

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

17 March 2015

BUY HK\$2.43 HSI : 23,950

Price Target: 12-Month HK\$3.18

Reason for Report : Business development update

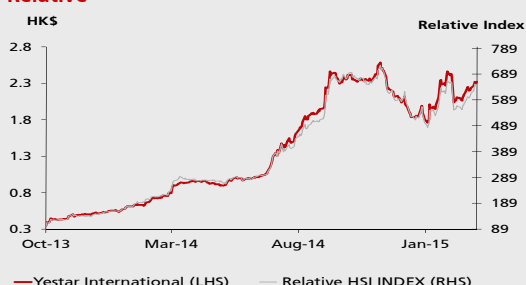
Potential Catalyst: M&A

DBSV vs Consensus: Inline

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2014A	2015F	2016F	2017F
Turnover	1,531	2,236	2,579	2,995
EBITDA	166	260	322	377
Pre-tax Profit	147	238	284	344
Net Profit	101	150	180	218
Net Pft (Pre Ex)	101	150	180	218
EPS (RMB)	0.05	0.08	0.10	0.12
EPS (HK\$)	0.07	0.10	0.12	0.14
EPS Gth (%)	21.4	48.9	19.6	21.1
Diluted EPS (HK\$)	0.07	0.10	0.12	0.14
DPS (HK\$)	0.03	0.05	0.06	0.07
BV Per Share (HK\$)	0.21	0.28	0.35	0.43
PE (X)	36.3	24.4	20.4	16.8
P/Cash Flow (X)	75.3	24.4	17.9	14.9
P/Free CF (X)	nm	132.3	18.5	15.2
EV/EBITDA (X)	21.5	13.9	11.0	9.1
Net Div Yield (%)	1.4	2.1	2.5	3.0
P/Book Value (X)	11.6	8.8	7.0	5.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	31.1	41.1	38.4	37.3
Earnings Rev (%):		Nil	Nil	New
Consensus EPS (RMB)		0.08	0.10	n.a.
Other Broker Recs:		B: 2	S: 0	H: 1

ICB Industry: Industrials

ICB Sector: Support Services

Principal Business: Healthcare

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

Strong growth ahead from in-vitro diagnostic business

- FY14 earnings in line with our estimates
- Expect 49% EPS growth in 2015, mainly driven by in-vitro diagnostic (IVD) business
- Potential M&A to accelerate earnings growth
- Maintain BUY with TP unchanged at HK\$3.18

FY14 earnings in line. FY14 earnings of Rmb101m (+55%) were in line with our estimates. Excluding IPO expenses incurred in FY13, FY14 core profits grew 25%, driven by 1) 31% higher sales on market share gains in medical film (+4ppts to 22%) and color photographic paper (+10ppts to 55%); 2) 0.9ppt drop in selling & admin cost as a % of sales to 7.6%. Final DPS was 55% higher to HK\$0.034.

IVD business to drive 49% EPS growth in 2015. In 4Q14, Yestar acquired a 70% stake in Jiangsu Uno, a distributor of Roche (ROG VX) IVD devices in Jiangsu & Anhui provinces. We estimate it made >Rmb45m in profit in 2014. By increasing its coverage of hospitals in Anhui, we believe Jiangsu Uno can achieve >20% earnings CAGR in 2014-16F, and contribute earnings of Rmb30m to Yestar in FY15F, making up 61% of FY15F earnings growth. Further market share gains in color photographic paper & medical film industry (4-7ppts) by leveraging on its cost advantage should contribute rest of the growth. The above factors will continue to drive earnings growth of 20% p.a. in FY16-17F.

Potential M&A to accelerate EPS growth. In Jan, Yestar announced a potential acquisition of another IVD device distributor. We believe the due diligence process has started. With net cash of c.Rmb94m (end-Dec 14), Yestar should have enough financial resources for the acquisition. Successful M&As could accelerate earnings growth.

Maintain BUY. With 29% earnings CAGR (2014-17F) and possible acceleration in earnings growth due to M&A, we maintain BUY with TP unchanged at HK\$3.18 (based on 31x 15F PE, pegged to the sector average in HK and Mainland market).

