

March 17, 2015

## Yestar International 2393 HK

**BUY**

**TP: HK\$ 2.85**

Rating: ◆ TP: ▲ EPS: ▲

### FY14 results beat as transformation continues

**FY14 results beat.** Yestar announced FY14 results which saw revenue +31% YoY to RMB1.53bn, and net profit +55% YoY to RMB101mn, 6% above our forecasts, mainly due to lower opex. GP margin declined slightly to 17.2% (vs. 17.8% in FY13) due to higher revenue mix from the medical film business, which has a comparatively lower GP margin. However, NP margin improved to 6.5% from 5.5%. Yestar announced a final dividend of HKc3.4/share, representing a payout of ~50% vs. EPS of RMBc5.4/share. Receivables, payables, and inventory turnover days remained at stable levels of 15, 72, and 86 days respectively.

**Transforming to pharmaceutical-focused business model.** In FY14, Yestar's revenue benefited from strong demand attributable to fast growth in the domestic healthcare industry, with its medical consumables products business (47% of revenue vs. 40% in FY13) recording 52% YoY growth. This included 2 months contribution from Jiangsu UNO, the distributor of Roche Diagnostics Products and BD Diagnostics Products, which Yestar acquired 70% equity interest in September 2014. We expect that with the full-year contribution of Jiangsu UNO in FY15 onwards, Yestar will become one-step closer in its goal to transform into a pharmaceutical-focused business model, while we believe its original core business of being an imaging product distributor of Fujifilm will become more supplementary.

**Solid earnings growth potential.** We have revised up our FY15-16E earnings forecasts by 6-7%, and introduce FY17 forecasts. We forecast Yestar to record FY14-17E revenue and net profit CAGR of 29% and 35% respectively. From FY15-17E, we expect GP margin of 19.0-19.1%, and NP margin of 7.6-7.7%, both up from FY14 as a result of full-year contributions from Jiangsu UNO, anticipated to have >30% blended GP margin. In FY15E, we forecast revenue contribution from the medical consumables product business to rise to 57%.

**Maintain BUY.** Yestar's share price has re-rated consistently since mid-2014 as it transformed from a traditional imaging company to one with a pharmaceutical theme. Currently trading 20.4x FY15E P/E, Yestar's valuation is not undemanding, yet it has high ROE and a strong balance sheet, being in a net cash position, putting it in a good position for further M&A opportunities. On the back of our upward earnings revision, we lift our TP to HK\$2.85, still based on 24x FY15 P/E (~0.7x PEG). Risks include: 1) non-synergy in new business; 3) price pressure on products; and 3) PRC government policies may affect the pharmaceutical industry.

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	12/13A	12/14A	12/15E	12/16E	12/17E	Rating/Prev. Rating	Buy/Buy
Revenue (RMB mn)	1,173	1,531	2,192	2,698	3,265	TP/Prev. TP (HK\$)	2.85/2.75
EBITDA (RMB mn)	106	160	249	308	369	Price (Mar. 16, 2015, HK\$)	2.43
Net profit, pre-exceptional (RMB mn)	65	101	167	208	251	% Upside/Downside	17%
EPS (RMB cents)	4.45	5.40	8.92	11.13	13.46	Market Cap (USDmn)	586
- % change from prev. EPS	-	-	6.0	7.1	-	Free float (%)	28.9
- % vs. Consensus EPS	-	-	-	-	-	Daily vol - 6M avg (mn)	7.6
EPS growth (%)	6.3	21.4	65.2	24.7	20.9	Daily val - 6M avg (US\$mn)	2.3
ROE (%)	27.5	31.1	47.8	49.0	48.7	Major shareholder%	Hartono/71.1%
Net debt (cash)/equity (%)	net cash	net cash	net cash	net cash	net cash		
P/E (X)	41.0	33.7	20.4	16.4	13.5		
P/B (X)	8.0	10.8	8.9	7.3	6.0		
EV/EBITDA (X)	23.7	20.8	13.2	10.4	8.4		
Dividend yield (%)	0.0	1.5	2.9	3.7	4.4		

