

# China Shenshan Orchard Holdings Co. Ltd.

1 April 2022

## Non-Rated

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

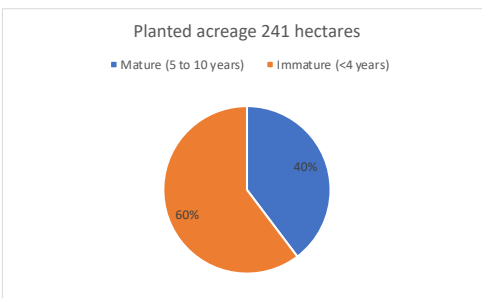
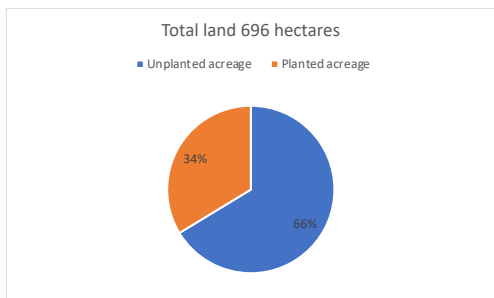
**Dukang was placed on SGX watchlist** on 4 Dec 2019. Shenshan's listing status will be in doubt by 4 Dec 2022 if its market cap does not hold above S\$40m on average for a 6-month period, unless SGX grants an extension.

## Analyst

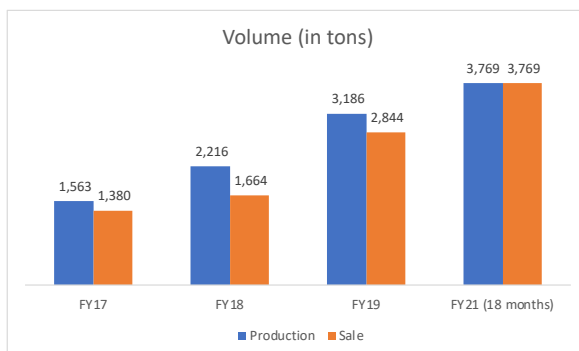
Peggy Mak  
[pmak@saccapital.com.sg](mailto:pmak@saccapital.com.sg)

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
<b>Valuation</b>				
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 (%)	-	-	-	-

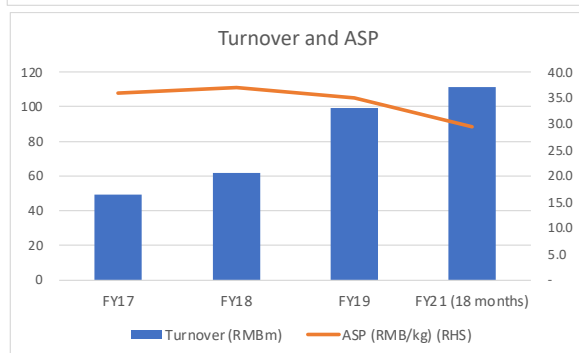
\* For 18 months and adjusted for non-recurring items



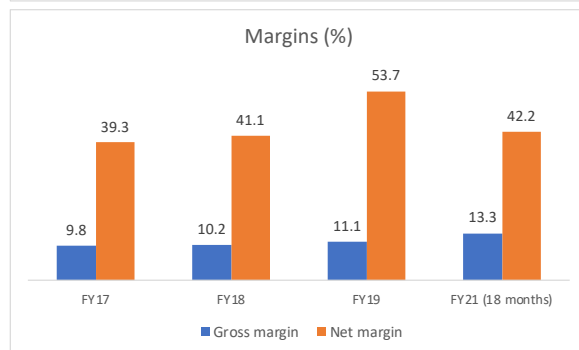
About 35% of land have been planted. Of these, about 40% are mature acreage. The average age of the trees is 4.4 years.



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
<b>Revenue</b>	<b>49.5</b>	<b>61.7</b>	<b>99.5</b>	<b>111.2</b>
Cost of sales	(44.6)	(55.4)	(88.5)	(96.3)
<b>Gross profit</b>	<b>4.9</b>	<b>6.3</b>	<b>11.0</b>	<b>14.8</b>
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)
<b>EBITDA</b>	<b>27.6</b>	<b>33.9</b>	<b>64.4</b>	<b>89.7</b>
Gain on bargain purchase	-	-	-	10.5
Depreciation	(7.9)	(8.4)	(9.3)	(45.6)
<b>EBIT</b>	<b>19.7</b>	<b>25.6</b>	<b>55.1</b>	<b>54.6</b>
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
<b>Net profit</b>	<b>19.5</b>	<b>25.4</b>	<b>53.4</b>	<b>92.2</b>

## Balance Sheet

YE 31 Dec (RMBm)	FY17A	FY18A	FY19A	FY21A
<b>Assets</b>				
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
<b>Non-current assets</b>				
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
<b>Current assets</b>	<b>14.8</b>	<b>15.2</b>	<b>68.7</b>	<b>156.5</b>
<b>Total assets</b>	<b>249.9</b>	<b>257.6</b>	<b>323.6</b>	<b>1,319.2</b>
<b>Liabilities</b>				
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)
<b>Current liabilities</b>	<b>(50.8)</b>	<b>(28.8)</b>	<b>(140.5)</b>	<b>(39.1)</b>
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)
<b>Non-current liabilities</b>	<b>(36.3)</b>	<b>(40.8)</b>	<b>(48.5)</b>	<b>(266.9)</b>
<b>Net assets</b>	<b>162.8</b>	<b>188.0</b>	<b>134.6</b>	<b>1,013.3</b>
<b>Equity</b>				
Share capital	-	-	-	279.5
Other reserves	162.8	188.0	134.6	733.7
<b>Total equity</b>	<b>162.8</b>	<b>188.0</b>	<b>134.6</b>	<b>1,013.3</b>

