

CHINA
DEVELOPMENT
FINANCIAL

Nutryfarm International Limited

(NUF SP/NUTR.SI)

Turnaround in 2021: Diversifying into the “King of Fruits” business

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- **Background information.** Nutryfarm produces high quality nutrition and health food products for consumers in China. These products are formulated mainly from natural traditional medicinal herbs from across the Americas, Europe and New Zealand.
- **2021 – Satisfying China’s love for durians.** Global Agricapital Holdings Pte. Ltd., a subsidiary of Nutryfarm, entered into several purchase agreements to sell fresh durians from Thailand to major Chinese fruit importers, satisfying heavy consumer cravings in China.

Financials & Key Operating Statistics

YE Sep (HK\$'000)	2020					
	2018	2019	2020	Annualised	1Q21	2Q21
Revenue	66,896	44,042	61,568	41,045	14,691	40,956
Cost of Sales	(29,792)	(26,121)	(39,692)	(26,461)	(9,310)	(33,416)
Gross Profit	37,104	17,921	21,876	14,584	5,381	7,540
GPM	55%	41%	36%	36%	37%	18%
PATMI	(8,280)	(93,236)	(48,512)	(32,341)	(958)	457
EPS (cents)	(11.23)	(96.70)	(50.31)	N/A	(0.91)	0.41
Net Profit Margin (%)	-12%	-212%	-79%	-79%	-7%	1%
ROE (%)	-5%	-164%	-660%	N/A	-9%	4%

Source: Company data, KGI Research

Note: For FY2019, amounts reflected are for the company's financial period from 31 March 2018 to 31 March 2019. For FY2020, the company changed its year end to 30 September 2020. Amounts reflected are pertaining to financial period 1 April 2019 to 30 September 2020. We have annualised FY2020's figures for fair comparison.

2020 financials. The group was in a loss-making position for the annualized 12 months ended 30 Sep 2020, with losses at HK\$32.3mn. However, losses were reduced from the previous year of HK\$93.2mn. Revenue decreased from HK\$44.0mn in FY2019 to HK\$41mn in FY2020, representing a 6.8% dip. This was mainly due to the advertising restrictions imposed by the Chinese authorities on nutritional products, as well as more stringent inspections on marketing strategies of nutritional products since the start of 2019. Additionally, the Covid-19 pandemic impacted sales as well as focus was shifted to combating the disease and import shipments were slowed down. The group was in a positive net cash position of HK\$ 8.7mn for the 18 months ended 30 Sep 2020.

Turnaround from Durian. In 2021, the group entered the durian distribution business to sell Thailand-sourced durians into China. This largely boosted 2QFY21's results with revenue at an outstanding HK\$40.9mn, almost equivalent to full year revenue for FY2019 as well as full year FY2020's annualized revenue. The group managed to pivot into profits of HK\$0.46mn in 2QFY21 compared to losses of HK\$5.0mn in the prior year. Before 2QFY21 when the durian business took off, the group recovered slightly in 1QFY21, with losses reduced to HK\$0.96mn from HK\$3mn in the prior year.

Tapping on China’s love for durians. According to the Ministry of Agriculture and Cooperatives of Thailand, the Chinese appetite for Thai durian remains strong despite the coronavirus pandemic. China imported 575,000 tons of

Not rated		Performance (Absolute)	
Price as of 8 Jul 21 (SGD)	0.43	12M TP (%)	34.9
12M TP (\$)	-	Previous TP (%)	6.2
Previous TP (\$)	-	Upside, incl div (%)	658.9
Upside, incl div (%)	-	Perf. vs STI Index (Red)	
Trading data			
Mkt Cap (\$mn)	49		
Issued Shares (mn)	115		
Vol - 3M Daily avg (mn)	1		
Val - 3M Daily avg (\$mn)	0.4		
Free Float (%)	0.56		
Major Shareholders		Previous Recommendations	
Jia Lijie	18.8%		
Cheng Meng	11.5%		
Wang Qi	10.7%		

durians worth RMB14.7bn (US\$2.2bn) from Thailand in 2020, up 78% YoY. China was the top export market for Thailand in 2020 and this continued to grow in 2021. According to Kasikorn Research Center, in the first 5 months of 2021, Thailand saw its fresh durian exports total US\$1.8bn, up 45.2% YoY. This was attributable to the robust export growth boosted by the strong demand from the Chinese market.

3QFY21's top line expected to grow. Given the strong demand in 2QFY21, Nutryfarm fulfilled and secured more orders in 3Q21. The company recently fulfilled its obligations to Shanghai Yuqu for the purchase and shipment of 180 containers of fresh durians amounting to RMB117mn. It has also secured an additional sales agreement with Moonda of approximately RMB195mn for 300 containers of fresh durian. With healthy demand from China, we expect 3QFY21 sales to increase.