Source: Company data, HTI

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## Financials

### Income Statement

(RMB mn except otherwise indicated)	2013	2014	2015E	2016E	2017E
<b>Revenue (net of business tax)</b>	<b>1,173</b>	<b>1,531</b>	<b>2,192</b>	<b>2,698</b>	<b>3,265</b>
YoY growth	26.1%	30.5%	43.1%	23.1%	21.0%
COGS	(964)	(1,268)	(1,776)	(2,183)	(2,642)
<b>Gross profit</b>	<b>209</b>	<b>263</b>	<b>415</b>	<b>515</b>	<b>623</b>
YoY growth	25.2%	25.8%	57.7%	24.1%	20.8%
Gross profit margin	17.8%	17.2%	19.0%	19.1%	19.1%
SG&A expenses	(115)	(116)	(176)	(217)	(262)
R&D expenses	-	-	-	-	-
Other operating income/loss	(2)	(6)	(9)	(11)	(13)
<b>EBITDA</b>	<b>106</b>	<b>160</b>	<b>249</b>	<b>308</b>	<b>369</b>
YoY growth	22.8%	51.2%	56.0%	23.4%	20.0%
EBITDA margin	9.0%	10.4%	11.4%	11.4%	11.3%
Depreciation	(13)	(18)	(19)	(20)	(22)
Amortization	-	-	-	-	-
<b>EBIT</b>	<b>92</b>	<b>142</b>	<b>230</b>	<b>287</b>	<b>348</b>
YoY growth	21.4%	54.0%	62.0%	24.9%	21.0%
EBIT margin	7.9%	9.3%	10.5%	10.7%	10.7%
Interest income	1	4	4	4	4
Interest expense	(6)	(6)	(6)	(6)	(6)
Profit/loss from associates	-	-	-	-	-
Profit/loss from acquisition/disposal	-	-	-	-	-
Other non-operating income/loss	6	6	6	6	6
<b>Pretax income</b>	<b>94</b>	<b>147</b>	<b>235</b>	<b>292</b>	<b>353</b>
YoY growth	14.8%	57.0%	59.9%	24.3%	20.7%
PBT margin	8.0%	9.6%	10.7%	10.8%	10.8%
Income tax	(28)	(44)	(66)	(82)	(99)
Effective tax rate	30.2%	29.6%	28.0%	28.0%	28.0%
Minority interest (VS item)	(0)	(3)	(3)	(3)	(3)
<b>Net income, post-exceptionals</b>	<b>65</b>	<b>101</b>	<b>167</b>	<b>208</b>	<b>251</b>
YoY growth	15.1%	55.1%	65.2%	24.7%	20.9%
Net margin	5.5%	6.6%	7.6%	7.7%	7.7%
Post-exceptional items - gain/(loss)	-	-	-	-	-
<b>Net income, pre-exceptionals</b>	<b>65</b>	<b>101</b>	<b>167</b>	<b>208</b>	<b>251</b>
YoY growth	15.1%	55.1%	65.2%	24.7%	20.9%
Net margin	5.5%	6.6%	7.6%	7.7%	7.7%

### Cash Flow Statement

(RMB mn except otherwise indicated)	2013	2014	2015E	2016E	2017E
<b>Operating activities</b>					
Profit before taxes	65	101	167	208	251
Depreciation and amortization	13	18	19	20	22
Net profit/loss on asset sales	-	-	-	-	-
Increase/decrease in working capital	(135)	50	(11)	3	2
Other operating cash flow items	-	-	-	-	-
<b>Net CF flow from operating activities</b>	<b>(56)</b>	<b>168</b>	<b>175</b>	<b>231</b>	<b>274</b>
<b>Investing activities</b>					
Capital expenditure	(22)	(17)	(28)	(27)	(29)
Acquisition/divestiture	(2)	1	-	-	-
Proceeds from disposal of assets	-	-	-	-	-
Other investment cash flow items	(0)	(334)	(5)	(4)	(4)
<b>Net CF flow from investing activities</b>	<b>(25)</b>	<b>(351)</b>	<b>(33)</b>	<b>(31)</b>	<b>(32)</b>
<b>Financing</b>					
Dividends paid	(33)	(50)	(100)	(125)	(151)
Share repurchase/issue	-	-	-	-	-
Increase/decrease in debt&notes payable	72	(11)	-	-	-
Change in Minority interests	-	-	-	-	-
Other financing cash flow items	164	-	-	-	-
<b>Net CF flow from financing activities</b>	<b>204</b>	<b>(61)</b>	<b>(100)</b>	<b>(125)</b>	<b>(151)</b>
<b>Total cash flow</b>	<b>123</b>	<b>(244)</b>	<b>42</b>	<b>76</b>	<b>91</b>

