

China / Hong Kong Company Focus

Yestar International

Bloomberg: 2393 HK Equity | Reuters: 2393.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

13 August 2015

BUY

Last Traded Price: HK\$3.11 (HSI : 23,916)

Price Target : HK\$ 4.27 (37% upside)

Potential Catalyst: M&A

Where we differ: Higher EPS estimates for 2016F & 17F due to higher sales growth assumption for IVD business.

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2014A	2015F	2016F	2017F
Turnover	1,531	2,569	3,699	4,343
EBITDA	166	344	563	658
Pre-tax Profit	147	306	521	623
Net Profit	101	178	290	346
Net Pft (Pre Ex)	101	178	290	346
EPS (RMB)	0.05	0.09	0.13	0.16
EPS (HK\$)	0.07	0.11	0.16	0.19
EPS Gth (%)	21.4	62.8	50.5	19.3
Diluted EPS (HK\$)	0.07	0.11	0.16	0.19
DPS (HK\$)	0.03	0.05	0.08	0.10
BV Per Share (HK\$)	0.21	0.66	0.77	0.89
PE (X)	46.9	28.8	19.1	16.0
P/Cash Flow (X)	41.1	19.0	15.6	14.5
P/Free CF (X)	45.2	19.8	15.9	14.7
EV/EBITDA (X)	28.0	15.0	9.6	8.0
Net Div Yield (%)	1.1	1.6	2.6	3.1
P/Book Value (X)	15.0	4.6	4.0	3.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	31.1	23.6	22.4	23.1

Earnings Rev (%)			Nil	Nil
Consensus EPS (RMB)		0.09	0.13	0.16
Other Broker Recs:		B: 1	S: 0	H: 0

ICB Industry: Industrials
ICB Sector: Support Services
Principal Business: Healthcare

Source of all data: Company, DBSV, Thomson Reuters, HKEX

IVD business to drive strong growth ahead

- Contribution from in-vitro diagnostic (IVD) device business and operating efficiency enhancement to drive strong earnings growth of 49% in 1H15
- IVD business to drive EPS CAGR of 47% in 2014-17F
- Potential M&A could be a strong future share price catalyst
- Maintain BUY with TP unchanged at HK\$4.27

Strong earnings growth of 49% y-o-y to Rmb56m in 1H15. The drivers include: 1) In Nov 14, Yestar acquired a distributor of Roche's (ROG.VX) IVD devices in Jiangsu & Anhui provinces. It contributed c.30% of Yestar's earnings in 1H15; 2) Net margin increase of 0.2ppt to 5.56% due to the inclusion of higher-margin products (IVD) and lowering of distribution cost % in sales. As of Jun 15, Yestar's net debt-to-equity ratio was 44% (Dec 14: net cash). Taking into account of the net proceeds raised in Jun by issuing new shares (HK\$904m) and the acquisition of another distributor of Roche IVD devices in Shanghai (total cost: Rmb910m), we project Yestar to have net cash of c.Rmb29m by Dec-15.

IVD business to drive EPS CAGR of 47% in 2014-17F.

Acquisition of the Shanghai IVD distributor mentioned above will be completed in Aug and it should start contributing earnings in Sep. We expect it to contribute c.Rmb28m (16% of 15F earnings). Starting from 2016, the IVD distribution business will make up over 50% of Yestar's projected earnings and become its top growth driver. We are confident on the IVD business as we see a favorable trend. In order to control subsidies on drug consumption, the Central government requires public hospitals to lower their drug sales % of total revenue from c.40% to 30% in 2017. Hence, hospitals will offer more IVD services to compensate for lowering drug sales. Meanwhile, to accelerate earnings growth, we estimate Yestar is in talks with one or two M&A targets. Successful M&A will be a strong share price catalyst and could trigger an earnings estimate upgrade.

Maintain BUY with TP unchanged at HK\$4.27. In view of strong EPS CAGR and potential M&A opportunities, we maintain our BUY call with TP unchanged at HK\$4.27.

