

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 January 2015

BUY HK\$1.77 HSI : 24,026

Price Target : 12-Month HK\$ 3.18 (Prev TP of HK\$12.70 was divided by four after the share split in Dec 14)

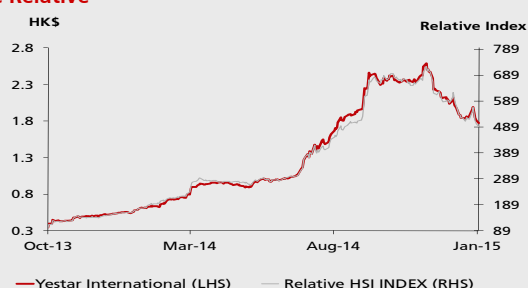
Reason for Report : Updates on recent business development

Potential Catalyst: M&A

Analyst

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Price Relative



Forecasts and Valuation

| FY Dec (RMB m) | 2013A | 2014F | 2015F | 2016F |
|---------------------|-------|-------|-------|-------|
| Turnover | 1,173 | 1,598 | 2,308 | 2,697 |
| EBITDA | 112 | 170 | 285 | 333 |
| Pre-tax Profit | 94 | 152 | 238 | 285 |
| Net Profit | 65 | 104 | 150 | 180 |
| Net Pft (Pre Ex) | 65 | 104 | 150 | 180 |
| EPS (RMB) | 0.04 | 0.06 | 0.08 | 0.10 |
| EPS (HK\$) | 0.06 | 0.07 | 0.10 | 0.12 |
| EPS Gth (%) | 6.3 | 25.2 | 44.3 | 20.1 |
| Diluted EPS (HK\$) | 0.06 | 0.07 | 0.10 | 0.12 |
| DPS (HK\$) | 0.03 | 0.03 | 0.05 | 0.06 |
| BV Per Share (HK\$) | 0.28 | 0.27 | 0.34 | 0.41 |
| PE (X) | 31.8 | 25.4 | 17.6 | 14.7 |
| P/Cash Flow (X) | 55.8 | 41.0 | 15.8 | 11.7 |
| P/Free CF (X) | 140.1 | nm | 22.4 | 12.0 |
| EV/EBITDA (X) | 17.1 | 15.6 | 9.2 | 7.5 |
| Net Div Yield (%) | 1.6 | 2.0 | 2.8 | 3.4 |
| P/Book Value (X) | 6.2 | 6.5 | 5.3 | 4.4 |
| Net Debt/Equity (X) | CASH | CASH | CASH | CASH |
| ROAE (%) | 27.5 | 28.2 | 33.1 | 32.5 |

| | | | | |
|---------------------|--|------|------|------|
| Earnings Rev (%): | | Nil | Nil | Nil |
| Consensus EPS (RMB) | | 0.05 | 0.07 | 0.10 |
| 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

In-vitro diagnostic business to drive strong growth in 2015

- In-vitro diagnostic (IVD) segment to drive 44% EPS growth in FY15F
- Expect 25% EPS growth in FY14F, mainly driven by medical film segment
- Potential M&A a major catalyst in 2015
- Re-iterate BUY with TP of HK\$3.18

IVD to drive 44% EPS growth in 2015. After acquiring a 70% stake in Jiangsu Uno (IVD business) in 2H14 for Rmb245m (60% was paid), it becomes a major earnings driver in 2015 (expected contribution to earnings growth: >60%). Our recent discussion with Yestar revealed more on its growing strategies: 1) it now generates 80% & 20% sales from Jiangsu & Anhui provinces respectively. It will accelerate the exposure in Anhui as the IVD penetration there is low. It is in contact with 10 top tier hospitals (>20% of top tier hospitals in Anhui) aiming to initiate/increase their procurement of IVD devices; 2) product portfolio expansion, e.g. devices to identify bacteria in human body, devices to pre-treat human's fluid/tissue before medical analysis.

Expect 25% EPS growth in FY14F, driven by medical film segment. We had also updated Yestar's recent business development. We believe that it can achieve a 25% EPS growth in FY14F, driven by market share gain in the medical film industry (from 18% in 1H14 to >20% in 2H14). The strong cash flow of this segment would allow Yestar to remain in a net cash position after acquisition of Jiangsu Uno.

Re-iterate BUY. To accelerate earnings growth, we believe Yestar is in talks with 2-3 M&A targets. Successful M&A will be a major catalyst for share price. We re-iterate BUY with TP adjusted from HK\$12.70 to HK\$3.18 after the stock split in Dec 14 (4-for-1).