At A Glance

Issued Capital (m shrs)	1,868
Mkt. Cap (HK\$m/US\$m)	4,538 / 584
Major Shareholders	
Hartono family (%)	71.1
Free Float (%)	28.9
Avg. Daily Vol. ('000)	4,248

Company Focus

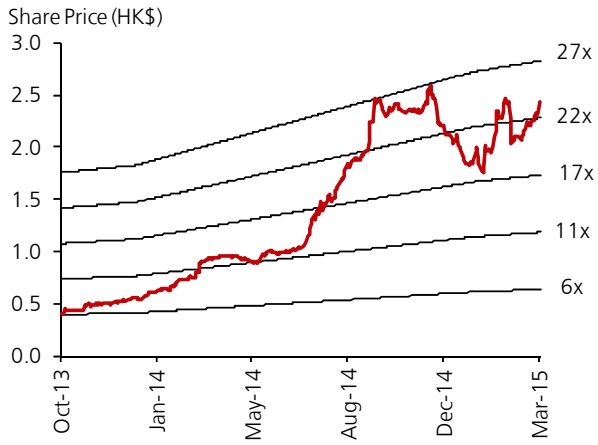
Yestar International

INVESTMENT THESIS

Profile	Rationale
A medical film and color photographic paper maker. An in-vitro diagnostic devices distributor.	<p>Overall demand growth of medical film and color photographic paper</p> <ul style="list-style-type: none">We expect 11% for medical film and 5% for color photographic paper. <p>Market share gain</p> <ul style="list-style-type: none">It targets to increase their market share in medical film and color photographic paper from 18% & 43% in 1H14 to 35% & 65% within 2 years. <p>In-vitro diagnostic business to drive earnings growth</p> <ul style="list-style-type: none">On 12 Sep, Yestar already announced to acquire a distributor of Roche (ROG VX) in-vitro diagnostic products. We expect the business will be a new driver for earnings in 2015 and 2016. <p>More acquisitions to come</p> <ul style="list-style-type: none">After the acquisition of in-vitro diagnostic business in 2H14, we believe Yestar is still in talk with 2-3 M&A targets. Successful M&A could be a major catalyst for share price.
Valuation	Risks
BUY. TP of HK\$3.18 pegged to sector average 15F PE of 31x	<p>Slower M&A</p> <ul style="list-style-type: none">M&A progress slower than expected creates downside risk for earnings growth. <p>Price cut</p> <ul style="list-style-type: none">Price cut in medical film and color photographic paper creates gross margin pressure

