

March 20, 2020

# **CHINA XIANGTAI FOOD CO, LTD. (NASDAQ – PLIN)**

Industry: Consumer Goods

Price Target: \$6.70

## CHINA XIANGTAI FOOD CO., LTD.

### By Engaging in M&A Model PLIN Could Enjoy Major Jump in Value

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#### CHINA XIANGTAI FOOD CO., LTD. (NASDAQ – PLIN - \$1.50)

Industry: Consumer Goods/Defensive

Price Target: \$6.70

#### COMPANY SNAPSHOT

Headquartered in Chongqing, China Xiangtai Food Co., Ltd, is a food company primarily engaged in pork processing. The Company's operations span key sections of the pork processing value chain, including slaughtering, packing, distribution, and wholesale of a variety of fresh pork meat and parts. Primarily focused on pork products, PLIN also offers other fresh and processed products, including beef, lamb and poultry.

#### KEY STATISTICS

Price as of 3/19/20	\$1.50
52 Week High – Low	\$6.00 - \$1.30
Est. Shares Outstanding	22.0M
Market Capitalization	\$33.1M
Average Volume	116,577
Exchange	NASDAQ

#### COMPANY INFORMATION

**China Xiangtai Food Co., Ltd.**  
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China

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#### INVESTMENT HIGHLIGHTS

**Pork is a major food staple in China and PLIN is a leading provider.** PLIN benefits from key industry trends toward more profitable frozen and processed pork and by-products and sales through supermarkets and restaurants instead of farmer's markets.

**Our thesis, forecasts, and target price reflect what we believe to be a potentially highly favorable impact on the Company and shareholders should management pursue a roll up of competitors and complementary firms.** While the core organic business model remains robust on its own, we believe a roll up could dramatically change the positioning and valuation.

**With an estimated 60M tons to be purchased this year from and through a fragmented list of players, PLIN has an opportunity to expand market share via new products, channels, markets, or by acquisition.** PLIN has an advantage as a popular and respected in-country brand that offers domestic and foreign product and its unique status as a U.S.-listed public company.

**Our model assumes top-line, margin and valuation expansion in conjunction with M&A.** We forecast sales will grow from \$102M in FY19 to \$202M in FY21, with EPS jumping from \$0.21 to \$0.67.

**Pork companies such as Hormel are near year highs as this category serves as a popular defensive group during these difficult economic and market conditions.** Our \$6.70 price target represents a 10x P/E versus the 26x Hormel multiple, and is a reasonable metric given top-line growth and margin expansion, in our roll up scenario. Even if management does not elect to pursue a roll up, we believe these shares can return to the \$2.60 level (10x FY21E EPS) during the second half of 2020, a 66% gain from current prices.

## COMPANY OVERVIEW

Headquartered in Chongqing, NASDAQ-listed **China Xiangtai Food Co., Ltd. (NASDAQ – PLIN)** is a leading player in the pork processing industry and under its current structure will likely continue to serve in its role as a solid profitable company. However, given the fragmented nature of the segment, with a number of small companies generating tens of millions in annual sales, we believe that as a U.S.-traded public company, PLIN has an opportunity to engage in an M&A business development model (a roll up), and quickly expand market share, revenue, profit, and overall value. Against this backdrop, this report provides an overview of the Company's current and future operations under its present structure along with an industry snapshot. It also provides a glimpse of the significant leverage a roll up of competing or complementary companies could accomplish, along with a dramatic jump in valuation metrics, the Company's valuation and its stock price. This is not to say that based on its current standing PLIN does not represent real value, especially in the current environment. Instead, we proffer that by taking advantage of the current environment and its unique status as a U.S. pubco, both the Company and its shareholders could be major beneficiaries of such execution.

### *The View from 30,000 Feet*

PLIN is primarily a pork processing company that has unique, vertically integrated operations across key sections of the industry value chain in China, including slaughtering, packing, distribution, and the wholesale of fresh pork meat and parts. As such, the Company offers processed and fresh products which are primarily sold through farmer's markets and supermarkets/grocery stores via local distributors, small wholesalers and retail vendors. The main products from the processed series include shredded meat, sliced meat, meat stuffing, pickled meat, lamb and offal, sausage, bacon, steamed meat, breaded chicken and spicy meat.