At A Glance

| | |
|-------------------------|-------------|
| Issued Capital (m shrs) | 1868 |
| Mkt. Cap (HK\$/US\$m) | 3,305 / 426 |
| Major Shareholders | |
| Hartono family (%) | 71.1 |
| Free Float (%) | 28.9 |
| Avg. Daily Vol. ('000) | 8,476 |

Company Focus

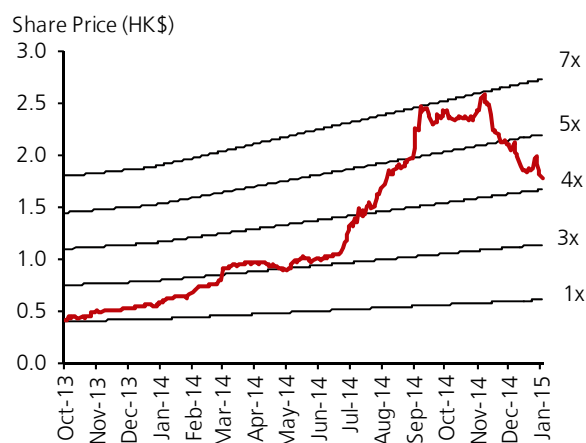
Yestar International

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 30% & 60% 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 |

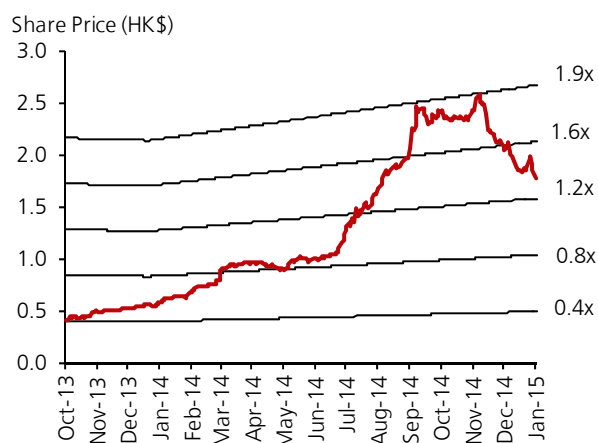
Source: DBS Vickers

PE band chart



Source: Thomson Reuters, DBS Vickers

PB band chart



Source: Thomson Reuters, DBS Vickers

Peer Table

| Company Name | Currency Code | Price Local\$ | Mkt Cap US\$m | PE | PE | Yield | Yield | P/Bk | P/Bk | EV/EBITDA | ROE | ROE | | |
|------------------------------|---------------|---------------|---------------|-------|-------|-------|-------|------|------|-----------|------|------|-------|------|
| | | | | 14F | 15F | 14F | 15F | 14F | 15F | 14F | 15F | 14F | 15F | |
| Medical imaging | | | | | | | | | | | | | | |
| Yestar Int'l* | 2393 HK | HKD | 1.77 | 426 | 25.4 | 17.6 | 2.0 | 2.8 | 6.5 | 5.3 | 15.6 | 9.2 | 28.2 | 33.1 |
| Mindray Med.Intl | MR US | USD | 27.21 | 2,400 | 15.1 | 13.6 | 1.7 | 1.9 | 1.9 | 1.7 | 10.8 | 9.4 | 13.2 | 13.4 |
| CR Wandong Medical 'A' | 600055 CH | CNY | 18.75 | 654 | 133.9 | 75.0 | n.a. | n.a. | 5.9 | 5.4 | n.a. | n.a. | 5.5 | 7.1 |
| Edan Instruments 'A' | 300206 CH | CNY | 18.87 | 593 | 66.9 | 49.9 | 0.3 | 0.4 | 3.1 | 2.9 | n.a. | n.a. | 4.0 | 5.8 |
| Wuhan Guide Infrared 'A' | 002414 CH | CNY | 20.7 | 2,002 | 165.6 | 124.7 | n.a. | n.a. | 5.1 | 4.8 | n.a. | n.a. | 3.4 | 5.4 |
| Medical Devices | | | | | | | | | | | | | | |
| Andon Health 'A' | 002432 CH | CNY | 23.66 | 1,419 | 946.4 | 394 | 0.0 | 0.0 | 7.7 | 7.7 | n.a. | n.a. | n.a. | n.a. |
| GD Biolight Meditech 'A' | 300246 CH | CNY | 22.93 | 540 | 79.6 | 62.0 | 0.3 | 0.4 | 8.1 | 7.4 | n.a. | n.a. | 9.0 | 10.9 |
| CR Wandong Medical 'A' | 600055 CH | CNY | 18.75 | 654 | 133.9 | 75.0 | n.a. | n.a. | 5.9 | 5.4 | n.a. | n.a. | 5.5 | 7.1 |