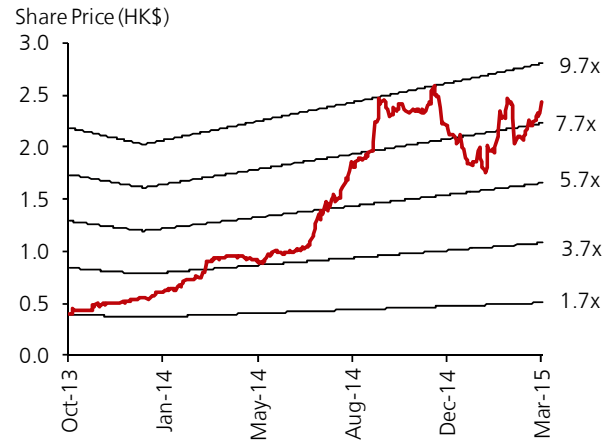
Source: DBS Vickers

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	2.43	584	24.4	20.4	2.1	2.5	8.8	7.0	13.9	11.0	41.1	38.4
Mindray Med.Intl	MR US	USD	26.64	3,152	14.8	13.5	1.7	1.8	1.7	1.5	10.3	9.4	11.9	11.8
CR Wandong Medical 'A'	600055 CH	CNY	24.63	852	88.6	79.5	n.a.	n.a.	7.1	6.6	n.a.	n.a.	7.1	8.1
Edan Instruments 'A'	300206 CH	CNY	25.24	786	73.6	70.1	0.4	0.8	4.1	4.0	n.a.	n.a.	3.6	5.7
Wuhan Guide Infrared 'A'	002414 CH	CNY	24.71	2,368	124.2	70.4	n.a.	n.a.	5.8	5.4	n.a.	n.a.	5.4	7.7
Medical Devices														
Andon Health 'A'	002432 CH	CNY	35.4	2,104	153.9	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	33.9	791	87.4	67.8	0.3	n.a.	11.0	9.6	n.a.	n.a.	11.7	15.0
CR Wandong Medical 'A'	600055 CH	CNY	24.63	852	88.6	79.5	n.a.	n.a.	7.1	6.6	n.a.	n.a.	7.1	8.1
Edan Instruments 'A'	300206 CH	CNY	25.24	786	73.6	70.1	0.4	0.8	4.1	4.0	n.a.	n.a.	3.6	5.7
Shenzhen Glory Med.'A'	002551 CH	CNY	29.05	1,683	59.9	46.9	n.a.	n.a.	6.9	6.1	n.a.	n.a.	15.1	16.6
Beijing Bohui Innovation 'A'	300318 CH	CNY	24.74	648	48.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
JS Yuyue Mdeqt.& Supp.'A'	002223 CH	CNY	31.75	2,696	40.3	32.8	0.6	0.6	7.9	6.4	30.5	25.2	19.4	20.0
Zhuhai Hokai Med.Insts. 'A'	300273 CH	CNY	27.96	2,555	43.3	31.1	0.7	0.9	9.6	7.6	30.2	21.2	24.1	26.8
Truking Technology 'A'	300358 CH	CNY	64.87	1,210	45.8	31.6	0.5	n.a.	5.3	8.9	n.a.	n.a.	27.3	24.6
Shinva Med.Instm. 'A'	600587 CH	CNY	40.1	2,604	35.2	27.2	0.3	0.4	4.9	4.1	18.5	16.1	15.7	17.2
Sinocare 'A'	300298 CH	CNY	48.44	1,548	37.6	32.0	0.9	1.1	6.1	6.1	n.a.	n.a.	19.2	19.9
Shanghai Tofflon Sctc. 'A'	300171 CH	CNY	39.29	1,992	31.8	26.7	1.1	1.3	4.2	3.7	12.7	10.4	13.5	14.3
Pw Medtech Group	1358 HK	HKD	2.95	636	12.8	10.3	0.8	0.0	1.6	1.4	n.a.	n.a.	14.2	15.5
Microport Scientific*	853 HK	HKD	3.67	672	23.7	15.3	0.0	0.0	1.6	1.4	14.7	10.5	6.9	9.9
Shandong Weigao*	1066 HK	HKD	5.99	3,453	20.3	18.2	1.5	1.7	2.1	1.9	12.5	11.0	10.5	10.9
Lifetech Scientific	1302 HK	HKD	1.42	731	54.6	24.9	0.0	0.0	n.a.	n.a.	n.a.	n.a.	33.9	46.5
China in-vitro diagnostic industry players														
ZJ Da Diagnostics 'A'	300244 CH	CNY	82.7	2,716	93.7	65.9	0.3	0.4	12.4	9.6	n.a.	n.a.	19.7	21.2
GZ Improve Medical 'A'	300030 CH	CNY	16.89	799	50.3	29.6	n.a.	n.a.	5.6	5.0	n.a.	n.a.	9.3	11.5
Sinocare 'A'	300298 CH	CNY	48.44	1,548	37.6	32.0	0.9	1.1	6.1	6.1	n.a.	n.a.	19.2	19.9
Beijing Bohui Innovation 'A'	300318 CH	CNY	24.74	648	48.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Beijing Leadman Bcm.'A'	300289 CH	CNY	36.6	922	35.8	31.7	0.8	0.5	5.0	4.3	n.a.	n.a.	13.0	13.9
Dirui Industrial 'A'	300396 CH	CNY	96.3	944	49.1	41.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Da An Gene Of Sun Yat 'A'	002030 CH	CNY	39.18	3,437	109.7	93.3	0.1	0.1	21.0	17.3	n.a.	n.a.	19.0	19.0
Shanghai Kehua Bio 'A'	002022 CH	CNY	30.86	2,427	37.2	30.8	1.3	2.0	9.3	7.7	25.3	19.7	25.1	25.9
Wuhan Humanwell 'A'	600079 CH	CNY	31.9	2,695	28.3	22.8	0.6	0.5	3.0	2.6	12.0	10.5	10.9	11.6
Shinva Medical 'A'	600587 CH	CNY	40.1	2,604	35.2	27.2	0.3	0.4	4.9	4.1	18.5	16.1	15.7	17.2
Biosino Biotech 'H'	8247 HK	HKD	2.8	47	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	702.8	20.0	20.0
SG&A % in total sales	10.0	7.9	8.0	7.6	7.6