Interestingly, 70-80% of sales are derived from the distribution of fresh pork. However, a shift and interest in ready-to-eat processed pork (such as sausages) and interest in frozen pork which is available for sale in the supermarket/grocery store channel is on the rise. Plus, the Company can offer frozen pork imported from other countries. Not only does this aid in revenue for the company but raises gross profit as well. The greater the processed pork comprises sales the greater the profit. Moreover, production capacity for the Company's high quality and broad offering slate, coupled with its diversified sales channels positions PLIN in rare company. We would not be surprised to see PLIN emerge as the "Hormel Foods" (NYSE – HRL - \$48.27) of China in the coming years.

Pork is a key staple of the protein diet in China and strong demand exists with upside potential in the form of fast-growing product categories such as processed/ready-to-eat and frozen (domestic and imported) along with new channels such as online order and delivery. According to a report by China-Industrial Research Institute, frozen pork sales are expected to grow by 62% from 2015 to 2020, with 60 million tons consumed. Plus, the channels in which product is sold is clearly moving toward supermarkets and even restaurants and hotels—with the growth rate expected to reach around 27% from 2015 to 2020.

China is the largest pork production and consumption market in the world, comprising 49.25% and 50.2% of the global production and consumption markets respectively in 2015. Pork is deeply rooted in Chinese culture and diet and comprised 61.9% of China's meat consumption in 2015. The growing demand for fresh pork and packaged pork products is attributable to the rise in disposable income and living standards, continuing

urbanization, expansion of middle class, the important role of animal protein in food consumption, the importance of pork as a source of animal protein and increasing demand for high quality and safe products, such as those produced by PLIN.

### *Major Uptick in Valuation*

We believe that the current business model is robust and offers meaningful upside for investors. This is especially the case due to trends in consumer habits which play toward greater profit for the Company. Moreover, PLIN could be viewed as a defensive stock which tends to outperform the market during crises such as the current COVID-19 health pandemic. Hormel, an interesting publicly traded comparable is near its 52-week high while most stocks including PLIN are languishing near lows. Interestingly, while it has its genesis in China it appears to have flattened out and a sense of normalcy in daily routine has returned. Interestingly, the CEO of Hormel has made comments recently regarding the solid business in China, which is a great affirmation of our thesis. Still, we believe that if management seeks to execute an M&A plan, revenue, profit and valuations will rise and shareholders will benefit.

For the purposes of this report, we have produced two pro forma P&Ls: a basic and M&A model. The basic demonstrates modest increase in sales and EPS in FY20 and more so in FY21. Our M&A model, which assumes an acquisition in the FY20E and FY21E years (average of \$50M in annual revenue for each), illustrates far greater upside. For FY20E we project \$140.5M in revenue with EPS of \$0.37, compared with \$102.5M and \$0.21 in EPS in FY19. For FY21E, we forecast \$202M in revenue and \$0.67 in EPS. It should be noted that we produced these pro formas on our own. Our 12-month price target of \$6.70 is based on a 10x EPS multiple on FY21E (June 2021) EPS, a reasonable multiple considering top-line growth, along with market share and net profit expansion. As a corollary, Hormel currently traded 26.1x next year's EPS. PLIN should trade at a meaningful valuation discount due to its foreign status and China-centric business. Still, if our pro formas track alongside PLIN's future model, a higher P/E multiple might be in order. On the flip side, even if management does not elect to pursue a roll up, we believe these shares can return to the \$2.60 level (10x FY21E EPS) during the second half of 2020, a 66% gain from current prices.

## **THE PLIN DIFFERENCE**

PLIN is primarily a pork processing company that has operations across key sections of the industry value chain in China, including slaughtering, packing, distribution, and the wholesale of fresh pork meat and parts. As such, the Company offers processed and fresh products which are primarily sold through farmer's markets and supermarkets/grocery stores via local distributors, small wholesalers and retail vendors. The main products from the processed series include shredded meat, sliced meat, meat stuffing, pickled meat, lamb and offal, sausage, bacon, steamed meat, breaded chicken and spicy meat.