At A Glance

Issued Capital (m shrs)	2,175
Mkt. Cap (HK\$/US\$m)	5,749 / 741
Major Shareholders	
Hartono family (%)	61
Free Float (%)	39
3m Avg. Daily Val. (US\$m)	3.0

INVESTMENT THESIS

Profile	Rationale
<p>A medical film and color photographic paper maker. An in-vitro diagnostic devices distributor.</p>	<p>Overall demand growth of medical film and color photographic paper We expect 11% for medical film and 5% for color photographic paper.</p> <p>Market share gain It targets to increase their market share in medical film and color photographic paper from 18% & 43% in 2014 to 35% & 65% within 2 years.</p> <p>In-vitro diagnostic business to drive earnings growth In Q4 2014 and Apr 2015, Yestar already announced to acquire two distributors of Roche (ROG VX) in-vitro diagnostic products. We expect the business will be a new driver for earnings in 2015 and 2016.</p> <p>More acquisitions to come After the acquisition of in-vitro diagnostic business, we believe Yestar is still in talk with other M&A targets. Successful M&A could be a major catalyst for share price.</p>
Valuation	Risks
<p>BUY. TP of HK\$4.27 pegged to sector average 12-month forward PE of 31x</p>	<p>Slower M&A M&A progress slower than expected creates downside risk for earnings growth.</p> <p>Price cut Price cut in medical film and color photographic paper creates gross margin pressure</p>

Source: DBS Vickers

Yestar's results in 1H15

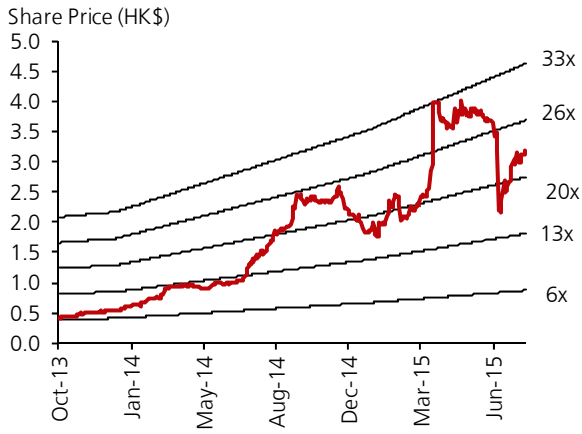
	1H14	1H15	YoY	Remark
Revenue	693.9	999.5	44%	
In-vitro diagnostic products distribution	-	243.0	n/a	Yestar acquired Jiangsu Uno (an IVD devices distributor) in Nov 14. It contributed sales and earnings to Yestar in 1H15.
Color photographic paper	257.2	268.0	4%	
Medical imaging products	337.1	386.1	15%	
Industrial imaging products	99.6	102.5	3%	
Gross Profit	109.1	179.5	64%	
Other Operating Income	4.2	1.4	-67%	
Distribution Costs	(30.5)	(37.7)	24%	
Administration Expenses	(24.6)	(39.0)	59%	Acquisition of Jiangsu Uno in Nov 14 incurred intangible asset amortization of c.Rmb8m in 1H15, resulting in significant increase of admin expenses.
Others	(4.7)	(4.7)	1%	
EBIT	53.7	99.5	85%	
Interest Income	2.6	1.8	-29%	
Interest Expense	(2.8)	(6.1)	117%	Interest expense surge due to debt increase to acquire Jiangsu Uno.
Pretax Profit	53.5	95.2	78%	
Net Profit	37.325	55.617	49%	
Dividend	Nil	Nil		
Gross margin				
Overall	15.7%	18.0%		Overall gross margin expansion thanks to contribution from IVD business.
In-vitro diagnostic products distribution	-	28.2%		
Color photographic paper	21.5%	15.7%		We believe the decrease was due to price cut.
Medical imaging products	12.2%	13.6%		
Industrial imaging products	16.2%	15.9%		
Cost % in revenue				
Distribution Costs	4.4%	3.8%		
Administration Expenses	3.5%	3.9%		
Others	0.7%	0.5%		
Effective tax rate	30.1%	29.2%		
EBIT margin	7.7%	10.0%		
Pretax profit margin	7.7%	9.5%		
Net margin	5.4%	5.6%		

Source: Company, DBS Vickers

Company Focus

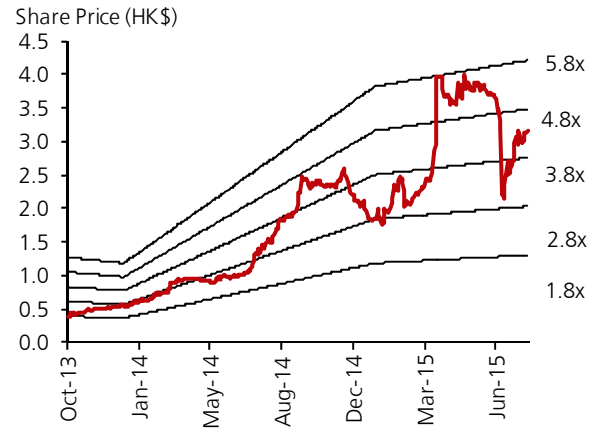
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PE band chart



