

Zixin Group Holdings

New source of revenue Waste



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SINGAPORE | CONSUMER | UPDATE

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- Zixin is unveiling ~~into~~ a new revenue stream by converting agricultural waste into one of the feedstocks for animal feed. It has secured its first order valued at RMB 3.24mn (c. SGD 0.61mn) from a local chicken poultry breeder farm in Liancheng County.
- We expect growth in this new revenue stream to accelerate, potentially achieving sales revenue of c.RMB30mn in FY26e as the fermentation plant operator and animal feed manufacturer, outsourced by Zixin, commence commercial production. With a higher-than-market rate margin of c.20%, we expect PATMI to increase by c.RMB500k.
- Zixin has successfully integrated waste conversion to complete its operational ecosystem, from cultivation to the reuse of byproducts—creating a self-sustaining circular business model. We reiterate the BUY recommendation with an unchanged DCF-TP of S\$0.056 and no change in our forecast. Net cash of RMB136.2mn (S\$25mn) is 40% of its market capitalization. Zixin is leveraging the Chinese government's urban rejuvenation initiative to address high youth unemployment and subdued domestic consumption by creating more job opportunities. Additionally, China's increasing focus on food security, aimed at reducing dependence on soybean imports, has boosted the demand for sweet potatoes as an alternative feedstock for soymeal and corn in animal feeds. This alignment with national priorities positions Zixin to benefit from policy-driven economic support and growing market demand.

Update on the new revenue stream – Animal feed

Zixin is tapping into a new revenue stream by transforming agricultural waste, such as sweet potato peels, stems, and leaves, into feedstock for animal feed. The company recently secured its first order, valued at RMB 3.24mn (c.SGD 0.61mn), from a chicken poultry breeder farm in Liancheng County. This initial order was secured after a two-month trial feeding period, during which specific parameters were evaluated, including the weight, appearance, health, size, meat texture, and taste of chickens fed with standard poultry feed compared to those fed with Zixin's product (probiotic-infused fermented sweet potato peel waste). Larger orders for chicken feed are expected from this customer or related clients upon the successful completion of the trial test.

Zixin estimates that incorporating its proprietary probiotic formula into the feedstock will reduce breeding time by about 10% (from six months to five months). The formula is designed to eliminate residual hormones and antibiotics in livestock, improving survival rates and enhancing meat quality. The Chinese government has introduced stringent regulations on antibiotic usage, aiming for at least 65% of poultry breeder farms in China to comply with these standards by 2030. As a result, we anticipate strong future demand for Zixin's proprietary probiotic formula.

The order of 1,080 tonnes of feedstock will require c.5,400 tonnes of sweet potato peel waste. Zixin will supply C.65% of the waste required (c.3,500 tonnes of this waste at minimal cost). In comparison, the remaining c.35% (1,900 tonnes) will be sourced from other farmers or food processing facilities within Liancheng County from the county's designated agricultural waste collector. With the ability to transform sweet potato peel waste into feedstock for animal feeds, Zixin will be able to source the peel waste directly from cooperatives that provide peeling services for the sweet potato harvests from the group's contractual farmland.

Currently, Zixin utilizes only sweet potato peels as the raw material for animal feed production. Each acre(mu) of farmland is estimated to yield 3 tons of sweet potatoes, with c.25% of the waste peels convertible into animal feed. However, revenue has been constrained due to the limited supply of free and wasted peels, requiring Zixin to outsource collection of additional raw materials from third parties at a cost.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.030
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.056
TOTAL RETURN	85.8%

COMPANY DATA

BLOOMBERG CODE:	ZXGH SP Equity
O/S SHARES (MN) :	1,589
MARKET CAP (USD mn / SGD mn) :	35 / 48
52 - WK HI/LO (SGD) :	0.03 / 0.01
3M Average Daily T/O (mn) :	10.20

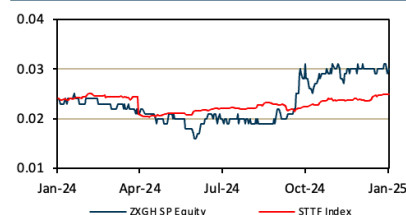
MAJOR SHAREHOLDERS

Liang Chengwang	15.3%
PTS Capital Pte. Ltd.	10.1%
Yu Lei	10.1%

TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	(3.3)	3.6	(3.3)
STTF RETURN	0.1	6.9	1.1

