

Yestar International

Bloomberg: 2393 HK Equity | Reuters: 2393.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 July 2015

BUY

Last Traded Price: HK\$3.48 (HSI : 26,250)

Price Target : HK\$ 4.27 (23% upside) (Prev HK\$3.18)

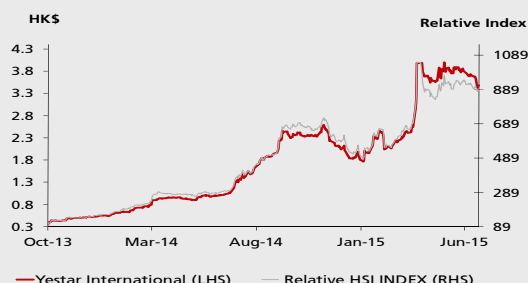
Potential Catalyst: M&A

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	0.17	0.20
EPS Gth (%)	21.4	62.8	50.5	19.3
Diluted EPS (HK\$)	0.07	0.11	0.17	0.20
DPS (HK\$)	0.03	0.05	0.08	0.10
BV Per Share (HK\$)	0.21	0.68	0.80	0.91
PE (X)	51.6	31.7	21.1	17.6
P/Cash Flow (X)	45.2	20.9	17.2	16.0
P/Free CF (X)	49.7	21.7	17.5	16.2
EV/EBITDA (X)	30.8	16.5	10.6	8.8
Net Div Yield (%)	1.0	1.5	2.4	2.8
P/Book Value (X)	16.5	5.1	4.4	3.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	31.1	23.6	22.4	23.1

Earnings Rev (%)		19	61	59
Consensus EPS (RMB)		0.09	0.10	0.13
Other Broker Recs:		B: 2	S: 0	H: 0

ICB Industry: Industrials

ICB Sector: Support Services

Principal Business: Healthcare

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

Speeding up growth

- Issuance of new shares to raise HK\$939m
- Proceeds to be used to acquire an in-vitro diagnostic device distributor that can accelerate expected EPS CAGR (2014-17F) from 29% previously to 43%
- We believe Yestar is in talks with other M&A targets. Successful M&A could further speed up earnings growth
- Maintain BUY with new TP of HK\$4.27

Issuance of new shares. Yestar announced to issue 320m of new shares at HK\$3ps to raise HK\$939m (c.Rmb751m) from 18 subscribers, including OrbiMed (assets under management: US\$15bn), Vivo Capital (assets under management: US\$1.7bn), World Healthcare Trust, and China Asset Management Co. The total number of shares will increase from 1.868bn to 2.188bn (up 17%).

The issuance can accelerate EPS growth. The proceeds will be mainly used to finance the acquisition announced on 10 Apr 2015 (70% stake in a distributor for Roche's [ROG VX] in-vitro diagnostic ["IVD"] devices in Shanghai; total consideration is Rmb910m, guaranteed profit by the vendors in 2015/16/17 are Rmb156m/187m/225m). The acquisition will enlarge Yestar's distribution network of IVD devices from only Jiangsu & Anhui provinces to Shanghai. An enlarged network will result in better economies of scales of the IVD business and attract other international IVD companies to co-operate with Yestar. Taking into account the guaranteed profit, the related interest costs, and the issuance of new shares, the estimated EPS growth in 2015/16/17 will be accelerated to 63/51/19% (from previously 49/20/21%), implying that EPS CAGR in the same period will increase from 29% to 43%. We believe Yestar is in talks with other M&A targets. The proceeds will strengthen Yestar's balance sheet (estimated net cash as of Dec 2015: Rmb29m). We believe it can finance future M&A without equity financing and diluting shareholdings. Its EPS growth could further accelerate upon future successful M&A.

Maintain BUY. In view of strong EPS growth and M&A opportunity ahead, we maintain BUY. Our previous TP was based on 31x 15F PE. We now roll it over to a 12-month forward PE which derives a new TP of HK\$4.27.

At A Glance

Issued Capital (m shrs)	1,868 (2188m*)
Mkt. Cap (HK\$m/US\$m)	6,508 / 839
Major Shareholders	
Hartono family (%)	71.1 (60.7*)
Free Float (%)	28.9 (39.3*)
3m Avg. Daily Val. (US\$m)	2.6