Source: Thomson Reuters, DBS Vickers

PB band chart



Source: Thomson Reuters, DBS Vickers

Peer Table

Company Name	Currency Code	Price Local\$	Mkt Cap US\$m	PE	PE	Yield	Yield	P/Bk	P/Bk	EV/EBITDA	ROE	ROE		
				15F	16F	15F	16F	15F	16F	15F	16F	15F	16F	
				x	x	%	%	x	x	x	x	%	%	
Medical imaging														
Yestar Int'l*	2393 HK	HKD	3.11	873	28.8	19.1	1.6	2.6	4.6	4.0	15.0	9.6	23.6	22.4
Mindray Med.Intl	MR US	USD	27.18	3,216	16.7	15.0	1.5	1.7	1.8	1.6	11.8	10.8	11.0	11.1
CR Wandong Medical 'A'	600055 CH	CNY	42.85	1,493	189.6	120.0	0.0	0.0	13.1	11.8	n.a.	n.a.	5.9	9.9
Edan Instruments 'A'	300206 CH	CNY	22.68	855	98.6	64.6	0.4	0.7	4.4	4.2	n.a.	n.a.	3.5	5.1
Wuhan Guide Infrared 'A' Su	002414 CH	CNY	39.36	3,803	152.0	103.6	n.a.	n.a.	9.2	8.6	n.a.	n.a.	5.8	8.3
Medical Devices														
Andon Health 'A'	002432 CH	CNY	21.9	1,312	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
GD Biolight Meditech 'A'	300246 CH	CNY	29.37	691	74.9	56.2	0.4	n.a.	9.5	8.3	n.a.	n.a.	9.8	11.8
CR Wandong Medical 'A'	600055 CH	CNY	42.85	1,493	189.6	120.0	0.0	0.0	13.1	11.8	n.a.	n.a.	5.9	9.9
Edan Instruments 'A'	300206 CH	CNY	22.68	855	98.6	64.6	0.4	0.7	4.4	4.2	n.a.	n.a.	3.5	5.1
Shenzhen Glory Med.'A'	002551 CH	CNY	28.07	1,969	72.9	49.4	n.a.	n.a.	7.9	6.8	n.a.	n.a.	11.4	14.7
Beijing Bohui Innovation 'A'	300318 CH	CNY	22.62	1,490	120.3	119.1	n.a.	n.a.	n.a.	n.a.	315.0	147.8	3.4	5.1
JS Yuyue Mdeqt.& Supp.'A'	002223 CH	CNY	42.55	4,006	65.0	50.0	0.2	0.3	11.6	9.6	87.3	66.6	18.6	19.9
Zhuhai Hokai Med.Insts. 'A'	300273 CH	CNY	27.78	3,524	59.0	41.5	0.2	0.3	13.3	10.4	45.4	31.4	23.6	26.2
TruKing Technology 'A'	300358 CH	CNY	35.49	1,522	48.2	32.4	0.4	0.5	6.8	4.5	n.a.	n.a.	20.6	21.6
Shinva Med.Instm. 'A'	600587 CH	CNY	36.59	2,395	34.3	26.7	0.3	0.4	4.4	3.8	23.7	20.0	12.9	14.6
Sinocare 'A'	300298 CH	CNY	35.7	1,500	39.6	30.5	0.8	0.9	6.6	5.8	38.9	31.3	18.1	18.8
Shanghai Tofflon Sctc. 'A'	300171 CH	CNY	24.88	2,543	36.9	30.3	1.0	1.3	5.0	4.4	48.9	40.8	14.1	15.1
Pw Medtech Group	1358 HK	HKD	2.35	508	13.2	10.5	0.0	0.0	1.3	1.2	n.a.	n.a.	12.5	15.5
Microport Scientific*	853 HK	HKD	3.1	570	n.a.	74.0	0.0	0.0	1.8	1.7	93.7	18.5	(7.5)	2.4
Shandong Weigao*	1066 HK	HKD	4.99	2,881	16.6	14.7	1.8	2.0	1.7	1.6	10.4	9.1	10.8	11.3
Lifetech Scientific	1302 HK	HKD	1.49	769	55.2	29.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	49.2	56.1
China in-vitro diagnostic industry players														
ZJ Da Diagnostics 'A'	300244 CH	CNY	84.07	3,652	124.4	87.0	0.2	0.3	23.5	19.3	n.a.	n.a.	19.7	21.6
GZ Improve Medical 'A'	300030 CH	CNY	18.82	897	69.4	58.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sinocare 'A'	300298 CH	CNY	35.7	1,500	39.6	30.5	0.8	0.9	6.6	5.8	38.9	31.3	18.1	18.8
Beijing Bohui Innovation 'A'	300318 CH	CNY	22.62	1,490	120.3	119.1	n.a.	n.a.	n.a.	n.a.	315.0	147.8	3.4	5.1
Beijing Leadman Bcm.'A'	300289 CH	CNY	46.47	1,270	45.6	40.2	0.6	0.5	6.4	5.5	n.a.	n.a.	13.8	14.7
Dirui Industrial 'A'	300396 CH	CNY	47.38	1,170	60.0	44.5	0.2	0.2	7.1	6.1	n.a.	n.a.	12.2	15.0
Da An Gene Of Sun Yat 'A'	002030 CH	CNY	43.9	4,658	149.3	120.9	0.0	0.1	26.3	21.5	n.a.	n.a.	17.9	18.3
Shanghai Kehua Bio 'A'	002022 CH	CNY	31.72	2,618	43.3	35.8	1.0	1.2	9.8	8.0	29.9	25.5	23.4	23.5
Wuhan Humanwell 'A'	600079 CH	CNY	19.74	4,088	40.9	32.6	0.7	0.8	3.8	3.3	15.9	14.1	10.3	11.6
Shinva Medical 'A'	600587 CH	CNY	36.59	2,395	34.3	26.7	0.3	0.4	4.4	3.8	23.7	20.0	12.9	14.6
Biosino Biotech 'H'	8247 HK	HKD	3.33	56	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

