Yestar

HK$2.01 - NR

Snoopin around
Small-caps research

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China
Consumer

Reuters	2393.HK
Bloomberg	2393 HK

Priced on 15 January 2015
HS CEI @ 12,190.5

12M hi/lo HK$2.59/HK$0.61

12M price target na
±% potential

Shares in issue
Free float (est.)

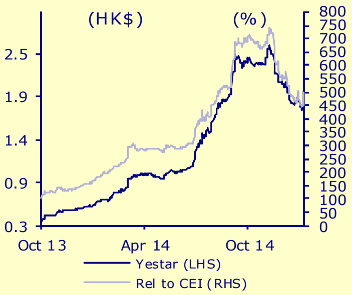
Market cap US$484m

3M average daily volume
18.4 (US$2.4m)

Major shareholders
None

Stock performance (%)

	1M	3M	12M
Absolute	(3.3)	(14.8)	233.3
Relative	(11.0)	(28.1)	179.0
Abs (US$)	(3.3)	(14.8)	233.3



Source: Bloomberg

www.clsa.com

Company visit

Rising star in medical era

Transitioning into medical focuses enterprise.

Yestar, the key partner of Fujifilm's imaging product in China, is transitioning from traditional color photographic papers to medical focused, including imaging products and the newly acquired diagnostic product distribution business. Leveraging on rapid demand growth for medical devices/consumables and future M&A potentials, Yestar is likely to maintain strong earnings momentum in 2015 and onwards, after the estimated >40% growth in 2014 from profit alert just announced.

Company background

Yestar is a leading processor and distributor of Fujifilm products in China, including medical imaging (48.6% of 1H14 revenue), color photographic papers (35.6%) and industrial imaging (14.4%), under Fujifilm brand and/or Yes!Star brand. Leverage on the family's long relationship with Fujifilm, it logged a 31%/50% 2010-13 revenue/profit Cagr amid rising market share.

The transition

Medical imaging products become the largest segment now, leveraging on the strong demand for medical products amid increasing health consciousness, and offset the slowing growth of maturing color photographic paper and industrial imaging products. Besides, Yestar acquired 70% of Jiangsu Uno, which distributes IVD products of global leading brands, Roche and BD, in Jiangsu and Anhui. The PRC medical device industry achieved a 22.8% Cagr from 2001-13 with momentum likely to maintain. In particular, Chinese IVD market size is expected to be doubled over its market size in 2013.

Medical business to fuel growth

Medical films have lower GPM than other imaging products given only processing mark-up, but higher OPM due to only one customer (Fujifilm). Jiangsu Uno will be consolidated into Yestar's results since Nov 2014 with full-year contribution in 2015. Yestar will also continue to look for further M&A opportunities in medical devices/consumables, which will speed up transition into medical focused enterprise, and fuels further earnings growth.

Investment view

Our back-of-the-envelope forecasts suggested Yestar is trading at 20x fwd PE, slightly above the average 17x for HK/US listed Chinese medical device peers. Meanwhile, given strong growth profile (0.7x PEG) and more M&A potentials, the stock is still interesting if it can deliver earnings and execution ability.

Financials

Year to 31 December	2012A	2013A	2014E	2015E	2016E
Revenue (Rmbm)	956	1,173	1,489	2,074	2,684
Net Profit (Rmbm)	57	65	96	137	187
EPS (fen)	–	4.50	5.30	7.30	10.00
DPS (fen)	–	1.79	2.40	3.00	5.00
BPS (Rmb)	–	0.18	0.24	0.27	0.33
EPS change (%)	–	–	17.8	37.7	37.0
PEx (@HK$2.01)	–	35.4	30.5	22.1	16.1
Dividend yield (%)	–	1.1	1.5	1.9	3.1
PBx (@HK$2.01)	–	8.8	6.8	6.1	4.9
ROE (%)	37.9	27.5	27.5	35.3	35.4
Payout ratio (%)	–	50.2	45.3	41.1	50.0

Source: Bloomberg

Company background

A key Fujifilm product processor and distributor

The existing business. Yestar is a leading processor and distributor of Fujifilm products in China, including medical imaging products (48.6% of 1H14 revenue), color photographic papers (35.6%), industrial imaging products (14.4%) and others. The company sells products in two brand names – Fujifilm as higher end products and Yes!Star brand as medium level products.

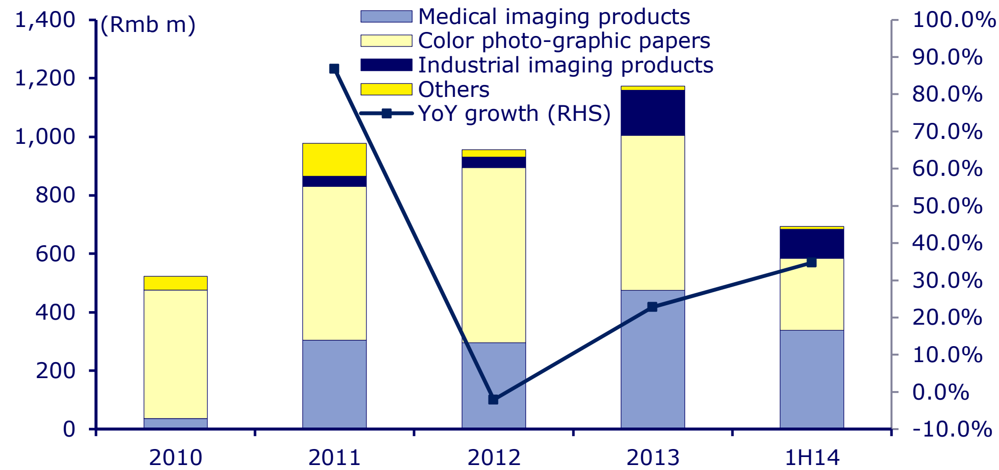
Selling products to external customers and Fujifilm as well

Yestar purchases master rolls of photographic paper, image printing film and medical film from Fujifilm for processing, and sells back to Fujifilm China or to wholesalers/retailers/end users. It has two processing plants in Guangxi.