The

Company purchases live hogs through distributors who purchase hogs from well-known big hog farms located in different cities in southern China. PLIN uses an automated standard modern production line to slaughter the hogs and pack the fresh pork and by-products, which can be done in 2-3 hours. Then the fresh pork is delivered to local distributors who then resell the fresh pork to smaller wholesalers and retail vendors. Main products from the processed series include shredded meat, sliced meat, meat stuffing, pickled meat, lamb and offal, sausage, bacon, steamed meat, breaded chicken and spicy meat. PLIN also procures fresh pork, beef, lamb, chicken, duck, and rabbit meat from local farmers and processes fresh pork, beef, lamb, chicken, duck, and rabbit meat into processed products.

PLIN sells fresh pork mainly in urban areas for the residents living in the city of Chongqing which has a population of 34 million, and also sells ready-to-eat products to other region such as neighboring Sichuan province with a population of almost 100 million.

Management maintains what they believe are the highest industry standards for food safety, product quality and sustainability by utilizing strict quality control systems in each segment of our value chain, from production through sales and distribution. The Company is no small player. It employs more than 200 people. The slaughtering plant in Linshui Industrial Park, Sichuan Province covers an area of 27,000 square meters, while the processing factory in Fuling, Chongqing, covers an area of 8,000 square meters.

#### *PLIN Positioning*

Given that pork consumption is extremely high, annual sales for the industry approaches \$400B. Looking ahead, it is expected that frozen pork will be a driver of sales in the next 1-2 years. One reason for this is that the supply of fresh pork is not enough in Chongqing and Sichuan region. In response, the Company is adopting the way of purchasing frozen pork from other provinces or regions. Plus, PLIN is exploring trade internationally with the U.S. or other countries which can offer frozen pork for distribution in Chongqing and Sichuan. The Company has entered into exciting business development initiatives of late. A business collaboration agreement with Chongqing Good Helper brings positive impact to the Company via a firm supply financing for the trading of frozen pork from other provinces or other regions, which alleviates shortage of fresh pork in Chongqing region. The recent launch of an online order service not only helps firm broaden the distribution channel it is a precursor to conducting online business nationally, which could really be enhanced via acquisition.

Going forward, management is committed to gaining additional market share through continued investment in infrastructure which could include the purchase of slaughterhouses for vertical integration and expanding reach into retail, supermarket and restaurant markets. PLIN also plans to improve logistics ahead of potential



expansion into new markets or its vertically integrated operations, along with continued new product introductions to stay ahead of the competition and add to its broad slate of offerings.

### *Coronavirus*

We would be remiss if we did not mention the current global pandemic. According to management, the coronavirus health concern has not slowed down the consumption of pork in China. Although many of the farmer's markets are still not open, products are being distributed in the supermarkets and can be ordered online and delivered to home. Pork is a main staple of families in China. As people are staying indoor more of late, the appetite for clean fresh meat and ready to eat meat is bigger than ever. Everyone chooses to cook at home rather than dining out in general, anyway.

## **EXECUTIVE LEADERSHIP**

### Management

#### **Zeshu Dai, Chairwoman of the Board and Chief Executive Officer**

Ms. Dai has been our Chairwoman of the Board and CEO since our inception, January 23, 2018. Ms. Dai graduated from high school in 1982. She worked as a cashier at Qu County Xiandu Operation Cooperative from January 1983 to December 1985. She was the sales manager at Chongqing Liangping Meat Factory from January 1986 to December 2000. From January 2001 to May 2014, Ms. Dai was the Chief Supervisory Offer. She has been the director of CQ Penglin and GA Yongpeng since November 2005 and June 2008, respectively. She is familiar with the meat processing industry and has extensive managing experience.