| Edan Instruments 'A' | 300206 CH | CNY | 18.87 | 593 | 66.9 | 49.9 | 0.3 | 0.4 | 3.1 | 2.9 | n.a. | n.a. | 4.0 | 5.8 |
| Shenzhen Glory Med.'A' | 002551 CH | CNY | 23.15 | 1,353 | 79.6 | 47.4 | n.a. | n.a. | 6.3 | 5.5 | n.a. | n.a. | 8.3 | 15.1 |
| Beijing Bohui Innovation 'A' | 300318 CH | CNY | 18.27 | 482 | 41.5 | 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 | 26.18 | 2,243 | 42.2 | 32.6 | 0.5 | 0.7 | 7.8 | 6.5 | 34.4 | 26.8 | 18.6 | 19.8 |
| Zhuhai Hokai Med.Insts. 'A' | 300273 CH | CNY | 24.51 | 2,260 | 53.6 | 36.5 | 0.6 | 0.8 | 10.4 | 8.3 | 38.5 | 25.3 | 21.2 | 25.0 |
| Truking Technology 'A' | 300358 CH | CNY | 40.93 | 771 | 34.7 | 28.7 | 0.7 | 0.8 | 5.2 | 4.5 | n.a. | n.a. | 26.9 | 27.1 |
| Shinva Med.Instm. 'A' | 600587 CH | CNY | 32.99 | 2,144 | 39.3 | 28.5 | 0.4 | 0.4 | 4.6 | 3.9 | 25.8 | 18.5 | 12.6 | 15.4 |
| Sinocare 'A' | 300298 CH | CNY | 31.6 | 1,019 | 30.5 | 24.3 | 1.1 | 1.3 | 4.7 | 4.1 | n.a. | n.a. | 18.5 | 19.3 |
| Shanghai Tofflon Sctc. 'A' | 300171 CH | CNY | 23.8 | 1,218 | 23.6 | 19.3 | 1.4 | 1.8 | 2.9 | 2.5 | 17.4 | 12.7 | 12.3 | 13.5 |
| Pw Medtech Group | 1358 HK | HKD | 3.37 | 729 | 24.1 | 14.0 | 0.0 | 0.7 | 2.1 | 1.8 | n.a. | n.a. | 10.1 | 15.1 |
| Microport Scientific* | 853 HK | HKD | 3.27 | 600 | n.a. | 21.1 | 0.0 | 0.0 | 1.5 | 1.4 | 30.5 | 13.5 | (0.2) | 6.9 |
| Shandong Weigao* | 1066 HK | HKD | 5.78 | 3,337 | 21.9 | 19.5 | 1.4 | 1.5 | 2.1 | 2.0 | 13.6 | 11.9 | 10.1 | 10.5 |
| Lifetech Scientific | 1302 HK | HKD | 1.31 | 676 | n.a. | 5.7 | 0.0 | 0.0 | n.a. | n.a. | n.a. | n.a. | (0.3) | 36.4 |

FY14: FY15; FY15: FY16

Source: Thomson Reuters, *DBS Vickers

Company Focus

Yestar International

Key Assumptions

| FY Dec | 2012A | 2013A | 2014F | 2015F | 2016F |
|---|-------|--------|-------|-------|-------|
| Color photographic paper - revenue growth % | 13.8 | (11.5) | 13.9 | 10.0 | 10.0 |
| Medical imaging products - revenue growth % | (2.8) | 60.9 | 42.0 | 20.4 | 20.7 |
| In-vitro diagnostic products - revenue growth % | N/A | N/A | N/A | 620.0 | 18.5 |
| SG&A % in total sales | 9.6 | 10.0 | 8.3 | 8.0 | 8.0 |