### Balance Sheet

(RMB mn except otherwise indicated)	2013	2014	2015E	2016E	2017E
<b>Assets</b>					
Cash and cash equivalents	283	195	237	313	404
Pledged deposits	-	-	-	-	-
Bill and trade receivables	17	105	151	185	224
Inventories	273	327	321	314	308
Other receivables	29	23	23	23	23
Other current assets	3	4	4	4	4
<b>Total current assets</b>	<b>605</b>	<b>654</b>	<b>735</b>	<b>839</b>	<b>963</b>
<b>Net PP&amp;E (including AUC)</b>	<b>104</b>	<b>104</b>	<b>112</b>	<b>119</b>	<b>126</b>
<b>Net intangibles</b>	<b>3</b>	<b>337</b>	<b>337</b>	<b>337</b>	<b>337</b>
Equity investments	-	-	-	-	-
Investments in securities or other	8	7	7	7	7
<b>Total investments</b>	<b>8</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>
LT deferred tax assets	-	-	-	-	-
LT trade and bills receivables	-	-	-	-	-
Other long term assets	16	15	21	24	28
<b>Total assets</b>	<b>736</b>	<b>1,118</b>	<b>1,213</b>	<b>1,327</b>	<b>1,462</b>
<b>Liabilities</b>					
Accounts payable	215	283	311	342	376
Short-term debt	117	102	102	102	102
Other current liabilities	48	167	167	167	167
<b>Total current liabilities</b>	<b>380</b>	<b>552</b>	<b>580</b>	<b>611</b>	<b>645</b>
Long-term debt	-	5	5	5	5
LT trade and bills payable	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-
Other LT liabilities	13	237	237	237	237
<b>Total non-current liabilities</b>	<b>13</b>	<b>241</b>	<b>241</b>	<b>241</b>	<b>241</b>
<b>Total liabilities</b>	<b>394</b>	<b>793</b>	<b>821</b>	<b>852</b>	<b>886</b>
<b>Common shareholders' equity</b>					
Issued capital	37	37	37	37	37
Reserves	296	279	345	428	529
<b>Common shareholders' equity</b>	<b>333</b>	<b>316</b>	<b>382</b>	<b>465</b>	<b>566</b>
Minority interests	9	9	9	9	9
<b>Total liabilities and equity</b>	<b>736</b>	<b>1,118</b>	<b>1,213</b>	<b>1,327</b>	<b>1,462</b>

### Ratio Analysis

	2013	2014	2015E	2016E	2017E
<b>Valuation</b>					
P/E (x)	41.0	33.7	20.4	16.4	13.5
P/B (X)	8.0	10.8	8.9	7.3	6.0
EV/EBITDA (X)	23.7	20.8	13.2	10.4	8.4
Dividend yield(%)	0.0	1.5	2.9	3.7	4.4
FCF yield (%)	-12	1.5	0.9	1.0	1.0
<b>Profitability</b>					
Gross margin (%)	17.8	17.2	19.0	19.1	19.1
EBIT margin (%)	7.9	9.3	10.5	10.7	10.7
Net margin (%)	5.5	6.6	7.6	7.7	7.7
SG&A/revenue (%)	9.8	7.6	8.1	8.1	8.0
ROE (%)	27.5	31.1	47.8	49.0	48.7
ROA (%)	9.8	10.9	14.3	16.4	18.0
<b>Liquidity &amp; Leverage</b>					
Current Ratio (X)	1.6	1.2	1.3	1.4	1.5
Quick Ratio (X)	0.9	0.6	0.7	0.9	1.0
Net debt/equity (%)	-49.8	-28.0	-34.2	-44.3	-52.6
Total debt/equity (%)	35.2	33.6	27.8	22.8	18.8
Total liabilities/total assets (%)	53.5	70.9	67.7	64.2	60.6
EBIT interest coverage ration (x)	16.0	24.8	40.2	50.2	60.7
<b>Efficiency</b>					
Inventory days	85.3	86.4	66.6	53.1	43.0
A/R days	18.3	14.5	21.3	22.7	22.9
A/P days	12.0	71.7	61.0	54.6	49.6

**Results review table**

<b>Results review (RMB mn)</b>	<b>FY14</b>	<b>FY13</b>	<b>YoY</b>	<b>FY14E</b>	<b>Diff</b>
Sales	1,531	1,173	30.5%	1,507	1.6%
Gross profit	263	209	25.8%	254	3.8%
Gross margin	17.2%	17.8%		16.8%	
Operating profit	142	92	54.0%	131	8.4%
Operating margin	9.3%	7.9%		8.7%	
Net profit	101	65	55.1%	95	6.1%
Net margin	6.6%	5.5%		6.3%	

Source: Company data, HTI

**Earnings revision table**

<b>Earnings revisions RMB (mn)</b>	<b>FY15E</b>			<b>FY16E</b>			<b>FY17E</b>		
	<b>New</b>	<b>Old</b>	<b>Diff</b>	<b>New</b>	<b>Old</b>	<b>Diff</b>	<b>New</b>	<b>Old</b>	<b>Diff</b>
Sales	2,192	2,173	0.8%	2,698	2,671	1.0%	3,265	N/A	N/A
Gross profit	415	414	0.4%	515	510	1.0%	623	N/A	N/A
Gross margin	19.0%	19.0%		19.1%	19.1%		19.1%	N/A	
Operating profit	230	217	5.9%	287	268	7.0%	348	N/A	N/A
Operating margin	10.5%	10.0%		10.7%	10.1%		10.7%	N/A	
Net profit	167	157	6.0%	208	194	7.1%	251	N/A	N/A
Net margin	7.6%	7.2%		7.7%	7.3%		7.7%	N/A	

