

Zixin Group Holdings

Plugged into China's food security priority

SINGAPORE | CONSUMER | UPDATE

- Zixin Group China Factory Visit: A Chinese sweet potato-focused operator with an integrated value chain that covers seedling cultivation, fresh supply, production of snack food, functional food, and animal feed. The production base is located in Liancheng County, Fujian Province.
- Zixin is well-positioned to ride on China's quest for food security. In view of this, the local authority is supporting the sweet potato plantation industry through allocating land, constructing premises, and offering favourable lease terms for cold storage warehousing and production of animal feed.
- Zixin has also been invited to participate in rural revitalization projects in the provinces of Henan and Hainan where it will replicate its working model in these regions.

Key highlights from the visit over 25-27 October 2023: Liancheng County, Fujian, PRC

- China is the world's largest producer of sweet potatoes, with 87.7m mt of output in 2021, according to Food and Agriculture Organisation. It is used for food, animal feed and processed into other products such as starch.
- Zixin derives revenue from the sale of fresh sweet potatoes (15%) and sweet potato processed snack products under its house brands and OEM brands (85%). Total volume sold in FY23 was 19,310 tonnes, a 20% YoY decline due to Covid lockdown that affected supply. Harvesting of sweet potatoes takes place from September to November.
- Zixin cultivates sweet potato seedlings to ensure quality and yields (Figure 1), on 300 mu of land leased for 15 years (for RMB7mn). After nurturing them for about three months, the young plants are handed to external farmers who would cultivate and the harvested sweet potatoes are sold back to Zixin. These farmers are grouped under co-operatives, with whom Zixin has entered into long-term purchase contracts.
- Zixin signed purchase contracts with five suppliers in FY18 and FY19 to secure 19,090 tonnes of sweet potatoes per year and made upfront payments. These agreements last for 15 years and upfront payments are made every 5 years in advance. Zixin would make subsequent payments if the payments are fully utilized within the 5 years. Total accumulated upfront payments made were RMB334.9mn and outstanding unutilized amount as at Mar 23 was RMB117.7mn. In 1H24, Zixin paid a further RMB50mn.
- The Liancheng Country Government launched an initiative to support the industry by allocating land, constructing premises, and offering favourable lease terms for cold storage warehousing (Figure 3) and fermentation plant for the production of animal feed (Figure 4). The cold storage facilities will lengthen the shelf life of its products, thus lifting sales even during the traditional lull periods. Zixin is also moving downstream to convert bio-waste such as discarded peels and vines into animal feed.
- The processed snack foods are marketed under house brands such as Zilaohu, Ledi, Starpie and Shugongfang (Figure 5) and sold in the PRC. Zixin is also embarking on R&D to produce nutrient-rich functional foods including healthy meal replacement,



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22 November 2023

Not Rated

LAST CLOSE PRICE

SGD 0.023

COMPANY DATA

BLOOMBERG CODE:	ZXGH SP
O/S SHARES (MN) :	1,384
MARKET CAP (USD mn / SGD mn) :	24 / 32
52 - WK HI/LO (SGD) :	0.04 / 0.02
3M Average Daily T/O (mn) :	4.17

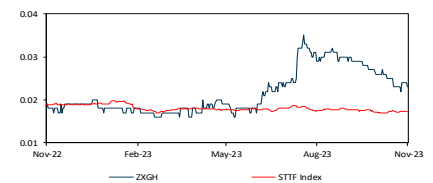
MAJOR SHAREHOLDERS (%)

Liang Chengwang	15.9%
PTS Capital Pte Ltd	13.9%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(11.5)	(25.8)	21.1
STTF RETURN	1.1	(1.4)	(0.4)

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar (RMB 'mn)	FY20	FY21	FY22	FY23
Revenue	323	285	289	220
Gross Profit	70	70	78	59
EBIT	(9)	(12)	7	(8)
NPAT	(6)	(13)	4	(14)
P/NAV (x)	0.1	0.2	0.2	0.3
P/E (x)	(5.6)	(5.8)	29.8	(12.0)
ROE (%)	-1.5%	-2.8%	0.8%	-2.8%

Source: Company, PSR

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condiments, snacks and beverages. The products are sold at owned standalone retail shops, distributors and e-commerce channels.

- Zixin is participating in rural revitalization projects - in Lingao County, Hainan Province and Lankao County, Henan Province – to address national food security concerns. It will bring its expertise and replicate its working model with local authorities and partners in these regions.