#### **Xiaohui Wu, President and Director**

Mr. Wu has been our President since January 23, 2018 and our director since May 8, 2018. He has been the Director and CEO of Geniusland International Capital Ltd. since 2007. Before that, Mr. Wu was the Senior Project Manager at Genesis Equity Partner LLC, where he helped Chinese companies to raise capital in the United States. Prior to that, Mr. Wu had extensive experience with Hong Kong economic affairs while he worked at the Hong Kong and Macao Affairs Office of the Ministry of Foreign Affairs of PRC from 1996 to 2006. Mr. Wu acquired his bachelor's degree in English from Jilin University in 1996 and his master's degree in finance from Renmin University of China, School of Finance. Mr. Wu is familiar with the capital market in the United States and is experienced in finance and management.

#### **Xia Wang, Chief Financial Officer**

Ms. Wang has been our Chief Financial Officer since January 23, 2018. However, Ms. Wang has been working at CQ Penglin in the accounting department since 2008 after she acquired her bachelor's degree in environmental science major from Chongqing University of Arts and Science. Ms. Wang started as a clerk at CQ Penglin from 2008 to 2010. She then worked as assistant accountant from 2010 to 2011. She was promoted to accounting supervisor in 2011 and was appointed as CFO in 2014. She oversees our accounting department, which include duties such as reviewing all the accounting functions performed by our accounting

staff, maintaining our accounting book and records, reporting to the Board of Directors, managing budget, reviewing cost, etc.

#### Board of Directors (excluding Management)

##### **Penglin Wang, Director**

Mr. Wang has been our Director since May 8, 2018. He has been the Chief Supervisory Officer of CQ Penglin since April 2014. Mr. Wang acquired his bachelor's degree in civil engineering from Chongqing University in 2015. Mr. Wang is familiar with the operation of the company.

##### **Bangquan Ou, Independent Director**

Mr. Ou has been our Independent Director since May 8, 2018. He has worked at Chongqing Meat Industry Association as the secretary and executive vice president since June 2004. Mr. Ou was the deputy secretary at Chongqing Refrigeration and Supply Chain Industry Association. From February 1972 to October 2003, Mr. Ou worked at District Food Company and had served as deliveryman, clerk, warehouse manager, business section chief manager, vice president, president, and general secretary throughout the years. Before that, Mr. Ou was a butcher at Chongqing Jiangbei District Food Company. Mr. Ou graduated from Chongqing No.36 High School in 1979. Mr. Ou has also received the "Food Safety Standard Edition System Training Certificate" issued by Chongqing Municipal Bureau of Quality and Technical Supervision in 2005, the occupational qualification certificate of "Cooked Meat Product Processing Technician" issued by Chongqing Vocational Skill Identification Guidance Center in 2006, the "National Qualification Certificate for Slaughtered Technical Staff of Live Pigs Slaughterhouse (Field)" issued by the Livestock and Poultry Management Office of the Ministry of Commerce in 2010 and the "National Professional Skills Competition Referee Certificate" issued by the Occupational Skills Identification Center of the Ministry of Human Resources and Social Security in 2012. Mr. Ou is very experienced with the meat packing and meat processing industry and is a respected and resourceful figure in the industry.

##### **Zhaorong Zhu, Independent Director**

Mr. Zhu has been our Independent Director since May 8, 2018. He is currently an assistant professor at Southwest University, School of Animal Science. Before that, from July 2005 to July 2017, Mr. Zhu worked at Southwest University as an associate professor at the Animal Medicine Department, the general secretary and department deputy director of the Fisheries Department, and the deputy director of the Technology Industry Department. From September 2001 to July 2005, Mr. Zhu was associate professor and deputy director at Technology Industry Department at Southwest Agricultural University. He was an assistant professor, lecturer, and the associate professor at Department of Animal Medicine and deputy director of Department of Science and Technology at Sichuan Animal Husbandry and Veterinary College from 1983 to 2001. Mr. Zhu acquired his bachelor's degree in Chinese Medicine from Chengdu College of Chinese Medicine in 1986 and associate degree in Animal Medicine from Sichuan Animal Husbandry and Veterinary College in 1983. Mr. Zhu is an expert in Animal Medicine and has received the Chongqing Aquaculture Forensic Qualification Certificate, the Expert certificate of Chongqing Public Safety Technical Expert Committee, and the Ministry of Agriculture Practicing Veterinary Qualification Certificate.

