



CITRON REPORTS ON ORIGIN AGRITECH (NASDAQ:SEED)

Be Careful with your SEED Capital

One of the great movie thoughts in history comes from the classic Night Shift, when an offbeat Michael Keaton suggests: **"Wait a minute! Why don't they just mix the mayonnaise with the tuna in the can... HOLD THE PHONE ! Why don't they just FEED the tuna fish mayonnaise?!"**

A good idea, but hardly groundbreaking. Citron recalls the classic "peanut-butter-and-jelly in the same jar" story of Nitromed (NASDAQ:NTMD) which claimed a breakthrough drug that was made up of two available generic drugs. Needless to say, despite the advice of numerous analysts, it was an utter disaster for stockholders.

Introducing Origin Agritech, (NASDAQ:SEED)

Background

SEED stock was rocketed by a PR announcing the Chinese government's approval of the company's genetically engineered seed corn that adds the enzyme phytase to the diet of livestock. Phytase helps feed animals digest phosphorus, a necessary nutrient.

<http://finance.yahoo.com/news/Origin-Agritech-Announces-bw-2754575064.html?x=0&.v=1>
[<https://finance.yahoo.com/news/Origin-Agritech-Announces-bw-2754575064.html?x=0&.v=1>].

This is old news.

<http://www.thepigsite.com/swinenews/17199/first-gm-phytase-corn-licensed>
[<http://www.thepigsite.com/swinenews/17199/first-gm-phytase-corn-licensed>]

[gm-phytase-corn-licensed](#)]. The company actually announced this 2 years ago when they first licensed the product from the **China Academy of Agricultural Science (CAAS)**...**yes licensed** not created the product. Considering SEED does not appear to be in the business of creating innovative block-buster products this is no surprise. On their 8/11/09 conference call, in Q&A, they mention their next two big ideas are glyphosate-resistant corn and a VT corn product. Both of these products are already offered by Monsanto (Round-up resistant corn and VT corn).

This story has a lot of problems, including:

- No clarity on exclusivity of license
- No clarity on license financial terms
- No clarity on the economic impact of the innovation
- SEED has lost money for three years... and in particular
- **SEED needs money urgently.**

Phytase facts

Lets put this in perspective: phytase is not exactly gold. It can be added for \$2 a ton to feed corn. This is not an economic game changer regardless what any analyst might say. Phytase is currently offered in many forms for sale by the largest names in agriculture.

<http://docs.google.com/viewer?a=v&q=cache:KE7Nt6FkkqIJ:wwwstage.basf.com/animalnutrition/fDkuVc8WyszC4qHc1RTTA>
[\[https://docs.google.com/viewer?a=v&q=cache:KE7Nt6FkkqIJ:wwwstage.basf.com/animalnutrition/fDkuVc8WyszC4qHc1RTTA\]](https://docs.google.com/viewer?a=v&q=cache:KE7Nt6FkkqIJ:wwwstage.basf.com/animalnutrition/fDkuVc8WyszC4qHc1RTTA)
http://www.alibaba.com/countrysearch/CN-suppliers/Phytase_Enzyme.html
[\[https://www.alibaba.com/countrysearch/CN-suppliers/Phytase_Enzyme.html\]](https://www.alibaba.com/countrysearch/CN-suppliers/Phytase_Enzyme.html).

Look carefully at the wording of SEED's PR about the product: The cost-benefit argument for phytase in genetically-engineered corn is only that it **relieves the grower of the inconvenience of mixing in this supplement.** . The claimed benefit that:

“Origin's GMO phytase-producing corn is expected to reduce the need for inorganic

phosphate supplements as animals will directly absorb more phosphate from their feed, reducing animal feed's high cost. Inorganic phosphates may be contaminated with fluorin and heavy metal residues created in the manufacturing process. These fluorin and heavy metal residues in the feedstuff are toxic to animals, and dangerous to humans. Origin plans to release further details of the development of their phytase product line as this develops."

<http://finance.yahoo.com/news/Origin-Agritech-Announces-bw-2754575064.html?x=0&.v=1>
[\[https://finance.yahoo.com/news/Origin-Agritech-Announces-bw-2754575064.html?x=0&.v=1\]](https://finance.yahoo.com/news/Origin-Agritech-Announces-bw-2754575064.html?x=0&.v=1)

...is pseudoscientific mumbo jumbo. (**Any phytase supplement delivers this benefit** For \$2.00 to \$2.50 per ton of feed. (see alibaba.com link above for 132 suppliers.)

Presumably, this will justify a higher sale price for their seed corn. However, the financial upside appears to be limited by the extremely low cost of adding phytase to animal feed, especially because the majority of their sales of this new seed cannibalize sales to existing customers — seed corn already accounts for 75% of SEED's revenue. It is the opinion of Citron that any lofty pie in the sky numbers given by SEED are done with the intention of raising money in the near future and have no bearing on their economic reality.

Company unprofitable

SEED last reported an annual profit in 2006. It reported sizable losses for 2007 (163,000,000 RMB, 7.904 / \$20.6m USD loss) and 2008 (43,286,000 RMB / \$6.2m USD loss) . Historically, it also shows extreme seasonality in its revenues; its only profitable quarter appears to be the June 30 period, when the bulk of its annual seed sales are booked.

Despite a reported \$11 million profit for this year's June quarter, it has accumulated an **overall loss for the 9 months** of 3.8 million, which will be even larger when the company reports full-year

operations, since it does not expect to have material revenues during the 4th quarter. Investors won't see these numbers until SEED files its 20-F, expected next March. Because they sell seed, they traditionally have one good quarter that gets folded into an annual loss.

Beware the dreaded PIPE

Meanwhile, SEED is in the midst of an obligation to buy out a convertible note financing done in July 2007. The company borrowed \$40 million at 16% interest from Citadel with a senior convertible note. It has announced in filings and PR that it has agreed to repay the outstanding balance of \$17.2 million by Dec 31, 2009.

http://www.originagritech.com/news/news_contents.php?id=62

[\[http://www.originagritech.com/news/news_contents.php?id=62\]](http://www.originagritech.com/news/news_contents.php?id=62)

The problem is the company's cash balance is only \$22.8 million. Clearly it is reasonable to expect the company is going to be selling stock in the very near future. For a stock that generally trades around 50,000 shares a day, and whose share price has languished most of the last two years between \$2 and \$5, their opportunity is now and the time window is limited.

This is enhanced by the recent upgrade on the company from Rodman & Renshaw. Citron's last run-in with Rodman & Renshaw saw them upgrade Home Solutions of America, while the company was committing fraud and now trading for pennies. Rodman simultaneously was shopping a deal for the company.....surprise surprise.....its the same analyst who upgraded Home Solutions (NASDAQ:HSOA) **Joe Giamichael!** And here we thought Giamichael's specialty was industrial services.....hmmm, now its agriculture?

http://www.smallcapinvestor.com/articles/small_cap_new
[\http://www.smallcapinvestor.com/articles/small_cap_new

HSOA collapsed amid massive fraud and is now 3c.

Conclusion

Citron suggests that investors hoping to harvest profits should plant a seed of caution here, and fertilize it with common sense. It is the prediction of Citron that SEED's product will become just another agricultural alternative that will either get commoditized away or never by itself revolutionize the vertically integrated world of farming. BTW....is anyone working on the mayo idea?

NOVEMBER 25, 2009 /

Share this entry



© Copyright 2018 - Citron Research | All Rights Reserved | "Cautious Investing To All"