Rapid revenue growth in the past few years

Figure 1

Revenue of Yestar



Source: Company, CLSA

Figure 2

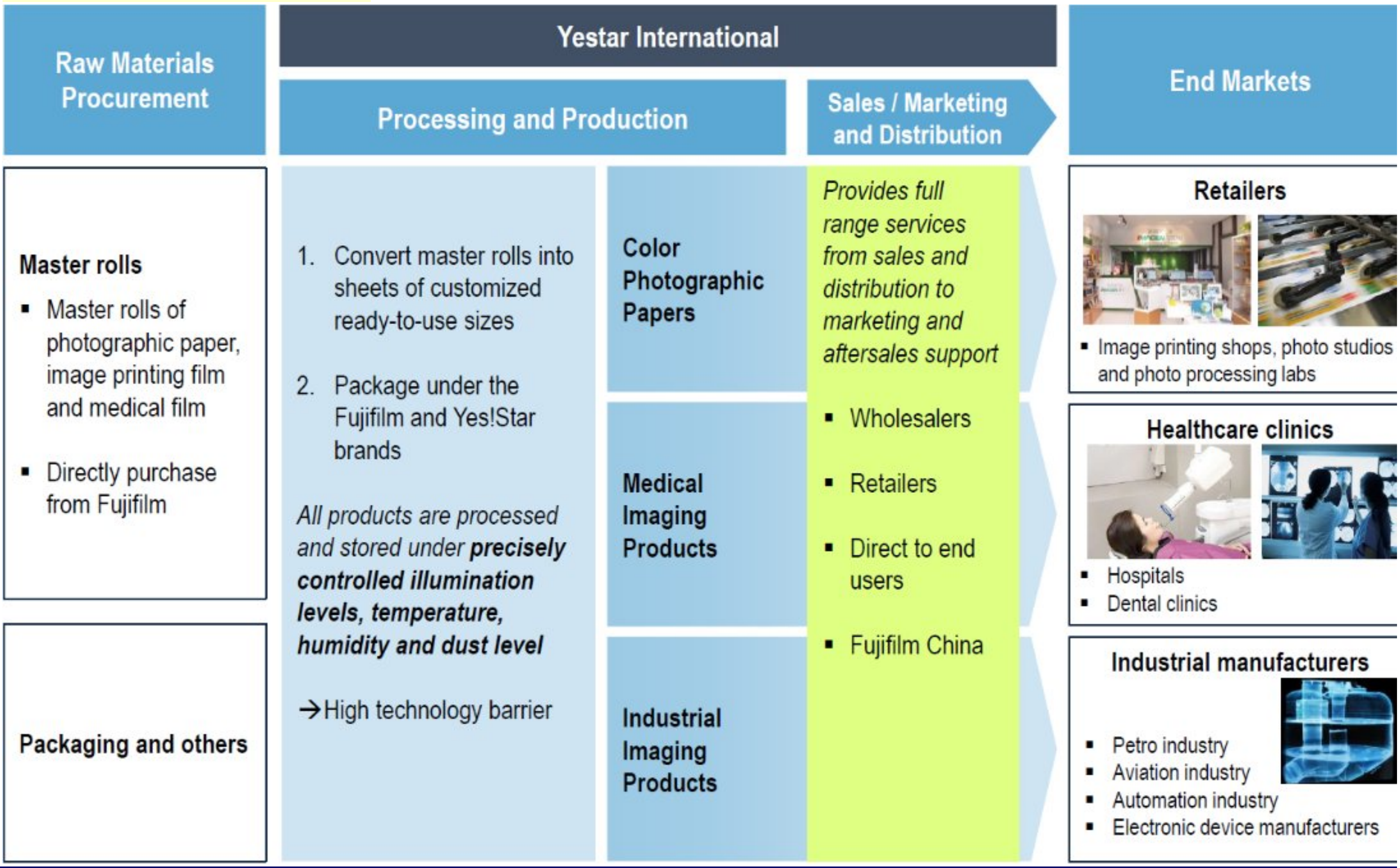
Yester's imaging products

	Approx. production capacity (m^2)	Brand	Customer	Market share	Note
Medical imaging products	13				
- Medical film		Fujifilm	Another member of Fujifilm Group	Currently c.20-22% market share (no.2)	
		Yes!Star	Hospitals, clinics and wholesalers		Started in 2H14 (medical thermal-dry film products)
- Dental film		Fujifilm	Hospitals, clinics and wholesalers		Started in 2H14
		Yes!Star	Hospitals, clinics and wholesalers	2012: c.2.5% share	
Color photographic papers	58				
- Professional		Fujifilm	Wholesalers and end users, namely, professional photo processing labs which develop photos for photo studios.	1H14: c.43% share (no.1)	
		Yes!Star			Started in Jun 2014
- Minilab		Fujifilm	Wholesalers and end users, namely, image printing shops		
Industrial imaging products	4				
- NDT X-Ray films		Fujifilm	Wholesalers and end users	2012: c.5.4% share (no.4)	
		Yes!Star	Wholesalers and end users		
- PWB films		Fujifilm	Another member of Fujifilm Group	2012: c.37.3% share (no.1)	

Source: Company

Figure 3

Yestar's business model – imaging products



Source: Company

Long history with Fujifilm in SEA

The Hartono family business. The family of the Chairman (Mr. James Hartono) cooperated with Fujifilm since 1971 in Indonesia for manufacturing and distribution of Fujifilm color photographic paper and other photo-related products, and then further expanded into Vietnam, India and Cambodia in the following years.

