have been planted. Of these, about 40% are mature acreage. The average age of the trees is 4.4 years.



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

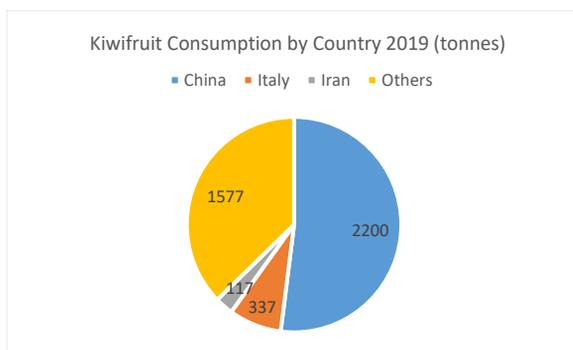


Turnover growth is driven by volume increase. The average selling prices have held at RMB30-35/kg.



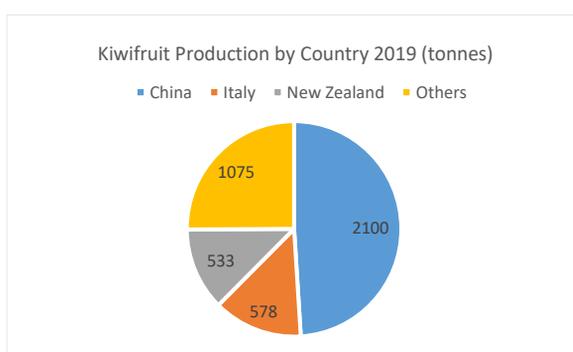
Gross margin is improving due to operating leverage with increased output. Increase in fair value of biological assets lifted net margin to 42.2%.

Thriving China kiwifruit market



China's 2019 kiwifruit consumption is 52% of the world's total volume.

Between 2007 – 2019, China kiwifruit consumption increased at an average rate of 5.3% per year



China accounts for 49% of the world's kiwifruit production.

Between 2007 – 2019, China's kiwifruit production grew at average rate of 4.9% annually.



Despite its strong production capacity, China is the largest kiwifruit importing market with a value US\$431 million in 2019.

In 2021, China kiwifruit import value rose to US\$550 million

Peer comparison

	Mkt Cap (S\$ m)	Revenue (S\$ m)	EBITDA (S\$ m)	Net Profit (S\$ m)	Net Margin (%)	PE (x)	PB (x)	EV/EBITDA (x)	ROIC (%)	ROE (%)	ROA (%)
China Shenshan	30.3	23.5	19.0	9.9	42.2	4.7	0.1	1.1	2.7	4.6	6.8
Seeka	196.0	280.5	51.5	13.5	4.8	12.0	0.9	6.7	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)	FY18A	FY19A	FY21A	FY22E	FY23E
Revenue	61.7	99.5	111.2	124.4	136.8
Cost of sales	(55.4)	(88.5)	(96.3)	(107.6)	(117.7)
Gross profit	6.3	11.0	14.8	16.8	19.2
Other income	1.0	1.1	6.9	0.4	0.4
Gain on biological assets	53.6	80.7	90.8	100.7	110.8
Selling/distribution	(3.7)	(7.4)	(4.6)	(5.6)	(6.2)
Admin expense	(18.0)	(19.0)	(38.3)	(37.3)	(42.4)
Other expenses	(13.8)	(17.1)	(19.1)	(21.1)	(23.3)
EBITDA	33.9	64.4	89.7	72.2	78.2
Gain on bargain purchase	-	-	10.5	-	-
D&A expense	(8.4)	(9.3)	(45.6)	(18.9)	(19.6)
EBIT	25.6	55.1	54.6	53.3	58.6
Finance costs	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Pretax profit	25.5	55.0	54.5	53.2	58.5
Tax expense	(0.2)	(1.6)	2.9	-	-
Discontinued operations	-	-	34.8	-	-
Net profit	25.4	53.4	92.2	53.2	58.5

