

Zixin Group Holdings

Food security remains the catalyst



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SINGAPORE | CONSUMER | UPDATE (SITE VISIT)

27 November 2024

- We visited Zixin's factory and plantations in Liancheng County, China, recently. Investments into food security infrastructure by the government and the company's R&D efforts have driven up the volume and shelf life of fresh sweet potatoes by 160% and 328% respectively in 1H FY25. Sweet potato waste is also now developed into nutritional content of animal feed, with the aim of reducing the import of soybeans. Zixin is working with CITIC Construction to replicate a similar food supply chain in Hainan Island.
- We expect a stronger 2H25 performance, driven by higher average selling prices and demand during the harvesting season in Liancheng County, which runs from late September to early January. Festive sales and increased winter sweet potato consumption are expected to further boost volume growth. We project full-year revenue to benefit from a c.112% YoY surge in fresh sweet potato sales and a c.40% YoY increase in processed product sales during 2H25.
- We have increased our FY25 revenue/PATMI forecasts by 6%/12%, driven by rising capacity in processed products and improved margins. We reiterate our BUY recommendation with a higher DCF-TP of S\$0.056 (prev: S\$0.050). Zixin is capitalising on China's growing emphasis on food security, supported by various government initiatives and monetary aid for the sweet potato industry. We expect near-term catalysts to arise from an increased capacity of c.20% in FY25e, improved margins from higher-margin processed products, and the increased usage of cold storage facilities. Longer term growth catalysts include expansion into animal feed ingredients production, and Hainan urban rejuvenation project. Zixin currently holds net cash of RMB136.2mn (S\$25mn), 40% of its market capitalization.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.029
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.056
TOTAL RETURN	92.2%

COMPANY DATA

BLOOMBERG CODE:	ZXGH SP Equity
O/S SHARES (MN):	1,589
MARKET CAP (USD mn / SGD mn):	34 / 46
52 - WK HI/LO (SGD):	0.03 / 0.01
3M Average Daily T/O (mn):	11.77

MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	3.4	57.9	32.5
STTF RETURN	4.7	11.3	21.3

PRICE VS. STTF



KEY FINANCIALS

Y/E Mar, (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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Key highlights from the visit over 19-22 November 2024: Liancheng County, Fujian, PRC

Background: Zixin Group is a Chinese sweet potato biotech-focused operator, has a comprehensive presence across the entire value chain, encompassing seedlings cultivation, processed food production, animal feed fermentation, and R&D.

1. Near-term Catalyst

A: Cold Storage to boost fresh production

The Liancheng County government has allocated RMB120mn to establish cold storage warehouse buildings, offering a four-year rent-free period for the warehouse operator. The estimated cost of a single cold storage unit, equipped with advanced temperature-controlled smart technology, is c.RMB600k. This technology significantly extends the shelf life of fresh sweet potatoes from the original 1-2 weeks to 1-2 months. These fresh potatoes can then enjoy higher selling prices and lower spoilage rates. The system uses the appropriate temperature to accelerate the formation of scars on the damaged sweet potatoes, thereby enhancing their durability and preventing any existing sprouts from sprouting. Additionally, the post-sugarization process reduces the skin's tenderness and moisture content, making the sweet potatoes more susceptible to scarring, preventing spoilage, and improving their overall storage stability. Zixin outsources the sweet potato harvests from its contracted farmlands to the warehouse operator to overcome the conventional challenge.

B: New processing capacity

Zixin has invested RMB100mn to construct a warehouse with research capabilities, aiming to expand its production capacity for processed sweet potatoes and functional products to meet the rising demand. The facility will primarily support Original Equipment Manufacturer (OEM) production, including supplying to national brands like Three Squirrels.

Installation of equipment and machinery has completed, and trial production is expected to commence by the end of this calendar year. and double production capacity by the end of FY2026.

The new manufacturing facility is projected to increase the Group's processed food production capacity by c.20% in 4Q25, an additional 60% in 1H26, and double production capacity by the end of FY2026. Level 1 of this new manufacturing facility will produce higher-margin products, including functional food such as single-cell sweet potato powder used in the confectionery industry, which can achieve margins in excess of 30%. Consequently, we anticipate a significant improvement in overall margins following operations in the new high-tech manufacturing facility.

2. Longer-term Catalyst

A. Using sweet potato waste as animal feed

Zixin is broadening its revenue streams by transforming agricultural byproducts, such as sweet potato peels, stems, and leaves, into raw materials for animal feed. The limited waste collection within Liancheng County currently caps Zixin's production capacity at 5,000 tonnes of sweet potato animal feed additives per year. To address this, Zixin is collaborating with third-party companies to enhance waste collection efforts, leveraging the county's annual generation of 30,000 tonnes of sweet potato waste. Zixin expects the third-party waste collector, to whom it outsources the waste collection services, to double its collection and processing capacity by the end of 2025. Sweet potato, a viable substitute for soybean—a key ingredient in animal feed historically reliant on imports from overseas—accounts for 15–30% of feed content. Furthermore, Zixin has integrated its proprietary probiotic formula into its feed additive that helps eliminate residual hormones and antibiotics in livestock, thereby improving the health and survival rate and enhancing meat quality. With a higher gross margin of c.50% for converting agricultural waste into animal feed additive, we estimate Zixin will generate c.RMB1.2mn in revenue from this segment in 4Q FY25e, scaling to around RMB10mn in FY26e. We believe greater opportunities will emerge once Zixin expands its operations to include the collection of agricultural waste from external sources rather than relying solely on recycling its own waste. Additionally, revenue from animal feed is expected to receive a significant boost upon the completion of the Hainan project.