Yestar Shanghai was first established in 2000 by the 2nd generation of the family to engage in the imaging business in China. Yestar thus developed very strong relationship with Fujifilm as the sole and exclusive distributor of Fujifilm color photographic paper in China, exclusive processor of Fujifilm's medical films and industrial PWB films in China, and in-depth co-operation in other products.

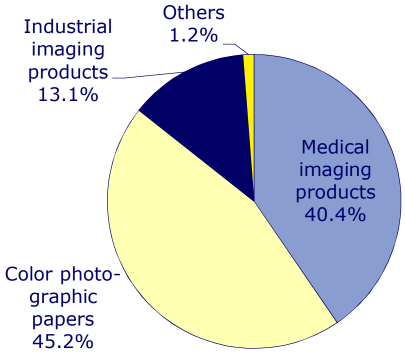
The transition

Medical imaging products became the major revenue contributor since 1H14

Color photographic products used to be the key products of Yestar in the past. Meanwhile, medical imaging products bypassed color photographic paper products and became the largest segment of the Company since 1H14.

Figure 4

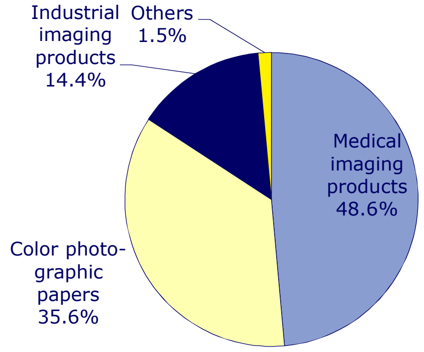
Revenue breakdown - 2013



Source: Company, CLSA

Figure 5

Revenue breakdown – 1H14



Source: Company, CLSA

Sole and exclusive distributor of Fujifilm color photographic paper in China

Color photographic products – at consolidating stage. Yestar has been the largest distributor and processor (into ready-to-use form) of Fujifilm photographic paper in China for years, with major customers including professionals and minilabs.

Mature industry but still growth potentials like demand from wedding photos and market share gain

The segment is relatively mature but there are still some growth potentials like increasing demand for wedding photos in China, and the industry consolidating is in progress, thus market share gain is also a driver. The color photographic paper industry is mainly dominated by 3 players including Fujifilm, Kodak and Lucky. Fujifilm's share increased from c.33% in 2009 to c.43% in 1H14, and the Company targets to achieve 60%. However, there are also threats like the trend of digital photos.

Growing demand for medical imaging products amid increasing health consciousness

Medical film products – major growth driver. Given the increase in health consciousness, demand for medical imaging products are increasing rapidly in China. Yestar logged a 133% segment revenue Cagr in 2010-13, the fastest among all segments. There are two major products – medical films and dental films. For medical films, there are two major types – the traditional wet films (wet processing in darkroom) and dry films which is gradually replacing the former. Fujifilm is estimated to have c.20-22% market share currently for dry film, being no.2 in the market. For dental films, Yes!Star is a relatively small player with c.2.5% market share in 2012 (vs. c.65.8% for Carestream as the no.1 player).

Selling back to Fujifilm for medical films

Yestar is the exclusive processor of Fujifilm's medical film products in China. It purchases master rolls from Fujifilm for processing, and then sell back to Fujifilm which then sells the ready-to-use products to clients like hospitals and dental clinics.

Industrial imaging product market logged strong growth in the past. Future growth mainly comes from market share gain

Industrial imaging – also maturing. The business was started in 2011 and included NDT X-Ray films (for detecting interior defects) and PWB films (photo-tooling films for production of printed circuit boards), were also growing fast with 111% segment revenue Cagr in 2011-13. For NDT X-Ray films, the market is dominated by 2 major players, namely AGFA and Carestream (Kodak), contributing c.72% of market share in 2012 vs. c.5.4% for Yes!Star. For PWB films, Fujifilm, Kodak and AGFA are the dominant players with >90% market share. Fujifilm had the largest share of c.37.3% in 2012. The industry is also maturing which is likely to be in line with the slowing industrial growth in China. Major growth driver thus comes from market share gain going forward.

Acquiring 70% of Jiangsu Uno, the medical device / consumables distribution business

M&A to bring new opportunity in medical industry. In Sep 2014 Yestar acquired 70% interest of Jiangsu Uno, which is a distributor of Roche and Becton Dickinson (BD) diagnostics products.

- Roche was founded in 1896 and is a global market leader of in vitro diagnostics (IVD) & tissue-based cancer diagnostics.
- BD, founded in 1897, manufactures and sells a broad range of medical supplies, devices, laboratory equipment and diagnostic products.

Nanjing Uno is a company owned by the seller of Jiangsu Uno (Ms. Hang), and it is the distributor of Roche and BD products since 2003 /2005 respectively. Upon the acquisition all sales contracts will be transferred to Jiangsu Uno with 180 days, and Nanjing Uno will become a secondary distributor of Jiangsu Uno until it cease operation within 1 year.

Selling products of global leading brands, Roche and BD

Jiangsu Uno has the rights to distribute Roche products in Jiangsu and Anhui, and BD products in Anhui, and is the only primary distributor in the respective regions. It will try to further expand the Anhui market by cooperating with 15 more hospitals/clinics from 74 now, and will further enlarge product portfolio (microbial testing and immunoassay product lines, and obtaining distribution rights for personalized cancer genome tests).