### **Yun Xia, Independent Director**

Ms. Xia has been our Independent Director since May 8, 2018. She has also been working at Chongqing International Freight Forwarders Association since June 2015, as secretary and deputy secretary. She was an independent director at Chongqing Foreign Economic & Trade (Group) Co. Ltd. from 2012 to 2014. She was the deputy general manager at Chongqing Bonded Port Development Management CO., Ltd. from 2009 to 2012. Before that, Ms. Xia worked as the chief of Chongqing Customs Supervision Department, Customs Clearance Department, and Review Department from 1998 to 2008, as chief personnel officer and deputy director of Personnel Education Department of Chongqing Customs from 1987 to 1998, as clerk at Personnel Education Division at Chongqing Municipal Bureau of Culture from 1985 to 1987, as clerk at Personnel Education Division at Chongqing Publishing Bureau, and as a nurse and assistant military medical officer at Railway Soldiers' Sixth Division Hospital from 1970 to 1983. Ms. Xia acquired her bachelor's degree in law (lawyer practice focused) from Southwest China University of Political Science and Law in 2004, an associate degree in Management from Central Party School in 1996, an associate degree in law from Southwest China University of Political Science and Law, an associate degree in Political Science from Chongqing Municipal Party University in 1985, and an associate degree in Anesthesia from Fourth Military Medical University in 1979. Ms. Xia is experienced in trade and is an expert in the legal framework of trade and business.

### **Peng Hu, Independent Director**

Ms. Hu has been our Independent Director since May 8, 2018. She has been the Financial Controller at Laureate International Universities (Hunan International Economic University) since May 2015, where she insures that daily accounting transactions are in line with local GAAP and US GAAP, advises on group consolidated financial statements and analysis, reports and follows analyzed results, performs projects possibility analysis, budget control and cost rationalization according to school plan, assists in cash management, cash projection and financing planning, and coordinates with Internal Control to manage and control risks. Prior to that, Ms. Hu was a Senior Auditor at Friedman LLP from July 2011 to December 2013, a Senior Accountant at China Customs from January 2008 to March 2009, a Senior Auditor at Ernst & Young from August 2005 to November 2007. Ms. Hu acquired her master's degree in taxation from Baruch College, Zicklin School of Business in 2011, and her bachelor's degree in accounting from Tsinghua University, School of Economics and Management in 2005. Ms. Hu is a licensed CPA in New Jersey and is familiar with Chinese GAAP and US GAAP.



## FINANCIAL SNAPSHOT

### The P&Ls

**Table I. China Xiangtai Food Co., Ltd.**

Projected Sales Breakdown: M&A Model  
 (\$ USD, 000)

	<u>FY19A</u>	<u>FY20E</u>	<u>FY21E</u>
<b>Category</b>			
Supermarket/Grocery	\$7,322	\$10,500	\$22,000
Farmer's Market	\$95,223	\$130,000	\$180,000
<b>TOTAL SALES</b>	<b>\$102,545</b>	<b>\$140,500</b>	<b>\$202,000</b>

Sources: China Xiangtai Food Co., Ltd. and Goldman Small Cap Research

As illustrated in Table III our pro forma M&A Model illustrates how the leverage of acquisitions can potentially result in enviable financial results, versus the solid, but not spectacular projected results in the basic model found in Table II.

For the year ending June 2019 (the FY19 year), PLIN recorded \$102.5M in revenue and EPS of \$0.21, with relatively static expenses. Our FY20E model assumes that a shift from farmer's market to supermarkets will

occur in the second half of the year due to the coronavirus, with little change in top-line. These figures do highlight migration toward fresh chilled and ready-to-eat meals, along with some online ordering. Importantly, the model reflects the acquisition of a \$35-40M in revenue competitor resulting in \$140.5M in revenue for the fiscal year. Investors should note that both operating and next margins rise dramatically with the sales bump and we have arrived at a \$0.37 EPS projection accordingly.

For FY21E, we once again assume a \$40-50M transaction, which has a similar effect on profit margins. As such, we arrive at an EPS forecast of \$0.67. Clearly, our overall financial projections also demonstrate that we believe business will begin to return to more normalized activities sometime in the second half of calendar year 2020. We confess that some of the items below the operating line are a bit of a question mark but we do not expect material changes to affect our thesis or overall profit, in general.