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, (RMB 'mn)	FY23	FY24	FY25e	FY26e
Gross Rev	219.6	318.4	466.6	546.0
Gross profit	59.2	101.9	161.0	189.5
Net profit	(14.19)	13.35	34.81	48.41
EPS (cents)	-	0.97	2.52	3.50
P/E (x)	-	16.79	6.44	4.63

Source: Company, PSR

VALUATION METHOD

DCF (WACC: 25.6%; Terminal g: 1%)

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With the introduction of sweet potato stems as a feedstock in FY26e, we anticipate significant growth in sales. An acre (mu) of farmland can yield up to eight times more sweet potato stems than peels, providing Zixin with an opportunity to scale its production and expand into other livestock sectors, such as pig farming. This marks a turning point for the company, positioning its animal feed segment as a key growth driver which is anticipated to account for more than 30% of the group's total revenue in FY28e.

We expect the customer base to expand rapidly in the upcoming financial year, with projected sales reaching approximately RMB 30mn. Given a margin of around 20%, which exceeds industry norms, we estimate a PATMI increase of approximately RMB 500k in FY26e.

Description of the value chain with the introduction of animal feed production

Zixin operates an integrated industrial business model that maximizes resource utilization across the agricultural ecosystem. The company leases 200,001m² of land for cultivating its proprietary sweet potato seedlings, which are primarily provided to agricultural cooperatives for planting and selling the excess to other farmers. Zixin also entrusts 5.5mn m² of contracted farmlands to these cooperatives, offering free seedlings and cultivation techniques. In return, the farmers sell their harvest to Zixin at pre-agreed prices, ensuring a steady supply of high-quality sweet potatoes. Premium-grade sweet potatoes are sold as fresh produce, while lower-grade harvests are processed into their own branded or OEM sweet potato products for other brands, such as Three Squirrels. Agricultural byproducts generated before and during the process, including peels, stems, and leaves, are collected and fermented. Zixin then incorporates its proprietary probiotics into the byproducts, transforming them into nutrient-rich feedstock to be used in poultry and livestock animal feeds that potentially enhance meat quality and reduce livestock breeding time. By incorporating the final step into its business model, Zixin has successfully created a self-sustained ecosystem. This positions the company to replicate its business model beyond Liancheng, expanding to cities like Hainan, leveraging on the scalability to drive profit growth.

Maintain BUY with an unchanged TP of S\$0.056

We reiterate our BUY recommendation with an unchanged DCF-TP of S\$0.056. Zixin currently holds net cash of RMB136.2mn (S\$25mn), 40% of its market capitalization.

Appendix

Figure 1: Drying the sweet potato peel on roadside



Source: Company, PSR (at the side visiting in Liancheng)

Figure 2: Animal feed production warehouse



Source: Company, PSR (at the side visiting in Liancheng)

Figure 3: Raw materials during fermentation



Source: Company, PSR (at the side visiting in Liancheng)

Figure 4: Finished product delivering to customers



Source: Company, PSR (at the side visiting in Liancheng)

Financials

Income Statement

Y/E Mar, (RMB'000)	FY22	FY23	FY24	FY25e	FY26e
Revenue	289,132	219,600	318,447	466,600	545,986
Processed sweet potato	235,551	187,477	260,348	345,400	429,740
Fresh sweet potato	53,581	32,123	58,099	120,000	106,244
COGS	(211,521)	(160,381)	(216,576)	(305,623)	(356,529)
Gross profit	77,611	59,219	101,871	160,977	189,457
Other income	459	632	974	1,665	4,039
Finance cost	(1,465)	(1,869)	(2,323)	(2,925)	(3,070)
Profit before income tax	5,911	(9,428)	21,465	43,640	58,601
Income tax expense	(2,259)	(4,762)	(8,111)	(8,830)	(10,186)
Profit for the year, net of tax	3,652	(14,190)	13,354	34,810	48,415