Profit guarantee to ensure growth

There is a profit guarantee in the M&A agreement: annual net profit of Jiangsu Uno would not be less than Rmb45/54/64m in 2014/15/16 respectively. Any shortfall would be compensated by the vendor by 2 times. Thus, the acquisition is likely to boost Yestar's growth significantly, given the attributable 2015 profit guarantee is equivalent to c.58% of Yestar's 2013 net profit / c.40% of estimated 2014 profit for the traditional imaging business.

Continue to look for more M&A opportunities

Yestar will continue to look for further M&A opportunities in the medical industry, still likely to be medical devices and consumables. This will help Yestar to achieve faster transition into medical focused enterprise, and will support further earnings growth.

Plan to expand distribution network for Jiangsu Uno

Figure 6

Jiangsu Uno's distribution channels and customers

	No. of hospitals/clinics covered		
	Jiangsu	Anhui	Plan
Direct sales	123	19	
Distributors	138 (83 distributors)	55 (31 distributors)	Add 15 distributors in Anhui

Source: Company, CLSA

Continue to look for more M&A opportunities

Key risks of the business included loss of distribution rights from Roche and BD on their products, competitions from other distributors or from other medical products, any controls on medical product prices by the government.

Traditional business – still look for growth by launching new products and market share gain

Still strive for growth for existing business. In addition to the newly acquired business, Yestar continues to look for ways to expand its existing business, especially the markets for color photographic paper and industrial imaging products are maturing: 1) launching new products and 2) gain in market share, especially for mature products like color photographic papers and industrial imaging products, and compete with peers with product quality.

Launching more products with its own brand to boost profitability

More Yes!Star branded products are being rolled out - It launched Yes!Star brand medical dry films in 2H14 and professional color photographic paper products in Jun 14 to capture opportunities in the medium end mass market. This may potentially boost margins as well, as for the case of medical films selling under Yes!Star brand would skip the step of selling back to Fujifilm but can sell directly to distributors/end users. It also launched the Fujifilm branded dental films to further expand exposure in the medical industry.

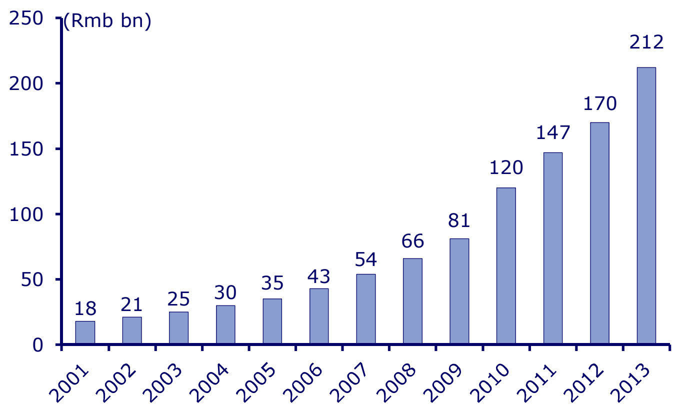
The medical device industry at a glance

PRC medical device industry achieved a 22.8% Cagr from 2001-13, momentum likely to maintain

The PRC medical device industry achieved a 22.8% Cagr from 2001-13, which is likely to maintain rapid growth in the future amid income growth and increase awareness on health. This is in line with the increasing medical awareness of the country as well as the increase in no. of hospitals / health care institutions to provide medical services to the population.

Figure 7

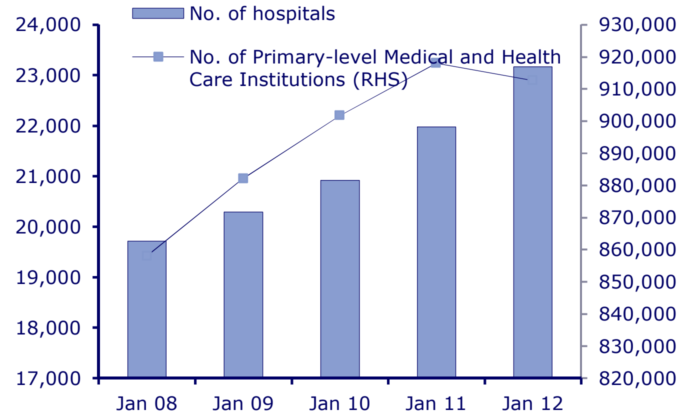
The PRC medical device industry market size



Source: Medical Device Sub-Association of China Medical Pharmaceutical Material Association

Figure 8

No .of hospitals and primary-level Medical and Health Care Institutions in China



Source: WIND

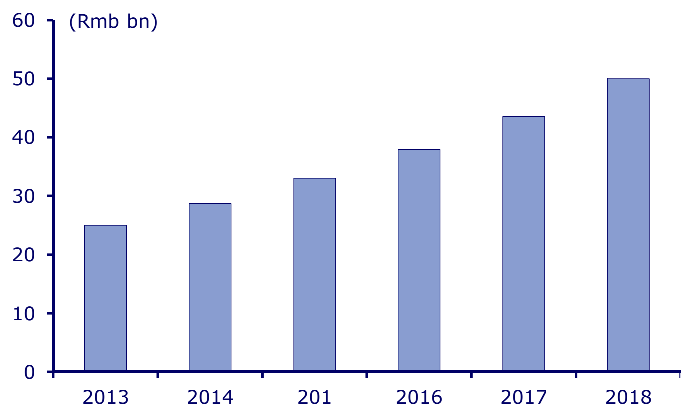
IVD products – a fast growing sub-segment in China

The IVD industry – fast growing in China. In vitro diagnostics (IVD) is a method of performing diagnostic test outside of living body in an artificial environment. This may include checking blood for signs of infections, cancer screening, prediction of treatment effectiveness, etc. They include both reagents and instruments. Most of the IVD products are regarded as medical devices in China.