Balance Sheet

YE 31 Dec (RMBm)	FY18A	FY19A	FY21A	FY22E	FY23E
Assets					
PPE	233.8	241.3	1,156.0	1,165.1	1,176.4
Prepayments	1.8	6.2	0.3	0.3	0.3
Intangible assets	6.9	7.4	6.4	6.1	5.8
Non-current assets	242.5	254.9	1,162.7	1,171.5	1,182.6
Cash	7.2	53.9	98.3	179.3	225.0
Trade receivables	3.2	7.6	55.9	20.4	22.5
Prepayments & other receivables	1.2	2.8	1.0	1.0	1.0
Inventories	3.6	4.4	1.4	2.9	3.2
Current assets	15.2	68.7	156.5	203.7	251.7
Total assets	257.6	323.6	1,319.2	1,375.2	1,434.3
Liabilities					
Bank loans	(3.0)	(4.4)	(4.4)	(4.4)	(4.4)
Trade payables	(3.7)	(9.4)	(3.2)	(5.9)	(6.5)
Accruals and provisions	(16.5)	(10.0)	(30.9)	(30.9)	(30.9)
Due to shareholders	(5.0)	(116.0)	-	-	-
Lease liabilities	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Deferred government grants	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Income tax payable	(0.1)	(0.2)	(0.3)	(0.3)	(0.3)
Current liabilities	(28.8)	(140.5)	(39.1)	(41.9)	(42.5)
Bank loans	(17.5)	(25.4)	(13.6)	(13.6)	(13.6)
Deferred tax	-	-	(231.5)	(231.5)	(231.5)
Lease liabilities	(9.3)	(9.3)	(9.2)	(9.2)	(9.2)
Other payables	-	(0.3)	-	-	-
Deferred government grants	(14.0)	(13.5)	(12.5)	(12.5)	(12.5)
Non-current liabilities	(40.8)	(48.5)	(266.9)	(266.8)	(266.8)
Net assets	188.0	134.6	1,013.3	1,066.4	1,124.9
Equity					
Share capital	-	-	279.5	279.5	279.5
Other reserves	188.0	134.6	733.7	786.9	845.4
Total equity	188.0	134.6	1,013.3	1,066.4	1,124.9

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

Cash Flow

YE 31 Dec (RMBm)	FY18A	FY19A	FY21A	FY22E	FY23E
Pretax profit	25.5	55.0	54.5	53.2	58.5
Discontinued operations	-	-	35.0	-	-
Depreciation & amortisation	8.4	9.3	45.6	18.9	19.6
Net finance expense	0.0	0.0	7.3	(0.3)	(0.3)
Non-fund items	(51.9)	(80.6)	(200.8)	-	-
Working capital changes	50.2	71.9	29.0	36.7	(1.7)
Interest paid	(2.0)	(2.4)	(8.1)	0.3	0.3
Dividend from associates	-	-	-	-	-
Tax paid	(0.2)	(1.6)	-	-	-
Operating cash flow	30.1	51.7	(37.6)	108.5	76.1
Capex	(5.1)	(5.2)	(2.7)	(27.7)	(30.7)
Bearer plants	(7.5)	(6.8)	-	-	-
Fixed assets disposal	0.1	-	0.2	-	-
Others	(1.2)	(5.7)	(12.1)	-	-
Investing cash flow	(13.7)	(17.7)	(14.6)	(27.7)	(30.7)
Free cash flow	16.3	34.0	(52.1)	81.1	45.7
Dividend paid	-	-	-	-	-
Borrowings	(17.8)	3.5	29.4	-	-
Equity	-	9.2	-	-	-
Financing cash flow	(17.8)	12.7	29.4	-	-
Net change	(1.5)	46.7	(22.7)	81.1	45.7

Ratios

YE 31 Dec (RMBm)	FY18A	FY19A	FY21A	FY22E	FY23E
Profitability (%)					
Gross margin	10.2	11.1	13.3	13.5	14.0
EBIT margin	41.4	55.4	49.1	42.8	42.8
Liquidity (x)					
Current ratio	0.6	0.5	4.0	4.9	5.9
Net Debt/EBITDA	0.4	Net cash	Net cash	Net cash	Net cash
Interest coverage ratio	n.m.	n.m.	n.m.	n.m.	n.m.
Net Debt to Equity	0.1	Net cash	Net cash	Net cash	Net cash
Valuation (x)					
P/E	5.8	2.7	4.7	2.7	2.5
P/B	0.8	1.1	0.1	0.1	0.1
EV/EBITDA	1.9	1.0	1.1	0.9	0.8
Cash Conversion Cycle					
Trade receivable days	19	28	122	60	60
Inventory days	24	18	4	20	20
Trade payable days	24	39	8	10	10

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