Per unit data

Y/E Mar	FY22	FY23	FY24	FY25e	FY26e
NAV	0.37	0.36	0.37	0.40	0.43
P/B	0.44	0.45	0.44	0.41	0.38
P/E	47.65	-	16.79	6.44	4.63
EPS (cents)	0.34	-	0.97	2.52	3.50

Cash Flow

Y/E Mar, (RMB'000)	FY22	FY23	FY24	FY25e	FY26e
CFO					
Total return before tax	5,911	(9,428)	21,465	43,640	58,601
Depreciation	17,138	15,177	15,518	23,497	21,456
WC changes	25,334	10,174	45,537	73,546	86,462
Tax paid and interest received	0	(924)	(4,340)	(8,830)	(10,186)
Cash generated from ops	(36,961)	51,335	66,272	53,196	70,065

CFI

CAPEX	(20,756)	(33,044)	(49,335)	(10,000)	(5,000)
Cashflow from investments	(19,288)	(52,616)	(124,508)	(10,500)	(5,500)

CFF

Proceeds from borrowing	35,800	64,600	(186)	11,500	0
Repayments of bank loans	(33,300)	(53,300)	(47,100)	(301)	0
Interest Paid	(1,450)	(1,869)	(2,323)	(2,925)	(3,070)
Cashflow from financing	57,368	9,271	8,891	8,274	(3,070)
Net change in cash	1,119	7,990	(49,345)	50,970	61,495
Cash at the start of the period	196,387	197,506	205,496	156,151	207,121
Ending cash	197,506	205,496	156,151	207,121	268,616

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Mar, (RMB'000)	FY22	FY23	FY24	FY25e	FY26e
ASSETS					
Cash and short term deposit	197,506	205,496	156,151	207,121	268,616
Trade and other receivables	41,177	21,945	53,789	78,814	92,223
Other assets	69,838	56,225	62,871	62,871	62,871
Total current assets	310,960	285,629	275,463	352,548	428,075
PP&E	128,327	142,228	175,744	162,548	146,092
Intangible assets	37,068	75,284	69,442	66,457	63,622
Total non-current assets	257,668	301,647	337,365	321,185	301,893
Total Assets	568,628	587,276	612,828	673,733	729,968
LIABILITIES					
Trade and other payables	18,534	37,071	31,372	45,967	53,788
Lease liability, current	35,800	198	225	225	225
Bank loans	0	47,100	58,500	70,000	70,000
Total current liabilities	54,623	84,369	92,397	118,492	126,313
Lease liability, non-current	0	246	33	33	33
Other payables	0	2,740	6,466	6,466	6,466
Total non-current liabilities	0	2,986	6,499	6,499	6,499
Total Liabilities	54,623	87,355	98,896	124,991	132,812
Total Liabilities & Equity	568,628	587,276	612,828	673,733	729,968
Net assets	514,005	499,921	513,932	548,742	597,156

Margins

Y/E Mar, (%)	FY22	FY23	FY24	FY25e	FY26e
Gross profit margin	26.8%	27.0%	32.0%	34.5%	34.7%
Net profit margin	1.3%	-6.5%	4.2%	7.5%	8.9%

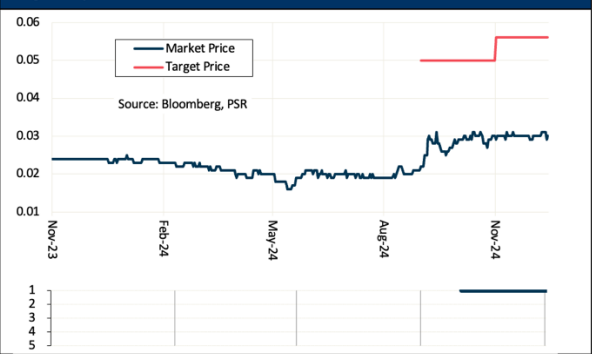
Growth rate (%)

Growth					
Revenue		-24.0%	45.0%	46.5%	17.0%
Gross profit		-23.7%	72.0%	58.0%	17.7%
Net profit		-488.5%	194.1%	160.7%	39.1%

Key Ratios

ROA	0.7%	-2.8%	2.5%	6.1%	16.2%
ROE	0.8%	-2.8%	2.6%	6.6%	8.5%

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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