### The Balance Sheet

With \$24.5M in shareholder's equity, and only a \$34M market cap, this \$102 million in sales firm is in unusual company. We are particularly impressed by the fact that PLIN has very little long-term debt on its books. As profit is generated each quarter, this figure is sure to only increase markedly. Even with the \$4M long-term debt on the books, PLIN's stock trades at a paltry 1.4x book value---a very positive and risk-reducing characteristic for a microcap.

**Table II. CHINA XIANGTAI FOOD CO., LTD.**  
Pro Forma Projected Statements of Income: Basic Model  
(\$ USD, 000)

	<b>FY19A</b>	<b>FY20E</b>	<b>FY21E</b>
<b>REVENUE</b>			
Supermarket/Grocery	\$7,322	\$9,000	\$9,700
Farmer's Market	\$95,223	\$93,000	\$95,500
<b>TOTAL REVENUE</b>	<b>\$102,545</b>	<b>\$102,000</b>	<b>\$105,200</b>
<b>Cost of Revenue</b>			
Supermarket/Grocery	\$6,371	\$7,200	\$8,000
Farmer's Market	\$87,172	\$85,300	\$86,800
<b>Total Cost of Revenue</b>	<b>\$93,543</b>	<b>\$92,500</b>	<b>\$94,800</b>
<b>Gross Profit</b>	<b>\$9,002</b>	<b>\$9,500</b>	<b>\$10,400</b>
<i>Gross Margin</i>	8.8%	9.3%	9.9%
SG&A	\$2,723	\$2,800	\$2,900
Provision doubtful accounts	\$744	\$800	\$500
<b>Total Operating Expenses</b>	<b>\$3,467</b>	<b>\$3,600</b>	<b>\$3,400</b>
<b>Operating Income</b>	<b>\$5,535</b>	<b>\$5,900</b>	<b>\$7,000</b>
<i>Operating Margin</i>	5.4%	5.8%	6.7%
Total Interest Inc/Exp	(\$839)	(\$700)	(\$800)
Other finance exp	(\$140)	(\$100)	(\$200)
Other income/exp, net	\$20	\$45	\$50
Provision doubtful accounts	\$0	\$0	\$0
Total Other expense, net	(\$957)	(\$755)	(\$950)
<b>Pre-Tax Income</b>	<b>\$4,578</b>	<b>\$5,145</b>	<b>\$6,050</b>
<b>Income Taxes</b>	<b>\$214</b>	<b>\$100</b>	<b>\$125</b>
<i>Tax Rate</i>	4.7%	1.9%	2.1%
<b>Net Income</b>	<b>\$4,364</b>	<b>\$5,045</b>	<b>\$5,925</b>
Other Comprehensive Inc (Loss)	(\$268)	(\$200)	(\$150)
<b>Total Comprehensive Income</b>	<b>\$4,096</b>	<b>\$4,845</b>	<b>\$5,775</b>
<b>Earnings Per Share</b>	<b>\$0.21</b>	<b>\$0.23</b>	<b>\$0.26</b>
Wtd Avg Shares Outstanding	20,945	22,000	23,000