According to Kalorama Information, the global IVD market was at US$54.6bn in 2013, and it forecasts a 2013-18 Cagr of c.4%. In China, the market size is approximately Rmb25bn in 2013. Renub Research estimated that by 2018 Chinese IVD market size is expected to be doubled over its market size in 2013, or c.15% Cagr.

Figure 9

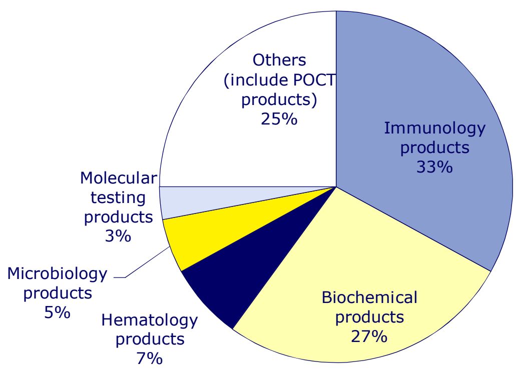
The PRC IVD industry market size



Source: CLSA

Figure 10

Breakdown of IVD market by segment in China



Source: McEvoy & Farmer, CLSA

Major IVD products can be divided into: immunology products, biochemical products, hematology products, microbiology products, molecular testing products, coagulation products, self-monitoring of blood glucose (SMBG) products, and point of care testing (POCT, or Near Patient Testing) products.

Immunology products are the larger part with faster growth. Molecular testing products and POCT products are also fast growing

In China, immunology products have the largest market share of 33% in 2011. Biochemical products came in the 2nd with 27% share. Meanwhile, biochemical products and hematology products are more common products with relatively stable growth of c.15-24% 2011-13 Cagr, while immunology products is the segment with faster growth with c.35% Cagr in 2010-13. Molecular testing products and POCT products (e.g. instruments for health monitoring at home) are smaller, fast-growing segments given increasing popularity.

Jiangsu Uno (and Nanjing Uno) mainly distributes Roche's biochemical and immunology products. The latter is likely to maintain c.25% growth going forward. Meanwhile, Roche is expanding its biochemical products manufacturing capacity and thus growth in the field is likely to accelerate in the future.

The Chinese government has been promoting the use of domestic medical products. Meanwhile, global leaders in IVD market have stronger technologies in general and they usually produce reagents and instruments at the same time (which are complementary to each other). Domestic players have lower technology in general especially in terms of R&D on instruments. Therefore, it would still take some time for domestic products to replace the imported, high quality products.

Roche - largest IVD products globally, with no.1 market share in China

Roche is the largest IVD products provider in the world, with no.1 market share in China at c.20%, with Beckman as the 2nd with c.11%, followed by players like Siemens and Abbott. Products offered by Roche include:

- blood glucose meters for people with diabetes;
- point-of-care testing devices for use in doctors' offices
- high-throughput analysers for hospitals and commercial diagnostic laboratories
- state-of-the-art instruments and reagents for life science research

Products distributed by Jiangsu Uno are high-throughput analyzers with high sensitivity and specificity for a wide range of diseases.

BD – leader in diagnostics products

BD is a leading provider of products for the safe collection and transport of diagnostic specimens. It also provides instruments and reagent systems to accurately detect a broad range of infectious diseases, healthcare-associated infections and cancers. Its microorganism diagnostic products are estimated to have >80% market share in Anhui.

It is also one of the oligopoly for flow cytometry globally. Flow cytometry is a high-end IVD product for testing of cells including size, DNAs and RNAs, antigens, etc. It is used in the diagnosis of health disorders, especially blood cancers, as well as for other applications like HIV testing. They are powerful lab instruments and become integral parts in advanced clinical laboratories in developed countries.

Figure 11

1H14 revenue of Jiangsu Uno and Nanjing Uno

Jiangsu Uno			Nanjing Uno		
By product	**Rmb '000**	**As % of total**	**By product**	**Rmb '000**	**As % of total**
			BD Microorganism Diagnostic product	7,098	4.2%
			BD medical equipment	2,036	1.2%
Roche Pathologic Diagnostic product	737	0.5%	Roche Pathologic Diagnostic product	392	0.2%
Roche Near Patient Testing product	1,979	1.3%	Roche Near Patient Testing product	720	0.4%
Roche Molecular Diagnostic product	1,050	0.7%	Roche Molecular Diagnostic product	1,357	0.8%
Roche Biochemical and Immunology Diagnostic product	141,953	90.7%	Roche Biochemical and Immunology Diagnostic product	147,693	87.8%
Roche medical equipment	963	0.6%	Roche medical equipment	868	0.5%
Others	9,841	6.3%	Others	8,067	4.8%
Total	156,523	100.0%	Total	168,231	100.0%
By customer	**Rmb '000**	**As % of total**	**By customer**	**Rmb '000**	**As % of total**
Nanjing Uno	130,041	83.1%	Ultimate customer	133,525	79.4%
Local distributors	26,482	16.9%	Local distributor	34,706	20.6%
Total	156,523	100.0%	Total	168,231	100.0%

Source: Company, CLSA

Medical business to fuel growth

Medical imaging products as the key growth driver for traditional business, fuelled by still-growing demand and increasing market share

Solid growth in the past; future relying on medical. Yester experienced rapid growth in the past few years, with 2010-13 revenue and net profit logging 30.9% and 50.0% Cagr respectively. It also announced a profit alert, saying its 2014 net profit to up not less than 40%. It was mainly driven by medical imaging products given the strong market demand, as well as Fujifilm’s increasing market share amid high product quality, and we expect this will continue to be the major growth driver for Yester’s traditional business. For color photographic papers and industrial imaging products, we expect more modest growth ahead given the already mature markets, and the growth would depend on Yester’s ability to promote Fiujifilm’s products to gain market share.