Nutryfarm’s experience and track record. China’s top e-commerce platform, JD.com recently entered the durian business in 1H21. Despite JD’s big branding, Nutryfarm has a greater competitive advantage given that their new CEO, Mr Cheng, has approximately 7 years in the durian trade. This experience has helped to ensure the group’s quality of durians.

Valuation: We used food distribution and manufacturing peers for comparison given that the durian segment is now major component of its business. Distribution peers are trading at average of 21.9x PE while manufacturing and distribution peers are trading at 17.2x PE. However, as Nutryfarm is currently loss-making, we will give an update after its next quarterly update in August 2021 when its financials incorporate the revenue from the durian business.

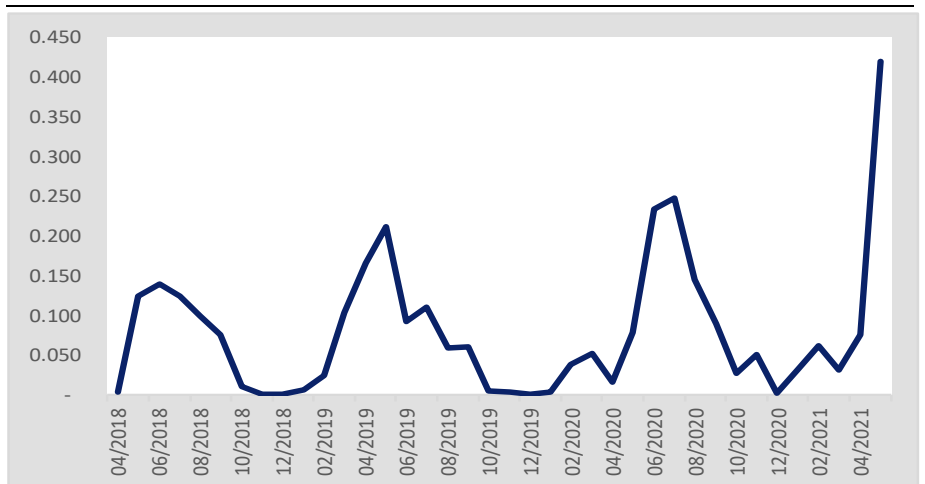
Risks: Emerging competitors; Demand for durians may not be sustained.

Expansion in Singapore. Having already established a foothold in the China market, Nutryfarm is looking to penetrate into Singapore’s durian scene. The company has partnered with EBUY, an e-commerce company, where the first shipment is expected to start by 1 June. Additionally, the company has formed a joint venture with Combat Durian to expand its business presence in Singapore, via supply of frozen durians.

Figure 1: Thailand export market for durians in 2020

TOP FIVE FRESH DURIAN EXPORT MARKETS								
Market	Value: US\$ million				% change			
	2018	2019	Jan-Apr 2019	Jan-Apr 2020	2018	2019	Jan-Apr 2019	Jan-Apr 2020
China	418.37	849.74	318.61	567.29	92.46	103.11	153.51	78.05
Hong Kong	191.14	227.15	114.77	111.64	54.69	18.84	70.10	-2.73
Asean	315.10	362.00	160.50	99.90	7.82	14.88	84.63	-37.80
Taiwan	12.86	12.14	7.30	7.15	-11.86	-5.58	42.52	-2.14
US	4.67	6.17	1.70	0.65	92.32	32.05	72.76	-61.51
World	947.6	1,464.70	605.6	787.7	45.14	54.57	110.95	30.07

Source: Thailand Trading Report

Figure 2: Thailand export market of durians in 2018-2021


Source: Ministry Of Commerce, Thailand

Figure 3: Peer comparison table

	Company	Bloomberg Ticker	Price (Lcl curr)	Mkt Cap (\$\$m)	P/E (x) (hist)	P/E (x) (fwd)	P/B (x)
NutryFarm International Ltd	STI	NUTR.SI	NUF SP	0.41	47	N/A	N/A
<i>Distribution</i>							
Khong Guan Ltd	KHON.SI	KGL SP		1.57	41	34.3	N/A
Hosen Group Ltd	HSNG.SI	HOSEN SP		0.09	28	9.4	N/A
	SIMPLE AVERAGE				21.86	N/A	0.77
<i>Manufacture & Distribution</i>							
QAF Ltd	QAFS.SI	QAF SP		0.97	558	13.5	N/A
Delfi Ltd	DELFI.SI	DELFI SP		0.92	562	23.8	13.6
Del Monte Pacific Ltd	DMPL.SI	DELM SP		0.43	836	14.2	N/A
Yeo Hiap Seng Ltd	YHSS.SI	YHS SP		0.92	543	N/A	N/A
	SIMPLE AVERAGE				17.16	13.62	1.23
	TOTAL SIMPLE AVERAGE				19.04	13.62	1.08

Source: Bloomberg, KGI Research

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