**Yangtze River Development Co. (YERR)**

**The Empty Silk Road**

**Investment Highlights:**

- Yangtze River Development Co. is up over 300% since it announced its listing on Nasdaq in August of 2017. We believe this movement is not based on fundamentals and could be the result of one large naked short being forced to close their position. **We view YERR as one of our top short ideas.**

- The company believes their cash on hand of $94,902 is not sufficient to sustain their operations over the next twelve months according to recent 10-Q financial filing. The company has consistently struggled to raise financing, recently pulling their $42 million financing led by Boustead Securities.

- The company’s biggest asset on their balance sheet is land use rights, not ownership, of **1.2 million square meters to hundreds of acres** of land outside of Wuhan, China. When required, the state has the right to reclaim the collectively owned lands in accordance with law if such reclaim is beneficial to the public.

- We believe shares could easily fall back **below $5 per share** over the next 12 months

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**Company Description**

Yangtze River Development Co. focuses on infrastructure projects in the future development of China. The company is working on a large infrastructure project under China’s “One Belt One Road” initiative.
Second Quarter Results

Yangtze River reported Q2 2017 revenue of $0, identical to the revenues in the past entire fiscal year. It finished Q2 with net income of negative $2,784,000, which is a decrease from their first quarter net income of negative $2,590,000. The company has not had a positive net income since the third quarter of 2015.

Liquidity and Balance Sheet

The company has a major problem when it comes to liquidity, with less than a million in cash and cash equivalents. For Q2 2017 the company only has $94,000 in cash. A company valued at $3 billion with only $94,000 in cash is cause for concern. This is up from $45,000 cash in Q2 2016 but it is still an insignificant number and looks more like a personal checking account than a multibillion dollar business. The company is already developing a construction project that will need an estimated $1 billion by 2020. The company has had negative net operating cash flows for the 2016 and 2015 fiscal years. It has had negative capital expenditures since 2010. For the most part, the company has not had any positive cash flows since the 2010 fiscal year.

Competitive Advantage

Yangtze River Development Co.’s main asset is $344 million in land rights. This is over 90% of the company’s total assets. These land rights are for commercial lands which are planned to be used for industrial and commercial development purposes. This can be extremely risky due to not having actual ownership of the land. Other parties can make claim to ownership to the land, which can result in delays or completely halt development. Another party can take the land back, which will destroy the company’s entire business plan.

Weak Financial Position
Most companies valued in the billions are well financed and supported by large financial institutions. Yangtze River Development Co. is not one of those, as they are seeking outside investments to complete their project. They have had numerous failed deals to raise capital, including the falling out of a $1 billion financing deal with George Wight Jr.

**Company Headquarters Is an Apartment**

A company valued at roughly $3 billion would presumable have a luxurious office with enough resources and staff to excel in its respective industry. This “giant” company is in a tiny two-bedroom apartment in Manhattan. This reflects extreme unprofessionalism, as even small businesses sign leases for WeWork or other business focused office space. A simple google map search of the address in the company’s 10-Q can show that this apartment is certainly not a place for any billion-dollar international business to be conducted.

![Source: 41 John Street Google Maps](image-url)
Only Analyst Who Covers Them Has Been Dramatically Off in Financial Projections

Seethruequity predicted much higher revenues than what the company produced in their initiation report. For the fiscal year of 2016 they estimated revenues of $28,500,000. The actual revenues the company had for the fiscal year of 2016 were $0. This bullish analysis and predictions were completely off as the company has only accumulated more debt as it continues to seek further funds from investors. These predictions were based off the idea there would be sales that were consistent with actual development. The company’s lack of ability to sell real estate assets has hindered its growth and impacted these bullish predictions.

Company Has Been Highly Promotional

The company has been highly promotional historically. The company has an 80’s style youtube video describing the investment opportunity but only offering limited financial information regarding the amount of projected revenue and ultimate cash flow generation ability of the business. There is also an interview with Jim Coleman on SNN live, but the overview is all high level with limited actual financial information or timeline of the ultimate cash flows with Jim visually appearing to falter when asked how the business will make money. Ultimately the company continues to market itself without making material progress on its promises.

Investment Thesis

In our view Yangtze River Development Co. represents a compelling short opportunity. The following are some of main reasons an investor would short shares.

- The market capitalization is $3 billion, as a company with no sales and very limited cash on their balance sheet.
- The company historically has had issues raising substantial funding and needs one billion U.S. dollars to complete their project. Additionally they have only one sell side analyst from a boutique firm covering them, with no apparent relationships with legitimate investment banks.
- Coleman the company’s marketing specialist, has never been the director of a publicly traded company and has twice filed for personal bankruptcy protection, according to a recent Forbes article.
- The company has had material weakness in their financial reporting historically as of December 31, 2016, per their SEC filings. The company may have taken actions to
revolve that since then, but given the highly questionable nature of this business we see any internal accounting issues as another red flag.

**Key Risk Factors**

- The company raises $1 billion in financing to complete a functional shipping port, which through asset sales and rental income is able to generate hundreds of millions in EBIT. We see the company’s ability to complete a capital raise of this magnitude as *extremely unlikely* and furthermore even if it succeeds the cash flows it will likely generate will support a stock price much lower than the current $3 billion market capitalization.

- The company through promotional activities raises the stock price in short term squeezing shorts and making borrowing costs too high. We view this as the main risk to shorting YERR given the limited float and heavy insider ownership, as we feel the actual business has little chance of success.

*For full list of risk factors relating to this stock please read subject company's latest 10-K filing*
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