Sources: China Xiangtai Food Co., Ltd. and Goldman Small Cap Research

**Table III. CHINA XIANGTAI FOOD CO., LTD.**  
Pro Forma Projected Statements of Income: M&A Model  
(\$ USD, 000)

	<u>FY19A</u>	<u>FY20E</u>	<u>FY21E</u>
<b>REVENUE</b>			
Supermarket/Grocery	\$7,322	\$10,500	\$22,000
Farmer's Market	\$95,223	\$130,000	\$180,000
<b>TOTAL REVENUE</b>	<b>\$102,545</b>	<b>\$140,500</b>	<b>\$202,000</b>
<b>Cost of Revenue</b>			
Supermarket/Grocery	\$6,371	\$8,500	\$18,300
Farmer's Market	\$87,172	\$118,500	\$161,000
<b>Total Cost of Revenue</b>	<b>\$93,543</b>	<b>\$126,500</b>	<b>\$179,300</b>
<b>Gross Profit</b>	<b>\$9,002</b>	<b>\$14,000</b>	<b>\$22,700</b>
<i>Gross Margin</i>	8.8%	10.0%	11.2%
SG&A	\$2,723	\$3,400	\$4,000
Provision doubtful accounts	\$744	\$800	\$1,000
<b>Total Operating Expenses</b>	<b>\$3,467</b>	<b>\$4,200</b>	<b>\$5,000</b>
<b>Operating Income</b>	<b>\$5,535</b>	<b>\$9,800</b>	<b>\$17,700</b>
<i>Operating Margin</i>	5.4%	7.0%	8.8%
Total Interest Inc/Exp	(\$839)	(\$1,000)	(\$1,400)
Other finance exp	(\$140)	(\$250)	(\$300)
Other income/exp, net	\$20	\$50	\$100
Provision doubtful accounts	\$0	\$0	\$0
Total Other expense, net	(\$957)	(\$1,200)	(\$1,600)
<b>Pre-Tax Income</b>	<b>\$4,578</b>	<b>\$8,600</b>	<b>\$16,100</b>
<b>Income Taxes</b>	<b>\$214</b>	<b>\$400</b>	<b>\$800</b>
<i>Tax Rate</i>	4.7%	4.7%	5.0%
<b>Net Income</b>	<b>\$4,364</b>	<b>\$8,200</b>	<b>\$15,300</b>
Other Comprehensive Inc (Loss)	(\$268)	(\$300)	(\$400)
<b>Total Comprehensive Income</b>	<b>\$4,096</b>	<b>\$7,900</b>	<b>\$14,900</b>
<b>Earnings Per Share</b>	<b>\$0.21</b>	<b>\$0.37</b>	<b>\$0.67</b>
Wtd Avg Shares Outstanding	20,945	22,000	23,000

Sources: China Xiangtai Food Co., Ltd. and Goldman Small Cap Research

## RISK FACTORS

We categorize PLIN's risks in three categories: Geopolitical, Business, Capital Markets.

### *Geopolitical Risks*

Since early in the year, the top story globally has been the spread and potential impact in which the Coronavirus will have on China, and those who have traveled there. In the big picture, key questions remain: How will this health crisis affect China's citizens, and its domestic economy as well as the global economy at large, in the short term and the long term? We do not have the answers to these questions and pundits are engaging merely in conjecture at this point. Considering that large swaths of the nation is currently and for the near future will be impacted, we have taken what we believe is a prudent approach to our forecasts by applying a haircut to forecasting under conventional circumstances. We should note that since PLIN's sales are entirely domestic, when the crisis abates, those firms that derive the bulk of their sales from selling consumer goods to the local economy are likely to receive a major bump in interest and price. Since PLIN is a defensive stock in the food business, and comments from the Hormel CEO are very favorable toward this business in China, we believe the bump is set to soon occur. Hence, why we believe major upside exists in these shares. Finally, investors in emerging markets such as China are aware that even for stocks traded in the U.S., an arbitrary discount is assigned these stocks' valuations. Given the high profitability on an historical basis and in our forecasts, we believe that our target price already has this risk factored in.

### *Business Risks*

Clearly, PLIN has meaningful advantages in its target markets and is leveraging its brand name recognition through nearly a half dozen different trademarks, and popularity into growing sales and market share. Still, as is our thesis, PLIN may seek to broaden its reach through new markets and potential acquisitions this year. Operating in China carries its own set of business, legal, and tax challenges which we have already factored into our target. Other competitive risks include health of livestock, product quality, lower pricing, more effective sales/marketing by competitors, flavor, etc. These risks could come from larger competitors, existing firms or new entrants. Still, these risks are typical future concerns and are also consistent with firms of PLIN's size and standing.