B. Hainan collaboration with CITIC Construction

CITIC Construction, the second-largest state-owned conglomerate in China, holds one of the world's largest portfolios of foreign assets. Zixin has invested RMB 3.6mn, representing a 3% stake in an urban revitalisation project in Lingao County, Hainan province. The project is expected to be completed within three years. Following the completion of the primary land development project, part of the arable land will be allocated for sweet potato cultivation. The total cultivable land for sweet potatoes in Hainan province is estimated at c. 500k acres, which is five times larger than total sweet potato cultivation area in Liancheng County. Zixin plans to replicate its entire value chain from Liancheng County in Lingao County, Hainan. With Hainan's more favourable climate conditions, the region can support two yearly harvests compared to a single harvest in Liancheng County. As a result, we expect harvest yields to double upon the completion of the project. Zixin is implementing an asset-light strategy, with the majority of fixed asset investments being undertaken by either the government or third parties. The group's revenue streams will be driven by the sale of fresh and processed sweet potatoes, seedlings, and animal feed.

C.Others: Seedling cultivation. Zixin has consistently invested in seedling R&D to address the natural degradation of seedlings over time, which can adversely affect harvest yield and quality of sweet potatoes. The group supplies high-quality seedlings to farmers and offers technical support to ensure stable and consistent yields. Seedling sales rose by 42% YoY in 1H25, and we project an additional 7% YoY growth in 2H25. Looking ahead to FY26, we anticipate further growth in seedling sales, driven by Zixin's planned expansion of greenhouse capacity from 100mu in FY24 to 200 mu next year.

Appendix

Figure 1: Zixin seedlings in the greenhouse



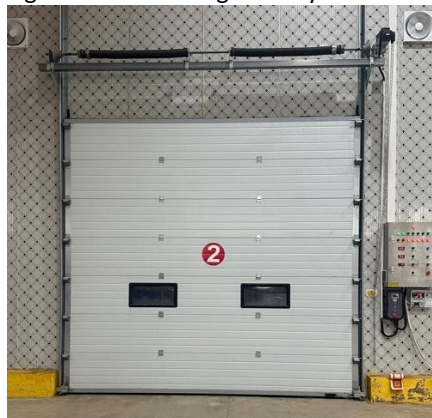
Source: Company, PSR

Figure 2: Greenhouses



Source: Company, PSR

Figure 3: Cold storage facility



Source: Company, PSR

Figure 4: Controlling temperature to reduce spoilage



Source: Company, PSR

Figure 5: Washing after cold storage



Source: Company, PSR

Figure 6: After washing to drying



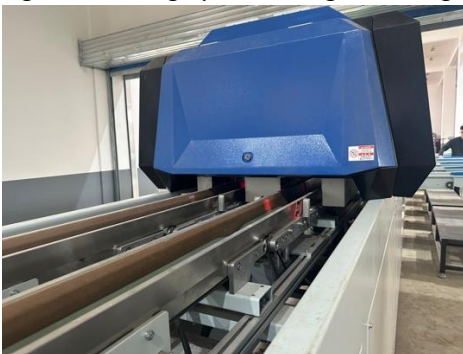
Source: Company, PSR

Figure 7: Drying



Source: Company, PSR

Figure 8: Sorting by size through scanning



Source: Company, PSR

Figure 9: Fresh sweet potatoes packaging



Source: Company, PSR

Figure 10: Agricultural waste processing



Source: Company, PSR

Figure 11 and 12: New processing capacity (Vacuuming, Steaming)



Source: Company, PSR



Source: Company, PSR

Figure 13 : 'Live' Streamer with millions of followers on TikTok of Processed sweet potato



Source: Company, PSR

Figure 14 : Sweet potato showroom



Source: Company, PSR

Figure 15 : Sweet potato supply chain roadmap in Liancheng



Source: Company, PSR

Figure 16 : Processed products showroom



Source: Company, PSR

Figure 17 : High margin collagen and sweet potato powder



Source: Company, PSR

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

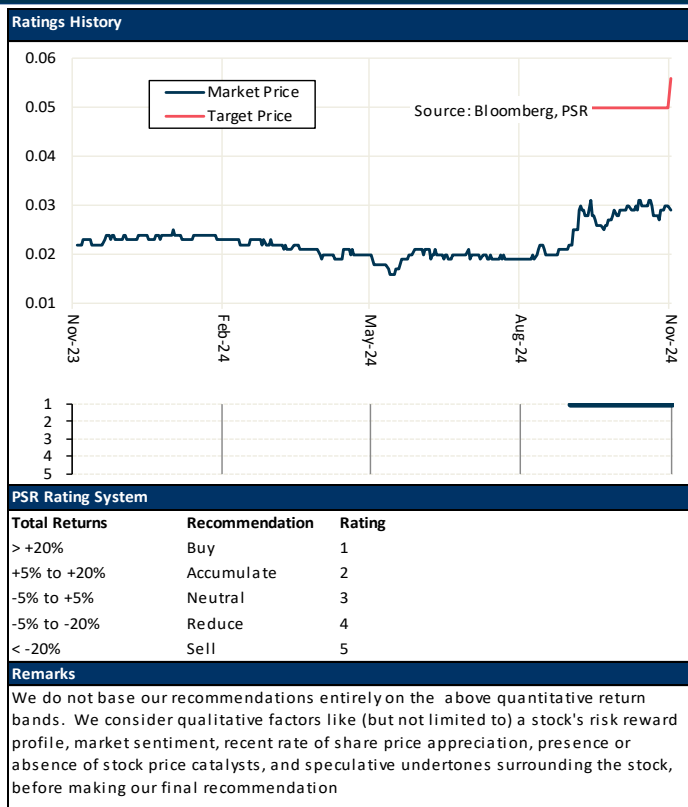
Source: Company, Phillip Securities Research (Singapore) Estimates

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%



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