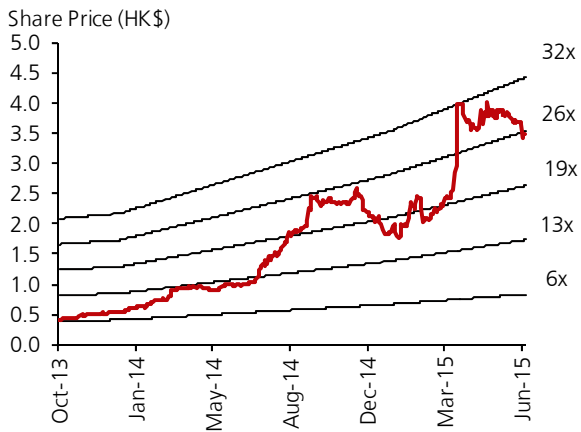
*After issuance of new shares

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>

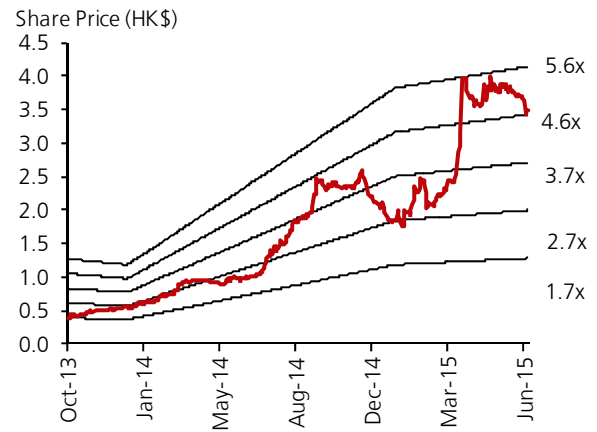
Source: DBS Vickers

PE band chart



Source: Thomson Reuters, DBS Vickers

PB band chart



Source: Thomson Reuters, DBS Vickers

Company Focus

Yestar International

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 x	16F x	15F %	16F %	15F x	16F x	15F x	16F x	15F %	16F %	
Medical imaging														
Yestar Int'l*	2393 HK	HKD	3.48	838	31.7	21.1	1.5	2.4	5.1	4.4	16.5	10.6	23.6	22.4
Mindray Med.Intl	MR US	USD	28.28	0	17.2	15.4	1.5	1.6	1.9	1.7	11.6	10.5	11.3	11.4
CR Wandong Medical 'A'	600055 CH	CNY	45.41	1,583	200.9	127.2	0.0	0.0	13.8	12.5	n.a.	n.a.	5.9	9.9
Edan Instruments 'A'	300206 CH	CNY	28.82	1,086	125.3	81.6	0.3	0.5	5.6	5.4	n.a.	n.a.	3.5	5.1
Wuhan Guide Infrared 'A'	002414 CH	CNY	39.38	3,806	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	26.7	1,600	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	39.6	932	101.0	75.7	0.3	n.a.	12.8	11.2	n.a.	n.a.	9.8	11.8
CR Wandong Medical 'A'	600055 CH	CNY	45.41	1,583	200.9	127.2	0.0	0.0	13.8	12.5	n.a.	n.a.	5.9	9.9
Edan Instruments 'A'	300206 CH	CNY	28.82	1,086	125.3	81.6	0.3	0.5	5.6	5.4	n.a.	n.a.	3.5	5.1
Shenzhen Glory Med.'A'	002551 CH	CNY	39.15	2,289	88.0	60.9	n.a.	n.a.	9.2	7.9	n.a.	n.a.	11.4	14.7
Beijing Bohui Innovation 'A'	300318 CH	CNY	43.9	1,158	116.4	115.5	n.a.	n.a.	n.a.	n.a.	315.0	147.8	3.4	5.1
JS Yuyue Mdeqt.& Supp.'A'	002223 CH	CNY	67.2	6,329	101.1	79.0	0.2	0.2	18.7	15.2	82.0	64.6	18.4	19.7
Zhuhai Hokai Med.Insts. 'A'	300273 CH	CNY	27.5	3,294	57.3	40.0	0.2	0.3	13.1	10.1	45.0	30.9	23.8	26.4
Truking Technology 'A'	300358 CH	CNY	44.44	1,672	58.6	40.6	0.3	0.4	8.3	5.7	n.a.	n.a.	20.6	21.6
Shinva Med.Instm. 'A' Susp	-600587 CH	CNY	58.63	3,838	55.5	43.2	0.2	0.3	7.1	6.1	32.4	27.3	12.9	14.6
Sinocare 'A'	300298 CH	CNY	34.96	1,469	37.7	30.0	0.9	1.0	6.5	5.8	33.0	32.2	18.2	19.0
Shanghai Tofflon Sctc. 'A'	300171 CH	CNY	27.6	2,822	40.9	33.7	0.9	1.2	5.7	4.9	48.9	40.8	14.3	15.2
Pw Medtech Group	1358 HK	HKD	2.93	632	15.6	12.4	0.6	0.9	1.7	1.5	n.a.	n.a.	11.9	13.2
Microport Scientific*	853 HK	HKD	3.82	702	n.a.	91.2	0.0	0.0	2.2	2.1	109.9	21.7	(7.5)	2.4
Shandong Weigao*	1066 HK	HKD	5.79	3,343	18.7	16.6	1.6	1.8	2.0	1.8	12.1	10.6	10.8	11.3
Lifetech Scientific	1302 HK	HKD	2.22	1,145	82.2	44.4	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	87.49	3,802	127.5	89.4	0.2	0.3	22.5	17.7	n.a.	n.a.	22.5	24.7
GZ Improve Medical 'A'	300030 CH	CNY	27.34	1,303	100.9	85.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sinocare 'A'	300298 CH	CNY	34.96	1,469	37.7	30.0	0.9	1.0	6.5	5.8	33.0	32.2	18.2	19.0
Beijing Bohui Innovation 'A'	300318 CH	CNY	43.9	1,158	116.4	115.5	n.a.	n.a.	n.a.	n.a.	315.0	147.8	3.4	5.1
Beijing Leadman Bcm.'A'	300289 CH	CNY	48	1,219	46.5	40.7	0.5	0.4	6.7	5.8	n.a.	n.a.	13.8	14.7
Dirui Industrial 'A'	300396 CH	CNY	42.75	1,056	50.9	40.0	n.a.	n.a.	6.4	5.5	n.a.	n.a.	12.7	13.9
Da An Gene Of Sun Yat 'A'	002030 CH	CNY	39.87	4,232	137.0	110.4	0.0	0.1	25.4	20.7	n.a.	n.a.	18.4	18.9
Shanghai Kehua Bio 'A'	002022 CH	CNY	38.39	3,169	52.4	43.3	0.8	1.0	11.9	9.7	54.6	46.4	23.4	23.5
Wuhan Humanwell 'A'	600079 CH	CNY	36.93	3,825	35.4	28.0	0.7	0.9	3.5	3.0	15.1	13.3	10.4	11.7
Shinva Medical 'A'	600587 CH	CNY	58.63	3,838	55.5	43.2	0.2	0.3	7.1	6.1	32.4	27.3	12.9	14.6
Biosino Biotech 'H'	8247 HK	HKD	5.09	86	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