Sensitivity Analysis

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

Segmental Breakdown (RMB m)

| FY Dec | 2012A | 2013A | 2014F | 2015F | 2016F |
|---|-------------|--------------|--------------|--------------|--------------|
| Revenues (RMB m) | | | | | |
| Color photographic paper | 599 | 531 | 604 | 665 | 731 |
| Medical imaging products | 295 | 474 | 674 | 811 | 979 |
| In-vitro diagnostic products distribution | N/A | N/A | 75 | 540 | 640 |
| Others | 62 | 168 | 245 | 292 | 347 |
| Total | 956 | 1,173 | 1,598 | 2,308 | 2,697 |
| Gross margin (RMB m) | | | | | |
| Color photographic paper | 116 | 119 | 139 | 154 | 171 |
| Medical imaging products | 40 | 65 | 88 | 108 | 136 |
| In-vitro diagnostic products distribution | N/A | N/A | 16 | 116 | 141 |
| Others | 12 | 25 | 39 | 47 | 56 |
| Total | 167 | 209 | 283 | 425 | 503 |
| Gross margin Margins (%) | | | | | |
| Color photographic paper | 19.4 | 22.5 | 23.1 | 23.2 | 23.3 |
| Medical imaging products | 13.4 | 13.7 | 13.1 | 13.4 | 13.9 |
| In-vitro diagnostic products distribution | N/A | N/A | 21.0 | 21.5 | 22.0 |
| Others | 18.7 | 15.0 | 16.0 | 16.0 | 16.1 |
| Total | 17.5 | 17.8 | 17.7 | 18.4 | 18.7 |

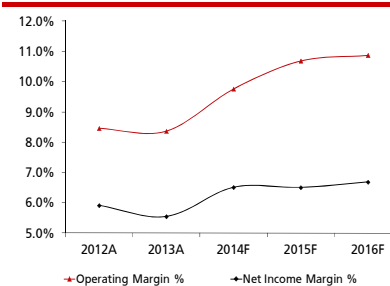
Source: Company, DBS Vickers

Income Statement (RMB m)

| FY Dec | 2012A | 2013A | 2014F | 2015F | 2016F |
|----------------------------|------------|------------|------------|------------|------------|
| Revenue | 956 | 1,173 | 1,598 | 2,308 | 2,697 |
| Cost of Goods Sold | (789) | (964) | (1,316) | (1,882) | (2,194) |
| Gross Profit | 167 | 209 | 283 | 425 | 503 |
| Other Opng (Exp)/Inc | (86) | (111) | (127) | (179) | (210) |
| Operating Profit | 81 | 98 | 156 | 247 | 293 |
| Other Non Opg (Exp)/Inc | 0 | 0 | 0 | 0 | 0 |
| Associates & JV Inc | 0 | 0 | 0 | 0 | 0 |
| Net Interest (Exp)/Inc | 1 | (5) | (4) | (9) | (8) |
| Dividend Income | 0 | 0 | 0 | 0 | 0 |
| Exceptional Gain/(Loss) | 0 | 0 | 0 | 0 | 0 |
| Pre-tax Profit | 82 | 94 | 152 | 238 | 285 |
| Tax | (24) | (28) | (46) | (71) | (86) |
| Minority Interest | (2) | 0 | (2) | (16) | (19) |
| Preference Dividend | 0 | 0 | 0 | 0 | 0 |
| Net Profit | 57 | 65 | 104 | 150 | 180 |
| Net Profit before Except. | 57 | 65 | 104 | 150 | 180 |
| EBITDA | 91 | 112 | 170 | 285 | 333 |
| Growth | | | | | |
| Revenue Gth (%) | (2.2) | 22.8 | 36.2 | 44.4 | 16.9 |
| EBITDA Gth (%) | 10.1 | 22.7 | 52.8 | 67.2 | 16.9 |
| Opg Profit Gth (%) | 11.4 | 21.4 | 58.9 | 58.1 | 18.9 |
| Net Profit Gth (%) | 19.5 | 15.1 | 59.9 | 44.3 | 20.1 |
| Margins & Ratio | | | | | |
| Gross Margins (%) | 17.5 | 17.8 | 17.7 | 18.4 | 18.7 |
| Opg Profit Margin (%) | 8.5 | 8.4 | 9.8 | 10.7 | 10.9 |
| Net Profit Margin (%) | 5.9 | 5.5 | 6.5 | 6.5 | 6.7 |
| ROAE (%) | 37.9 | 27.5 | 28.2 | 33.1 | 32.5 |
| ROA (%) | 10.6 | 9.8 | 12.2 | 13.8 | 13.8 |
| ROCE (%) | 26.6 | 20.2 | 19.8 | 25.1 | 25.4 |
| Div Payout Ratio (%) | 142.6 | 50.2 | 50.0 | 50.0 | 50.0 |
| Net Interest Cover (x) | NM | 21.8 | 37.2 | 27.1 | 35.5 |