Newly acquired medical distribution business, and potentially more future M&As, as growth drivers

Besides, the newly acquired Jiangsu Uno would be consolidated into Yestar’s financials since Nov 2014, i.e. 2 month’s contribution in 2014 and full-year contribution in 2015. This, plus any future potential M&As, will become a major earnings growth driver in 2015 onwards.

Medical films have lower GPM but higher OPM compared to other imaging products

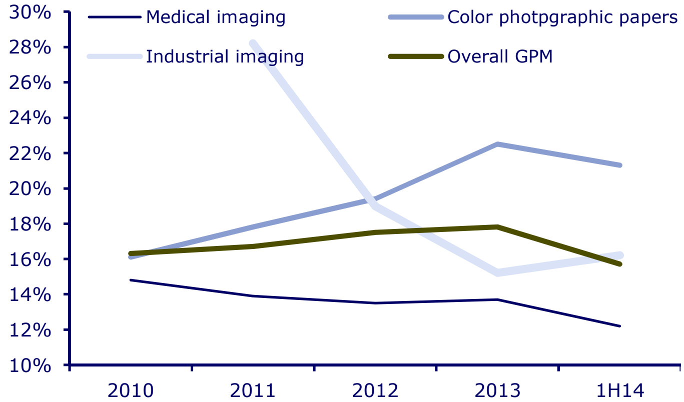
Change in product mix to affect margins. Medical films has lower GPM, at 12.2% in 1H14 (which was also affected by launch of new product) vs. 21.3% for color photographic papers given the Company only earns processing mark-ups. However, S,G&A expenses will also be lower given only single customer. Medical films had 10.9% segment operating margin in 1H14, vs. 4.8% for other segments.

Jiangsu Uno also has higher margin than the traditional business

The Jiangsu Uno acquisition is also likely to be margin accretive. It yielded 20.1%/11.8% GPM/NPM in 1H14, higher than 15.7%/5.4% for Yestar itself.

Figure 12

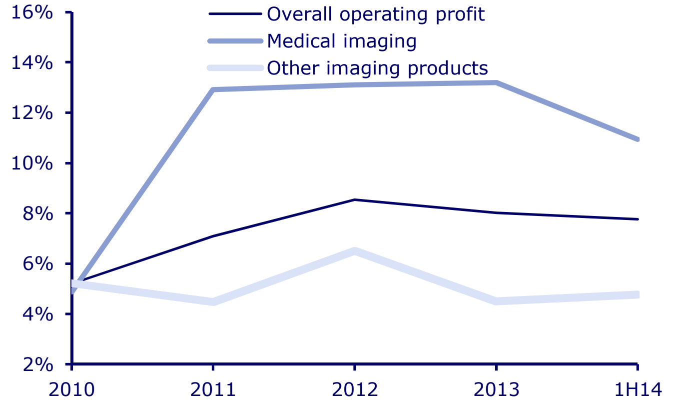
GPM trend of Yestar



Source: Company, CLSA

Figure 13

OPM trend of Yestar



Source: Company, CLSA

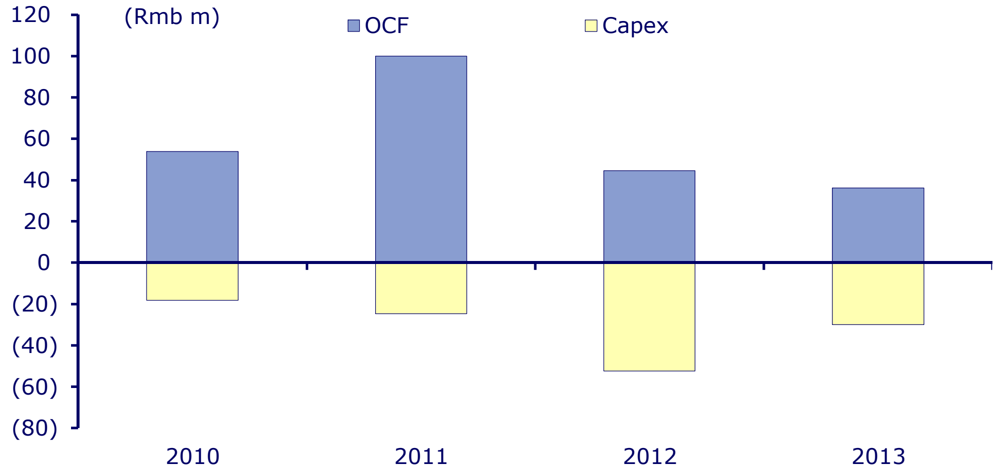
Healthy OCF, but need more funding for M&As

Healthy cash flows, gearing to rise due to acquisition. Yester has been able to maintain positive operating cash flows from its traditional film products business enough for its expansion, except in 2012 where it had higher Capex for building new production plant. Therefore, it has been maintaining positive FCF except in 2012, and net cash was at Rmb131m as at end-1H14. Meanwhile, the acquisition of Jiangsu Uno, with total consideration of Rmb245m, would likely result in more borrowings. More Capex could also be spent in the future on M&As which may require more funding.