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

## 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)	-
<b>Operating cash flow</b>	<b>24.0</b>	<b>30.1</b>	<b>51.7</b>	<b>(37.6)</b>
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)
<b>Investing cash flow</b>	<b>(7.3)</b>	<b>(13.7)</b>	<b>(17.7)</b>	<b>(14.6)</b>
<b>Free cash flow</b>	<b>16.7</b>	<b>16.3</b>	<b>34.0</b>	<b>(52.1)</b>
Dividend paid	-	-	-	-
Borrowings	(17.6)	(17.8)	3.5	29.4
Equity	-	-	9.2	-
<b>Financing cash flow</b>	<b>(17.6)</b>	<b>(17.8)</b>	<b>12.7</b>	<b>29.4</b>
<b>Net change</b>	<b>(1.0)</b>	<b>(1.5)</b>	<b>46.7</b>	<b>(22.7)</b>

## Ratios

YE 31 Dec (RMBm)	FY17A	FY18A	FY19A	FY21A
<b>Profitability (%)</b>				
Gross margin	9.8	10.2	11.1	13.3
EBIT margin	39.8	41.4	55.4	49.1
<b>Liquidity (x)</b>				
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
<b>Valuation (x)</b>				
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
<b>Cash Conversion Cycle</b>				
Trade receivable days	35	19	28	122
Inventory days	5	24	18	4
Trade payable days	20	24	39	8

## DISCLAIMERS AND DISCLOSURES

This report has been prepared and distributed by SAC Capital Private Limited (“**SAC Capital**”) which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report has been prepared for the purpose of general circulation, we have not had regard to the specific investment objectives, financial situation, tax position or unique needs and constraints of any individual person or any specific group of persons and does not purport to be comprehensive or contain all necessary information which a prospective investor may require in arriving at an investment decision. Any prospective purchaser should make his own investigation of the securities and all information provided. Advice should be sought from a financial adviser regarding suitability, taking into account the specific investment objectives, financial situation or particular needs of the person in receipt of the recommendation, before a commitment to purchase is entered into.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities. This report is confidential and the information in this report shall not be copied or reproduced in part or in whole, and save for the recipient of this report, shall not be disclosed to any other person without the prior written consent of SAC Capital. The distribution of this report outside the jurisdiction of Singapore is also strictly prohibited.

Whereas SAC Capital has not independently verified all the information set out in this report, all reasonable care and effort has been taken to ensure that the facts stated herein are accurate, this report might contain certain forward looking statements and forward looking financial information which are based on certain assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the subject company to be materially different from those expressed herein. Predictions, projections or forecasts of the economy or market trends are not indicative of the future performance of the subject company. The inclusion of such statements and information should not be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions of the subject company or that the forecast results will or are likely to be achieved.

Our opinion and facts set out in this report are based on the market, economic, industry and other applicable conditions prevailing as at the date of the preparation of this report. Such conditions may change significantly over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report, that may or may not have affected our opinion contained herein.

This report contains forward-looking statement which are based on assumptions or forecasts and are subject to uncertainties which may result in the actual result or performance to be materially different from the opinion or facts set out herein. Caution should be exercised in placing undue reliance on such statements. such assumptions or forecasts may change over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report.

No representation or warranty, expressed or implied, is made and no responsibility is accepted by the company, SAC Capital, or any of their affiliates, advisers or representatives as to the fairness, accuracy, completeness or adequacy of such information or facts, in this report or any other written or oral information made available to any interested party or its advisers and any liability therefore is hereby expressly disclaimed.

SAC Capital and its associates, directors, and/or employees may have positions in the securities covered in the report and may also perform or seek to perform other corporate finance and/or capital markets related services for the company whose securities are covered in the report. SAC Capital and its related companies may from time to time perform advisory services or solicit such advisory services from the entity mentioned in this report (“**Other Services**”). This report is therefore classified as a non-independent report. However, the research professionals involved in the preparation of this report are independent of those possible or actual business relationships as they have not and will not participate in the solicitation or provision of such business.

As at the date of this report, SAC Capital does not have proprietary positions or interests in the subject company, except for:

Party	Quantum of position
Nil	Nil

As at the date of this report, SAC Capital, has had business relations with the subject company within the past 12 months, as disclosed hereunder:

Nature of Business Relation	Date of Business Relation
Nil	Nil

As at the date of this report, none of the analysts who covered the securities in this report have any proprietary position or material interest in the subject companies covered here in, except for:

Analyst name	Quantum of position
Nil	Nil

**ANALYST CERTIFICATION/REGULATION AC**

As noted above, research analyst(s) of SAC Capital who produced this report hereby certify that

- (i) The views expressed in this report accurately reflect his/her personal views about the subject corporation(s);
- (ii) The report was produced independently by him/her;
- (iii) He/she does not on behalf of SAC Capital or any other person carry out Other Services involving any of the subject corporation(s) or securities referred to in this report; and
- (iv) He/she has not received and will not receive any compensation directly or indirectly related to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. He/she has not and will not receive any compensation directly or indirectly linked to the performance of the securities of the subject corporation(s) from the time of the publication of this report either.