Source: Company, DBS Vickers

Margins Trend

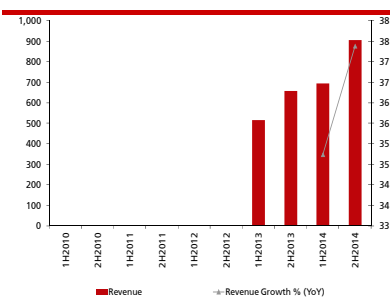


Interim Income Statement (RMB m)

| FY Dec | 1H2013 | 2H2013 | 1H2014 | 2H2014F |
|-------------------------|-----------|------------|------------|------------|
| Revenue | 515 | 658 | 694 | 904 |
| Cost of Goods Sold | (426) | (538) | (585) | (731) |
| Gross Profit | 89 | 120 | 109 | 173 |
| Other Oper. (Exp)/Inc | (45) | (66) | (55) | (71) |
| Operating Profit | 44 | 54 | 54 | 102 |
| Other Non Opg (Exp)/Inc | 0 | 0 | 0 | 0 |
| Associates & JV Inc | 0 | 0 | 0 | 0 |
| Net Interest (Exp)/Inc | (2) | (3) | 0 | (4) |
| Exceptional Gain/(Loss) | 0 | 0 | 0 | 0 |
| Pre-tax Profit | 42 | 52 | 53 | 98 |
| Tax | (13) | (15) | (16) | (29) |
| Minority Interest | 0 | 0 | 0 | (2) |
| Net Profit | 29 | 37 | 38 | 67 |
| Net profit bef Except. | 29 | 37 | 38 | 67 |
| Growth | | | | |
| Revenue Gth (%) | N/A | N/A | 34.7 | 37.4 |
| Opg Profit Gth (%) | N/A | N/A | 22.2 | 88.7 |
| Net Profit Gth (%) | N/A | N/A | 31.6 | 82.0 |
| Margins | | | | |
| Gross Margins (%) | 17.3 | 18.3 | 15.7 | 19.2 |
| Opg Profit Margins (%) | 8.5 | 8.2 | 7.7 | 11.3 |
| Net Profit Margins (%) | 5.5 | 5.6 | 5.4 | 7.4 |

Source: Company, DBS Vickers

Revenue Trend



Company Focus

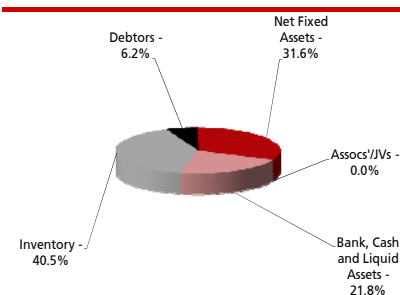
Yestar International

Balance Sheet (RMB m)

| FY Dec | 2012A | 2013A | 2014F | 2015F | 2016F |
|-------------------------------|------------|------------|------------|--------------|--------------|
| Net Fixed Assets | 96 | 104 | 287 | 298 | 259 |
| Invts in Associates & JVs | 0 | 0 | 0 | 0 | 0 |
| Other LT Assets | 24 | 26 | 26 | 25 | 24 |
| Cash & ST Invts | 163 | 287 | 202 | 256 | 390 |
| Inventory | 178 | 273 | 368 | 531 | 620 |
| Debtors | 101 | 17 | 56 | 69 | 81 |
| Other Current Assets | 26 | 28 | 28 | 28 | 28 |
| Total Assets | 587 | 736 | 966 | 1,208 | 1,402 |
| ST Debt | 25 | 117 | 80 | 80 | 80 |
| Creditors | 244 | 215 | 288 | 415 | 486 |
| Other Current Liab | 139 | 48 | 48 | 48 | 48 |
| LT Debt | 20 | 0 | 121 | 121 | 121 |
| Other LT Liabilities | 10 | 13 | 13 | 13 | 13 |
| Shareholder's Equity | 140 | 333 | 404 | 502 | 608 |
| Minority Interests | 9 | 9 | 11 | 28 | 47 |
| Total Cap. & Liab. | 587 | 736 | 966 | 1,208 | 1,402 |
| Non-Cash Wkg. Capital | (78) | 55 | 116 | 165 | 196 |
| Net Cash/(Debt) | 118 | 170 | 0 | 55 | 189 |
| Debtors Turn (avg days) | 26.3 | 18.3 | 8.3 | 9.9 | 10.2 |
| Creditors Turn (avg days) | 100.4 | 88.2 | 70.5 | 69.6 | 76.3 |
| Inventory Turn (avg days) | 72.8 | 86.5 | 89.8 | 88.9 | 97.5 |
| Asset Turnover (x) | 1.8 | 1.8 | 1.9 | 2.1 | 2.1 |
| Current Ratio (x) | 1.1 | 1.6 | 1.6 | 1.6 | 1.8 |
| Quick Ratio (x) | 0.6 | 0.8 | 0.6 | 0.6 | 0.8 |
| Net Debt/Equity (X) | CASH | CASH | CASH | CASH | CASH |
| Net Debt/Equity ex MI (X) | CASH | CASH | CASH | CASH | CASH |
| Capex to Debt (%) | 115.3 | 19.1 | 97.5 | 24.4 | 3.2 |
| Z-Score (X) | NA | NA | NA | NA | NA |