Positive FCF except in 2012

Figure 14

Yester's OCF and Capex trend



Source: Company, CLSA

Investment view

Valuation slightly above peers, but can be supported if it can deliver its growth and M&A execution ability

Share price of Yestar experienced a significant re-rating in 2014, which was mainly due to the expectation of business transformation into medical play, as well as expectation on M&As. Our back-of-the-envelope earnings forecasts suggested the stock is now trading at 20x fwd PE, slightly above the HK/US listed Chinese medical device peers of 17x on average, but lower than the A-share peers average of 60x. Meanwhile, given its strong earnings growth profile (0.7x PEG) and further M&A potential, the stock is still interesting if it can deliver earnings and execution ability.

Our back-of-the-envelope earnings forecasts suggested 20x fwd PE

Figure 15

Back-of-the-envelope earnings forecasts - Yestar

	2013	2014	2015	2016
Revenue (Rmb m)	1,173	1,606	2,256	2,582
Net profit (Rmb m)	65	99	146	166
EPS (HK$)		0.067	0.099	0.113
Current share price (HK$)		2.01	2.01	2.01
PE (x)		30.0	20.3	17.8

Source: CLSA

Figure 16

Valuation – medical device peers

Stock	Ticker	Price (local)	Mkt Cap (USD,m)	ADTV (USD,m)	Rec	CLSA Target	Upside	12m forward valuations PE	PB	Yield	EV/Ebitda	ROE	EPS Cagr FY1-FY3	PEG	Gearing (%)	Performance (%) 1m	3m	6m	12m
Medical device plays - IVD																			
Yestar International	2393 HK	2.01	484	2.5				22.0	6.1	1.9	11.3	35	37	0.6	(25)	(3)	(15)	54	234
Mindray Medical	MR US	27.01	3,168	20.5	O-PF	31.50	17%	13.7	1.7	2.2	10.3	13	15	0.9	6	(2)	(7)	(14)	(31)
Kehua Bio-Engineering	002022 CH	22.84	1,817	49.7				27.5	6.8	1.8	20.4	25	25	1.1	(39)	(7)	(14)	(6)	36
Da An Gene	002030 CH	21.77	1,932	72.4				51.6	11.3	0.2		21	29	1.8	5	(8)	(23)	10	75
Beijing Leadman Biochemistry	300289 CH	31.49	800	9.8				34.3	4.5	0.5	23.7	13	23	1.5	(11)	(3)	12	14	(6)
Guangzhou Improve	300030 CH	13.83	661	18.1				43.6	4.8	0.1	30.5	11	46	0.9	(36)	3	(9)	21	41
Beijing Bohui Innovation Tech	300318 CH	18.10	479	4.8											(65)	(24)	(15)	(15)	26
Andon Health	002432 CH	24.93	1,499	29.5				249.3					177	1.4	(32)	(16)	(6)	17	101
Edan Instruments Inc	300206 CH	18.63	587	8.6				43.6	2.9		27.4	6	52	0.8	(78)	(10)	(23)	(6)	11
Zhejiang Dian Diagnostics	300244 CH	49.95	1,659	3.4				57.5	11.6	0.3		21	41	1.4	(41)	14	14	12	38
Livzon Pharmaceutical	000513 CH	49.39	2,175	11.9				21.7	3.2	1.7	13.2	17	22	1.0	18	1	(14)	(2)	15
Shanghai Fosun Pharmaceutical	600196 CH	21.93	8,242	114.6				18.4	2.5	1.3	25.0	14	19	1.0	15	(2)	12	17	17
Average								**53.0**	**5.5**	**1.1**	**20.2**	**18**	**44**	**1.1**	**(24)**				
Medical device plays - others																			
Microport Scientific	853 HK	3.22	591	0.7				18.1	1.5	1.9	11.0	8	132	0.1	(38)	(9)	(20)	(36)	(41)
Shandong Weigao	1066 HK	5.94	3,429	7.7				17.6	2.0	1.5	11.8	11	17	1.1	(26)	(5)	(21)	(27)	(41)
PW Medtech	1358 HK	3.27	707	2.8				14.3	1.8		8.9	15	45	0.3	(55)	(5)	(29)	(19)	(14)
Blue Sail Medical	002382 CH	17.81	691	7.8											24	(18)	(26)	(8)	51
Edan Instruments	300206 CH	18.63	587	8.6				43.6	2.9		27.4	6	52	0.8	(78)	(10)	(23)	(6)	11
Guangdong Biolight Meditech	300246 CH	22.71	536	12.9				65.8	7.3	0.3		11	34	1.9	(59)	(16)	(35)	(4)	27
Average								**31.9**	**3.1**	**1.2**	**14.8**	**10**	**56**	**0.9**	**(39)**				
Overall average								**46.8**	**4.8**	**1.1**	**18.5**	**15**	**48**	**1.1**	**(28)**				
Overall average - HK/US peers								**17.1**	**2.6**	**1.9**	**10.6**	**17**	**49**	**0.6**	**(28)**				
Overall average - A-shares								**59.7**	**5.8**	**0.8**	**23.9**	**14**	**47**	**1.3**	**(29)**				