FY15: FY16; FY16: FY17

Source: Thomson Reuters, *DBS Vickers

Company Focus

Yestar International

Key Assumptions

FY Dec	2013A	2014A	2015F	2016F	2017F
Color photographic paper - revenue growth %	(11.5)	14.3	7.7	2.7	2.8
Medical imaging products - revenue growth %	60.9	37.6	20.7	21.1	21.6
In-vitro diagnostic products - revenue growth %	N/A	N/A	1,189.4	101.5	20.2
SG&A % in total sales	10.0	7.9	8.4	9.0	9.1

Sensitivity Analysis

		2015F
In-vitro diagnostic products gross margin +/- 1ppt	Net Profit +/-	3.6%
Operating cost (selling & admin costs) +/- 1ppt	Net Profit +/-	10%

Segmental Breakdown (RMB m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenues (RMB m)					
Color photographic paper	531	607	653	671	690
Medical imaging products	474	653	788	954	1,161
In-vitro diagnostic products distribution	N/A	69	883	1,780	2,140
Others	168	204	244	293	352
	N/A	N/A	N/A	N/A	N/A
	N/A	N/A	N/A	N/A	N/A
Total	1,173	1,531	2,569	3,699	4,343
Gross margin (RMB m)					
Color photographic paper	119	131	142	149	154
Medical imaging products	65	79	98	120	156
In-vitro diagnostic products distribution	N/A	17	240	537	646
Others	25	36	44	52	63
Total	209	263	523	859	1,018
Gross margin Margins (%)					
Color photographic paper	22.5	21.6	21.7	22.2	22.3
Medical imaging products	13.7	12.1	12.4	12.6	13.4
In-vitro diagnostic products distribution	N/A	25.0	27.1	30.2	30.2
Others	15.0	17.9	17.9	17.9	17.9
Total	17.8	17.2	20.4	23.2	23.4