Source: Company, DBS Vickers

Asset Breakdown

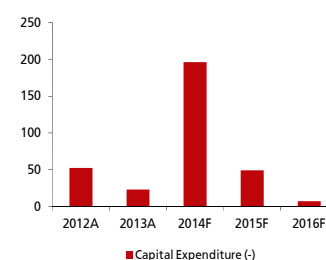


Cash Flow Statement (RMB m)

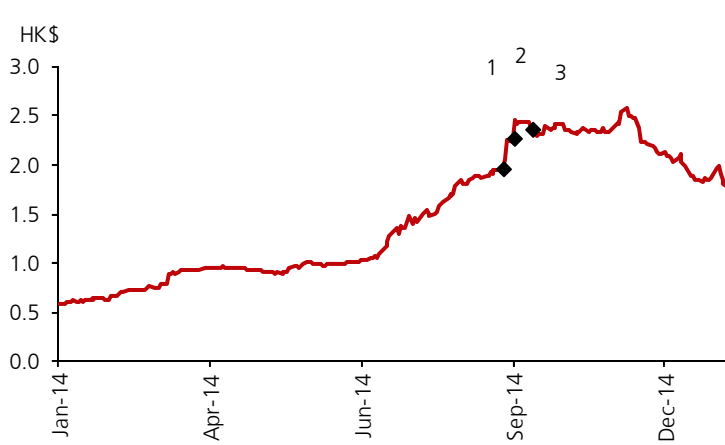
| FY Dec | 2012A | 2013A | 2014F | 2015F | 2016F |
|--------------------------------|-------------|-------------|--------------|-------------|-------------|
| Pre-Tax Profit | 82 | 94 | 152 | 238 | 285 |
| Dep. & Amort. | 10 | 14 | 16 | 40 | 43 |
| Tax Paid | (21) | (43) | (46) | (71) | (86) |
| Assoc. & JV Inc/(loss) | 0 | 0 | 0 | 0 | 0 |
| (Pft)/ Loss on disposal of FAs | 0 | 0 | 0 | 0 | 0 |
| Chg in Wkg.Cap. | (73) | (34) | (62) | (49) | (31) |
| Other Operating CF | 47 | 6 | 3 | 9 | 15 |
| Net Operating CF | 45 | 37 | 65 | 167 | 226 |
| Capital Exp.(net) | (52) | (22) | (196) | (49) | (7) |
| 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 | 30 | 1 | 4 | 3 | 4 |
| Net Investing CF | (22) | (21) | (192) | (46) | (3) |
| Div Paid | 0 | (81) | (33) | (52) | (75) |
| Chg in Gross Debt | (2) | 72 | 84 | 0 | 0 |
| Capital Issues | 0 | 129 | 0 | 0 | 0 |
| Other Financing CF | (3) | (6) | (7) | (12) | (12) |
| Net Financing CF | (4) | 114 | 44 | (64) | (87) |
| Currency Adjustments | 0 | 0 | 0 | 0 | 0 |
| Chg in Cash | 18 | 131 | (84) | 57 | 136 |
| Opg CFPS (RMB) | 0.09 | 0.05 | 0.07 | 0.12 | 0.14 |
| Free CFPS (RMB) | (0.01) | 0.01 | (0.07) | 0.06 | 0.12 |

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 |

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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