Figure 1: Cultivating seedlings in the nursery



Source: Company, PSR

Figure 2: Production plant for processed snack food



Source: Company, PSR

Figure 3: Cold storage warehouse



Source: Company, PSR

Figure 4: Waste fermentation plant



Source: Company, PSR

Figure 5: Zixin's owned brands



Source: Company, PSR

Financials

Income Statement

Y/E Mar, (RMBmn)	FY19	FY20	FY21	FY22	FY23
Revenue	357	323	285	289	220
Cost of sales	(255)	(253)	(216)	(212)	(160)
Gross Profit	102	70	70	78	59
Selling and distribution expense	(22)	(40)	(37)	(37)	(31)
Admin expenses	(40)	(40)	(45)	(34)	(36)
Others	1	1	(0)	(0)	(1)
EBIT	40	(9)	(12)	7	(8)
Net finance expenses	(1)	(1)	(1)	(1)	(1)
Profit before tax	40	(11)	(13)	6	(9)
Taxation	(16)	4	0	(2)	(5)
Net Profit	24	(6)	(13)	4	(14)
Minority interests	-	-	-	-	-
Profit attributable to owners	24	(6)	(13)	4	(14)

Per share data (RMB cents)

Y/E Mar	FY19	FY20	FY21	FY22	FY23
BVPS	141.5	146.9	76.4	58.2	36.1
DPS	-	-	-	-	-
EPS	8.0	(2.2)	(2.1)	0.4	(1.0)

Cash Flow

Y/E Mar, (RMBmn)	FY19	FY20	FY21	FY22	FY23
CFO					
Pretax profit	40	(11)	(13)	6	(9)
Adjustments	17	23	25	19	19
WC changes	(63)	(16)	77	(62)	42
Cash generated from ops	(6)	(3)	90	(37)	52
Others	(11)	(5)	(1)	(1)	(2)
Cashflow from ops	(17)	(8)	89	(38)	50
CFI					
CAPEX, net	(57)	(10)	(5)	(22)	(56)
Others	(9)	2	4	2	3
Cashflow from investments	(66)	(7)	(1)	(20)	(53)
CFF					
Dividends paid to owners	-	-	-	-	-
Proceeds from borrowings, net	(1)	4	8	2	11
Others	17	23	30	57	-
Cashflow from financing	17	26	37	59	11
Net change in cash	(67)	11	125	1	8
Cash at the start of the period	127	60	71	196	198
Currency translation	-	-	-	-	-
Ending cash	60	71	196	198	205

Balance Sheet

Y/E Mar, (RMBmn)	FY19	FY20	FY21	FY22	FY23
ASSETS					
PPE & Investment Properties	158	147	127	128	142
Others	153	118	80	129	159
Total non-current assets	311	264	207	258	302
Cash and cash equivalents	62	71	196	198	205
Inventories	4	4	3	2	2
Trade and other receivables	31	27	47	41	22
Others	60	107	61	70	56
Total current assets	158	209	308	311	286
Total Assets	469	473	516	569	587
LIABILITIES					
Trade and other payables	27	12	28	19	37
ST borrowings	22	26	33	36	47
Others	0	-	0	0	0
Total current liabilities	49	37	62	55	84
LT borrowings	-	-	-	-	-
Others	-	-	0	-	3
Total non-current liabilities	-	-	0	-	3
Total liabilities	49	37	62	55	87
Net assets	420	436	454	514	500
EQUITY					
Share Capital	130	153	183	239	239
Retained profits	244	239	226	230	215
Others	46	44	45	45	46
Total equity	420	436	454	514	500
Minority interests	0	0	0	0	0
Total equity and liabilities	420	436	454	514	500
Valuation Ratios					
Y/E Mar	FY19	FY20	FY21	FY22	FY23
P/E (x)	1.5	-5.6	-5.8	29.8	-12.0
P/B (x)	0.1	0.1	0.2	0.2	0.3
EV/EBITDA (x)	-0.1	-0.7	-10.6	-2.1	1.4
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Growth & Margins (%)					
Growth					
Revenue	61.3%	-9.5%	-11.7%	1.3%	-24.0%
Gross profit	70.9%	-31.4%	-0.8%	11.5%	-23.7%
EBIT	195.8%	-122.6%	31.3%	-155.8%	-226.9%
PBT	158.1%	-126.7%	22.8%	-145.5%	-259.5%
Margins					
Gross profit margin	28.7%	21.7%	24.4%	26.8%	27.0%
EBIT margin	11.3%	-2.8%	-4.2%	2.3%	-3.9%
Net profit margin	6.6%	-2.0%	-4.4%	1.3%	-6.5%
Key Ratios					
ROE	5.9%	-1.5%	-2.8%	0.8%	-2.8%
ROA	5.2%	-1.4%	-2.6%	0.7%	-2.5%
Net Gearing (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, Phillip Securities Research (Singapore) Estimates

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