### *Capital Markets*

Volatility and liquidity are typical concerns for microcap stocks that trade on the stock market. Continued volatility and inconsistent trading on a short-term basis could reflect investor concern over the coronavirus and some investors may believe that China is out of favor. We believe that such events will present unusual and sharp entry points for opportunistic investors, given the perceived slowing of the health crisis spread in the country, and its profile as a defensive stock with growth aspects associated with it. Separately, it is possible that the shares outstanding of this stock could increase due to potential capital needs, as PLIN may wish to broadly expand its livestock, product offerings and consumer reach simultaneously through M&A. However, since the proceeds of any future funding would be used in large part to advance M&As or major business development, we believe that any dilutive effect from such a funding could be offset by related increases in

market value. Moreover, with plans to up-list the shares, a meaningful increase in trading activity and volume could follow.

## VALUATION AND CONCLUSION

Pork is a major food staple in China and PLIN is a leading provider in this market. The Company benefits from key industry trends toward more profitable frozen and processed pork and by-products and sales through supermarkets and restaurants instead of farmer's markets. With an estimated 60M tons to be purchased this year from and through a fragmented list of players, PLIN has an opportunity to expand market share via new products, channels, markets, or by acquisition. PLIN has an advantage as a popular and respected in-country brand that offers domestic and foreign product and its unique status as a U.S.-listed public company.

Our thesis, forecasts, and target price reflect what we believe to be a potentially highly favorable impact on the Company and shareholders should management pursue a roll up of competitors and complementary firms. While the core organic business model remains robust on its own, we believe a roll up could dramatically change the positioning and valuation of the Company.

Pork companies such as Hormel are near year highs as this category serves as a popular defensive group during these difficult economic and market conditions. Our model assumes top-line, margin and valuation expansion in conjunction with M&A. We forecast sales will grow from \$102M in FY19 to \$202M in FY21, with EPS jumping from \$0.21 to \$0.67. Our \$6.70 price target represents a 10x P/E, versus the 26x Hormel multiple, and is a reasonable metric considering top-line growth and margin expansion, in our roll up scenario. On the flip side, even if management does not elect to pursue a roll up, we believe these shares can return to the \$2.60 level (10x FY21E EPS) during the second half of 2020, a 66% gain from current prices.



**Table IV. China Xiangtai Food Co., Ltd.**

Balance Sheet: 6/30/19

(\$ USD, 000)

**ASSETS**

**Current Assets**

Cash & equivalents	\$3,216
Restricted cash	
Accts receivable, net	\$39,523
Accts receivable, rel party	
Other receivables, net	\$259
Other receivables, rel party	
Inventories	\$113
Prepayments	\$214
Security deposits	\$2,375
Loan receivable, net	
<b>Total Current Assets</b>	<b>\$45,699</b>

**Plant & Equipment. Net \$4,549**

**Other Assets**

Other receivables	\$132
Intangible assets, net	\$463
Prepaid expenses	\$508
Deferred tax assets	\$0
<b>Total Other Assets</b>	<b>\$1,103</b>

**TOTAL ASSETS \$51,351**

**Liabilities and Shareholder's Equity**

**Current Liabilities**

Short term loans-banks	\$4,514
Loans frm third parties	\$3,075
Short term loans-rel parties	\$329
Accounts payable	\$8,872
Other payables and accrued liab	\$992
Other payables-rel parties	\$1,335
Customer deposits	\$707
Customer deposits-rel party	\$30
Taxes payable	\$2,975
<b>Total Current Liabilities</b>	<b>\$22,829</b>

**Other Liabilities**

Long term loan-bank	\$866
Loan from third party	\$3,131

**Total Other Liabilities \$3,997**

**TOTAL LIABILITIES \$26,826**

**SHAREHOLDER'S EQUITY**

Ordinary Shares	220
Add'l paid-in-capital	11,032
Statutory reserves	1,497
Retained earnings	12,086
Accum other comp loss	(\$309)

**TOTAL EQUITY \$24,525**

**TOTAL LIABILITIES & EQUITY \$51,351**

Sources: China Xiangtai Food Co., Ltd. and GSCR

### RECENT TRADING HISTORY FOR PLIN

(Source: [www.StockCharts.com](http://www.StockCharts.com))





## SENIOR ANALYST: ROBERT GOLDMAN

Rob Goldman founded Goldman Small Cap Research in 2009 and has over 25 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

## ANALYST CERTIFICATION

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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