Source: Bloomberg, CLSA

evalu@tor The Global Equities Database

Summary financials

Year to 31 December	2010A	2011A	2012A	2013A
Summary P&L (RMBm)				
Revenue	523	977	956	1,173
Op Ebitda	32	76	87	108
Op Ebit	22	66	77	94
Interest income	0	0	4	1
Interest expense	(3)	(4)	(3)	(6)
Other items	8	6	4	4
Profit before tax	27	69	82	94
Taxation	(6)	(21)	(24)	(28)
Minorities/Pref divs	(2)	(1)	(2)	(0)
Net profit	19	47	57	65
Summary cashflow (RMBm)				
Operating profit	30	73	84	99
Operating adjustments	0	4	(3)	0
Depreciation/amortisation	9	10	10	13
Working capital changes	16	23	(26)	(34)
Net interest/taxes/other	(2)	(10)	(21)	(43)
Net operating cashflow	54	100	45	36
Capital expenditure	(18)	(25)	(52)	(30)
Free cashflow	36	75	(8)	6
Acq/inv/disposals	-	-	-	-
Others	(5)	(8)	31	3
Net investing cashflow	(24)	(33)	(22)	(27)
Increase in loans	(5)	10	(2)	72
Dividends	-	-	-	(81)
Net equity raised/other	2	(4)	(3)	123
Net financing cashflow	(2)	6	(4)	114
Incr/(decr) in net cash	28	74	18	123
Exch rate movements	-	-	-	(1)
Opening cash	41	69	142	160
Closing cash	69	142	160	283
Summary balance sheet (RMBm)				
Cash & equivalents	69	147	163	286
Debtors	12	37	101	17
Inventories	143	133	178	273
Other current assets	54	85	26	29
Fixed assets	57	53	96	104
Intangible assets	4	3	3	3
Other term assets	2	19	21	24
Total assets	339	476	587	736
Short-term debt	20	47	25	117
Creditors	102	184	244	215
Other current liabs	65	59	139	48
Long-term debt/CBs	17	-	20	-
Provisions/other LT liabs	2	5	10	13
Minorities/other equity	22	23	9	9
Shareholder funds	111	158	140	333
Total liabs & equity	339	476	587	736
Ratio analysis				
Revenue growth (% YoY)	NA	86.8	(2.2)	22.8
Ebitda growth (% YoY)	NA	141.6	13.7	24.0
Ebitda margin (%)	6.0	7.8	9.1	9.2
Net profit margin (%)	3.7	4.8	5.9	5.5
Dividend payout (%)	-	-	-	123.8
Effective tax rate (%)	20.3	30.3	28.9	30.2
Ebitda/net int exp (x)	12.3	23.1	(124.3)	23.9
Net debt/equity (%)	(28.4)	(63.1)	(84.1)	(50.8)
ROE (%)	NA	35.1	37.9	27.5
ROIC (%)	17.0	53.2	131.7	35.2

Source: Company

10 things you need to know

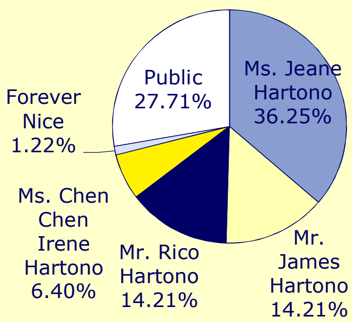
1. Company profile and history

- Yestar is a leading processor and distributor of Fujifilm products in China, including medical imaging products (48.6% of 1H14 revenue), color photographic papers (to Professionals / Minilabs, 35.6%), industrial imaging products (NDT X-Ray films and PWB films, 14.4%) and others.
- The Chairman's (Mr. James Hartono) family cooperated with Fujifilm since 1971 in SEA countries like Indonesia, Vietnam, India and Cambodia. They started business in the China market since 2000 with Yestar as the platform.
- Leverage on its experience and relationships for medical imaging products, the Company expanded its businesses in the medical device/consumable field via recent acquisition to capture this rapidly growing market.

2. How does the company make money?

- It purchases master rolls of photographic paper, image printing film and medical film directly from Fujifilm for processing, and sells back to Fujifilm China or to wholesalers / retailers / end users.
- Most of the products sold are in two brand names – Fujifilm as higher end products and Yes!Star brand as medium level products.
- Fujifilm branded medical films and PWB films will be selling back to Fujifilm, which have lower GPM (e.g. 12.2% for medical film in 1H14 vs. 21.3% for color photographic papers) but S,G&A expenses will also be lower given only single customer.

3. Ownership structure



4. Management/board composition/auditor

- The group was established in 2000 as the Hartono family's platform to develop China market.
- The 4 major shareholders, Ms. Jeane Hartono, Mr. James Hartono, Mr. Rico Hartono and Ms. Chen Chen Irene Hartono are all siblings. Meanwhile, only James is in the board as Chairman, CEO and ED. The board is composed of 9 members including the Chairman, 5 EDs and 3 INEDs.
- Auditor: Ernst & Young.

5. Capital-raising history

- The Company was listed via IPO in Oct 2013 with offering price of HK$1.38 (before the 4:1 stock split in Dec 14).
- Previous funding mainly from operating cash inflow and bank borrowings.

6. Dividend history

- The Company logged a payout ratio of 50% in 2013.
- The board intends to hold not less than 35% payout ratio thereafter.

7. Cashflow

- Yestar generated +ve operating cashflows in the past 4 years of financial records available, which have been more than enough to cover investing cash outflows in the corresponding years except 2012.
- More Capex were spent on M&A (mainly funded by IPO proceeds, internal cash and borrowings) in 2014 and possibly in the future.

8. Key things to note in the accounts

- Medical imaging products has lower GPM but higher OPM than other products, thus increasing proportion of medical imaging products in sales mix will dilute overall GPM but support OPM.
- Yester sells products to customers mainly on cash before delivery, with some outstanding receivables from Fujifilm.

9. Key strengths

- The Company has been a leading player in the color photographic paper market in China with a market share of c.43%.
- Very strong relationship with Fujifilm as the sole and exclusive distributor of Fujifilm color photographic paper in China, exclusive processor of Fujifilm's medical films and industrial PWB films in China, and in-depth co-operation in other products.
- Strong sales and distribution network in China with 18 representative offices across China.

10. Key risks

- Any change in its relationship with Fujifilm may affect its business performance.
- Weaker-than-expected performance of the newly acquired medical device/consumable distribution businesses.
- Faster-than-expected slowdown of the color photographic paper industry.

Companies mentioned

Yestar (N-R)

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