Key Assumptions

Sensitivity Analysis

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

	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
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

Company Focus

Yestar International

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

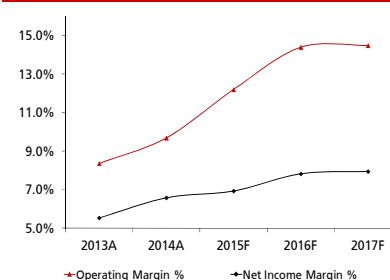
Source: Company, DBS Vickers

Interim Income Statement (RMB m)

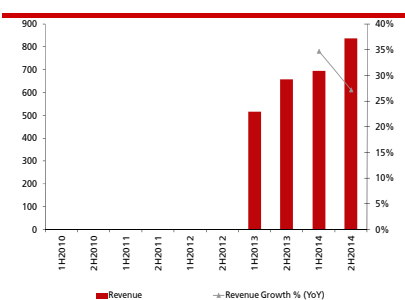
FY Dec	1H2013	2H2013	1H2014	2H2014
Revenue	515	658	694	837
Cost of Goods Sold	(426)	(538)	(585)	(683)
Gross Profit	89	120	109	154
Other Oper. (Exp)/Inc	(45)	(66)	(55)	(60)
Operating Profit	44	54	54	95
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	(2)	(3)	0	(1)
Exceptional 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

Margins Trend



Revenue Trend

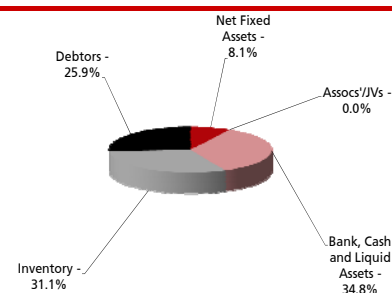


Balance Sheet (RMB m)

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

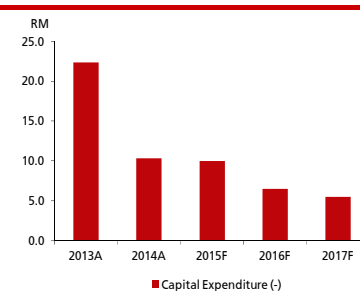


Cash Flow Statement (RMB m)

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

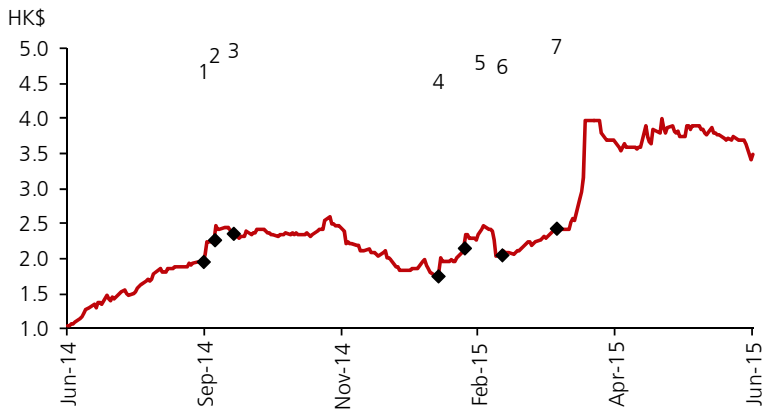
Capital Expenditure



Company Focus

Yestar International

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

Source: DBS Vickers

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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Company Focus


Yestar International

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