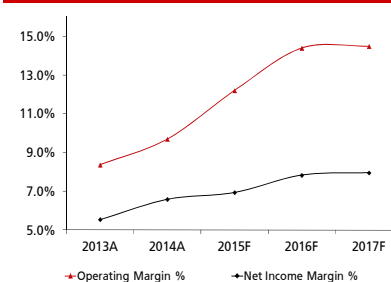
Source: Company, DBS Vickers

Income Statement (RMB m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenue	1,173	1,531	2,569	3,699	4,343
Cost of Goods Sold	(964)	(1,268)	(2,046)	(2,840)	(3,325)
Gross Profit	209	263	523	859	1,018
Other Opng (Exp)/Inc	(111)	(115)	(209)	(327)	(389)
Operating Profit	98	148	314	532	629
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(5)	(1)	(8)	(11)	(6)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	94	147	306	521	623
Tax	(28)	(44)	(92)	(156)	(187)
Minority Interest	0	(3)	(36)	(75)	(91)
Preference Dividend	0	0	0	0	0
Net Profit	65	101	178	290	346
Net Profit before Except.	65	101	178	290	346
EBITDA	112	166	344	563	658
Growth					
Revenue Gth (%)	22.8	30.5	67.8	44.0	17.4
EBITDA Gth (%)	22.7	49.0	107.0	63.4	17.0
Opg Profit Gth (%)	21.4	51.2	111.2	69.8	18.2
Net Profit Gth (%)	15.1	55.1	76.7	62.4	19.3
Margins & Ratio					
Gross Margins (%)	17.8	17.2	20.4	23.2	23.4
Opg Profit Margin (%)	8.4	9.7	12.2	14.4	14.5
Net Profit Margin (%)	5.5	6.6	6.9	7.8	8.0
ROAE (%)	27.5	31.1	23.6	22.4	23.1
ROA (%)	9.8	10.9	9.9	10.8	11.4
ROCE (%)	20.2	18.3	17.2	18.4	19.1
Div Payout Ratio (%)	50.2	50.0	50.0	50.0	50.0
Net Interest Cover (x)	21.8	106.8	40.3	48.1	101.9

Source: Company, DBS Vickers

Margins Trend



Interim Income Statement (RMB m)

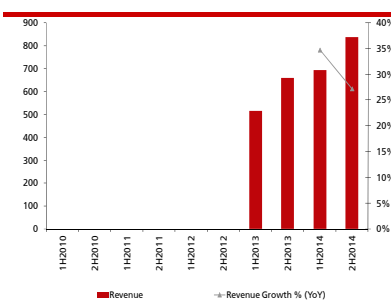
FY Dec	1H2013	2H2013	1H2014	2H2014
Revenue	515	658	694	837
Cost of Goods Sold	(426)	(538)	(585)	(683)
Gross Profit	89	120	109	154
Other Oper. (Exp)/Inc	(45)	(66)	(55)	(60)
Operating Profit	44	54	54	95
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	(2)	(3)	0	(1)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	42	52	53	94
Tax	(13)	(15)	(16)	(27)
Minority Interest	0	0	0	(3)
Net Profit	29	37	38	63
Net profit bef Except.	29	37	38	63
Growth				
Revenue Gth (%)	N/A	N/A	34.7	27.2
Opg Profit Gth (%)	N/A	N/A	22.2	74.7
Net Profit Gth (%)	N/A	N/A	31.6	73.4

Margins

Gross Margins (%)	17.3	18.3	15.7	18.4
Opg Profit Margins (%)	8.5	8.2	7.7	11.3
Net Profit Margins (%)	5.5	5.6	5.4	7.6

Source: Company, DBS Vickers

Revenue Trend



Company Focus

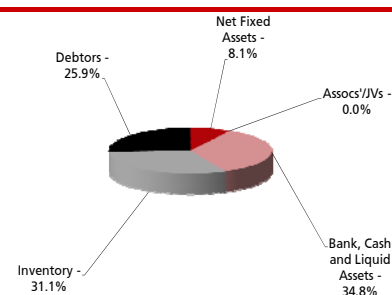
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Balance Sheet (RMB m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	104	104	100	93	86
Invts in Associates & JVs	0	0	0	0	0
Other LT Assets	26	360	1,090	1,074	1,057
Cash & ST Invts	286	199	435	680	902
Inventory	273	327	385	462	552
Debtors	17	105	321	385	465
Other Current Assets	29	23	163	163	163
Total Assets	736	1,118	2,496	2,858	3,224
ST Debt	117	102	203	203	203
Creditors	215	283	373	459	534
Other Current Liab	48	167	241	241	241
LT Debt	0	5	203	203	203
Other LT Liabilities	13	237	237	237	237
Shareholder's Equity	333	316	1,194	1,395	1,596
Minority Interests	9	9	45	120	211
Total Cap. & Liab.	736	1,118	2,496	2,858	3,224
Non-Cash Wkg. Capital	56	5	257	311	405
Net Cash/(Debt)	169	93	29	274	495
Debtors Turn (avg days)	18.3	14.5	30.3	34.8	35.7
Creditors Turn (avg days)	88.2	72.7	59.3	54.0	55.0
Inventory Turn (avg days)	86.5	87.6	64.5	55.1	56.1
Asset Turnover (x)	1.8	1.7	1.4	1.4	1.4
Current Ratio (x)	1.6	1.2	1.6	1.9	2.1
Quick Ratio (x)	0.8	0.6	0.9	1.2	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	19.1	9.7	2.5	1.6	1.4
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS Vickers