		2015F
Medical film gross margin +/- 1ppt	Net Profit +/-	3.5%
Color photographic paper gross margin +/- 1ppt	Net Profit +/-	2.9%

Segmental Breakdown (RMB m)

FY Dec	2013A	2014E	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	550	660	792
Others	168	204	244	293	352
Total	1,173	1,531	2,236	2,579	2,995
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	132	158	198
Others	25	36	44	52	63
Total	209	263	415	481	570
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	24.0	24.0	25.0
Others	15.0	17.9	17.9	17.9	17.9
Total	17.8	17.2	18.6	18.6	19.0

Source: Company, DBS Vickers

Company Focus

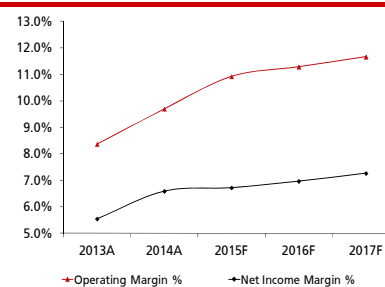
Yestar International

Income Statement (RMB m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenue	1,173	1,531	2,236	2,579	2,995
Cost of Goods Sold	(964)	(1,268)	(1,820)	(2,098)	(2,424)
Gross Profit	209	263	415	481	570
Other Opg (Exp)/Inc	(111)	(115)	(171)	(190)	(221)
Operating Profit	98	148	244	291	349
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(5)	(1)	(6)	(7)	(6)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	94	147	238	284	344
Tax	(28)	(44)	(71)	(85)	(103)
Minority Interest	0	(3)	(16)	(19)	(23)
Preference Dividend	0	0	0	0	0
Net Profit	65	101	150	180	218
Net Profit before Except.	65	101	150	180	218
EBITDA	112	166	260	322	377
Growth					
Revenue Gth (%)	22.8	30.5	46.0	15.3	16.1
EBITDA Gth (%)	22.7	49.0	56.3	23.8	17.0
Opg Profit Gth (%)	21.4	51.2	64.4	19.2	20.0
Net Profit Gth (%)	15.1	55.1	48.9	19.6	21.1
Margins & Ratio					
Gross Margins (%)	17.8	17.2	18.6	18.6	19.0
Opg Profit Margin (%)	8.4	9.7	10.9	11.3	11.7
Net Profit Margin (%)	5.5	6.6	6.7	7.0	7.3
ROAE (%)	27.5	31.1	41.1	38.4	37.3
ROA (%)	9.8	10.9	11.8	11.8	12.5
ROCE (%)	20.2	18.3	21.7	21.0	22.1
Div Payout Ratio (%)	50.2	50.0	50.0	50.0	50.0
Net Interest Cover (x)	21.8	106.8	38.5	42.2	62.9

Source: Company, DBS Vickers

Margins Trend

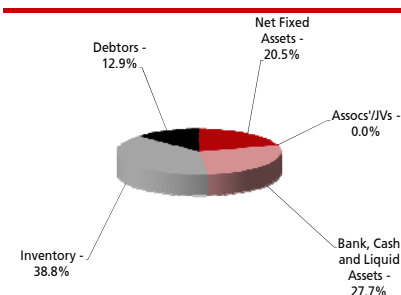


Balance Sheet (RMB m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	104	104	213	184	159
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	26	360	358	356	353
Cash & ST Invt	287	199	291	404	545
Inventory	273	327	402	490	569
Debtors	17	105	134	168	195
Other Current Assets	28	23	23	23	23
Total Assets	736	1,118	1,421	1,624	1,843
ST Debt	117	102	108	108	108
Creditors	215	283	347	425	494
Other Current Liab	48	167	167	167	167
LT Debt	0	5	122	122	122
Other LT Liabilities	13	237	237	237	237
Shareholder's Equity	333	316	415	520	648
Minority Interests	9	9	26	45	68
Total Cap. & Liab.	736	1,118	1,421	1,624	1,843
Non-Cash Wkg. Capital	55	5	46	88	125
Net Cash/(Debt)	170	93	61	174	315
Debtors Turn (avg days)	18.3	14.5	19.5	21.4	22.1
Creditors Turn (avg days)	88.2	72.7	63.6	68.1	70.0
Inventory Turn (avg days)	86.5	87.6	73.8	78.8	80.6
Asset Turnover (x)	1.8	1.7	1.8	1.7	1.7
Current Ratio (x)	1.6	1.2	1.4	1.5	1.7
Quick Ratio (x)	0.8	0.6	0.7	0.8	1.0
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	115.3	53.3	2.8	2.4
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS Vickers