Asset Breakdown

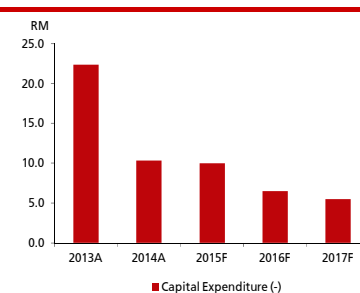


Cash Flow Statement (RMB m)

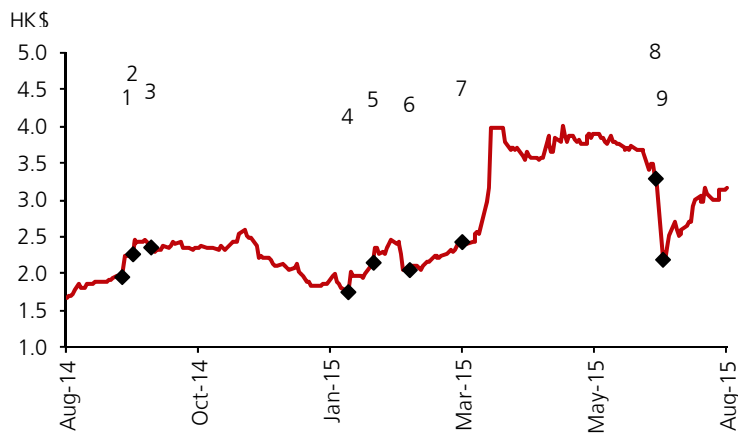
FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	94	147	306	521	623
Dep. & Amort.	14	20	33	33	33
Tax Paid	(43)	(29)	(92)	(156)	(187)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(34)	(26)	16	(54)	(94)
Other Operating CF	6	3	8	11	6
Net Operating CF	37	115	270	355	382
Capital Exp.(net)	(22)	(10)	(10)	(7)	(6)
Other Invts.(net)	0	0	0	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(5)	(138)	(1,010)	9	14
Net Investing CF	(27)	(149)	(1,020)	2	8
Div Paid	(81)	(36)	(50)	(89)	(145)
Chg in Gross Debt	72	(11)	300	0	0
Capital Issues	129	0	751	0	0
Other Financing CF	(6)	(6)	(12)	(20)	(20)
Net Financing CF	114	(53)	989	(109)	(165)
Currency Adjustments	(1)	0	0	0	0
Chg in Cash	124	(86)	239	248	225
Opg CFPS (RMB)	0.05	0.08	0.13	0.19	0.22
Free CFPS (RMB)	0.01	0.06	0.13	0.16	0.17

Source: Company, DBS Vickers

Capital Expenditure



Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	10-Sep-14	HK\$1.97	HK\$2.50	Buy
2:	16-Sep-14	HK\$2.24	HK\$3.18	Buy
3:	26-Sep-14	HK\$2.38	HK\$3.18	Buy
4:	13-Jan-15	HK\$1.77	HK\$3.18	Buy
5:	27-Jan-15	HK\$2.10	HK\$3.18	Buy
6:	16-Feb-15	HK\$2.04	HK\$3.18	Buy
7:	17-Mar-15	HK\$2.43	HK\$3.18	Buy
8:	2-Jul-15	HK\$3.48	HK\$ 4.27	Buy
9:	6-Jul-15	HK\$2.20	HK\$4.27	Buy

Source: DBS Vickers

Company Focus

Yestar International

DBSV recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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