Asset Breakdown

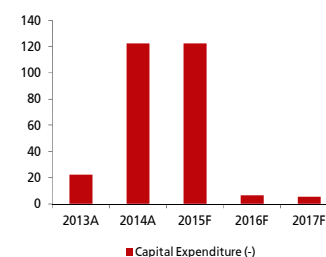


Cash Flow Statement (RMB m)

FY Dec	2013A	2014E	2015F	2016F	2017F
Pre-Tax Profit	94	147	238	284	344
Dep. & Amort.	14	20	18	34	31
Tax Paid	(43)	(44)	(71)	(85)	(103)
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)	(75)	(40)	(42)	(37)
Other Operating CF	6	1	6	13	11
Net Operating CF	37	49	150	204	246
Capital Exp.(net)	(22)	(123)	(123)	(7)	(6)
Other Invt.(net)	0	(1)	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(5)	31	4	3	5
Net Investing CF	(27)	(92)	(118)	(3)	(1)
Div Paid	(81)	(33)	(50)	(75)	(90)
Chg in Gross Debt	72	(11)	124	0	0
Capital Issues	129	0	0	0	0
Other Financing CF	(6)	0	(11)	(10)	(10)
Net Financing CF	114	(44)	63	(85)	(100)
Currency Adjustments	0	0	0	0	0
Chg in Cash	124	(87)	95	115	145
Opg CFPS (RMB)	0.05	0.07	0.10	0.13	0.15
Free CFPS (RMB)	0.01	(0.04)	0.01	0.11	0.13

Source: Company, DBS Vickers

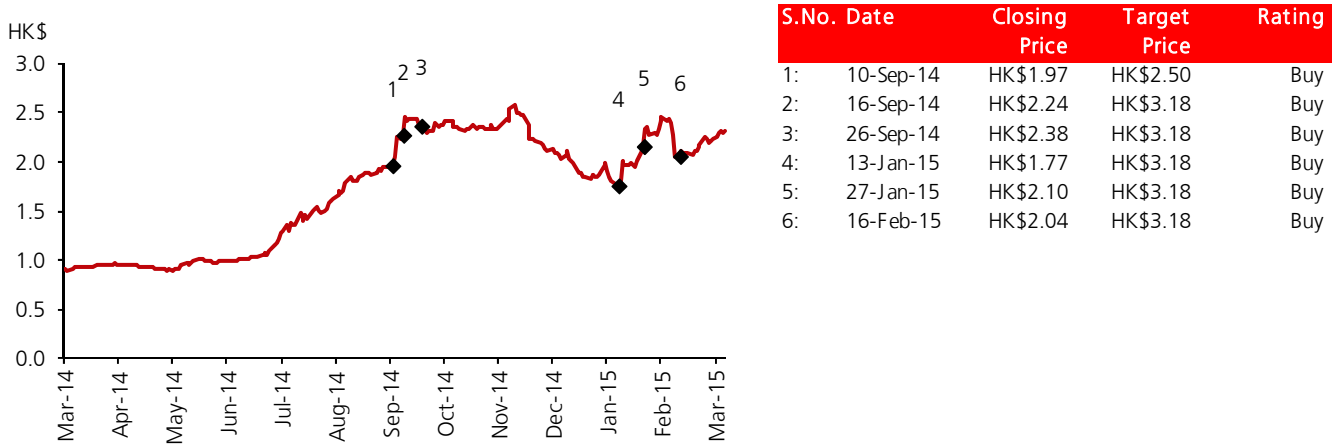
Capital Expenditure



Company Focus

Yestar International

Target Price & Ratings History



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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