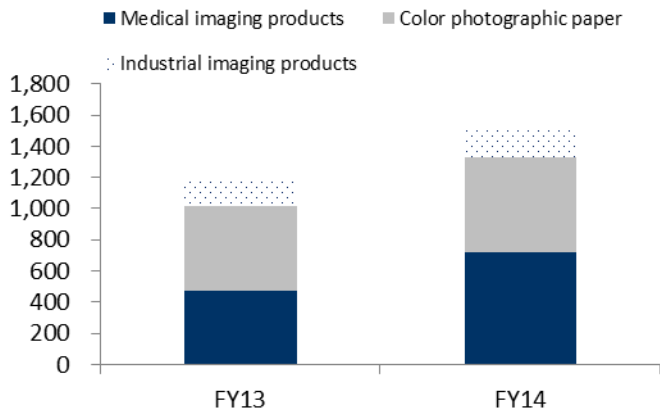
Source: Company data, HTI

**What Yestar gains in the medical industry from the Nanjing Uno acquisition**

<b>Roche</b>	<b>BD (Becton Dickinson)</b>
<p><b>A leader in research-focused health care:</b></p> <ul style="list-style-type: none"> <li>• Founded in 1896 in Basel, Switzerland.</li> <li>• Combined strengths in pharmaceuticals and diagnostics.</li> </ul> <p><b>The global market leader in vitro diagnostics &amp; tissue-based cancer diagnostics etc, with a broad range of innovative diagnostic tests and systems:</b></p> <ul style="list-style-type: none"> <li>• Integrated healthcare solutions.</li> <li>• Early detection.</li> <li>• Targeted screening, evaluation.</li> <li>• Monitoring of disease.</li> </ul> <p><b>Roche Diagnostics in the PRC:</b></p> <ul style="list-style-type: none"> <li>• Largest IVD products provider in the world.</li> <li>• No.1 market share in the PRC.</li> </ul>	<p><b>A leading global medical technology company:</b></p> <ul style="list-style-type: none"> <li>• Founded in 1897 and headquartered in the US.</li> <li>• Manufactures and sells a broad range of medical supplies, devices, laboratory equipment and diagnostic products.</li> </ul> <p><b>BD Diagnostics:</b></p> <ul style="list-style-type: none"> <li>• A leading provider of products for the safe collection and transport of diagnostic specimens.</li> <li>• Instruments and reagent systems to accurately detect a broad range of infectious diseases, healthcare associated infections and cancers.</li> </ul> <p><b>BD in the PRC:</b></p> <ul style="list-style-type: none"> <li>• BD Medical.</li> <li>• BD Biosciences.</li> <li>• BD Diagnostics.</li> </ul>

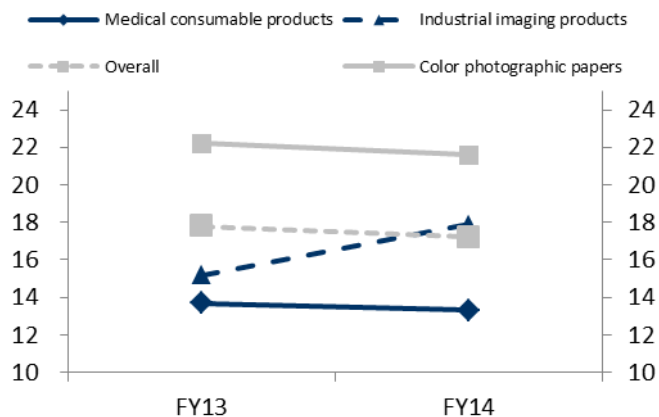
Source: Company data, HTI

Revenue by products categories (RMB mn)



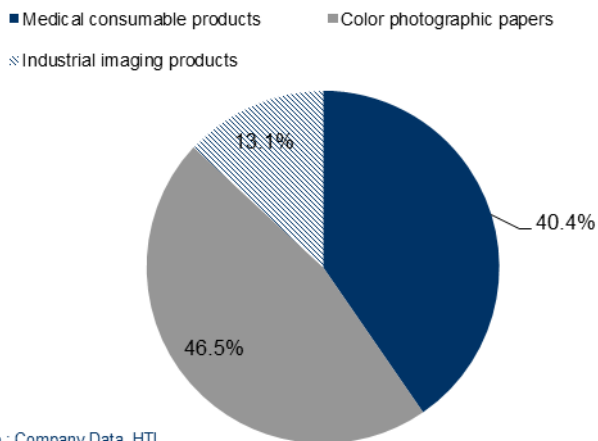
Source : Company Data, HTI

Gross profit margin (%) by products categories



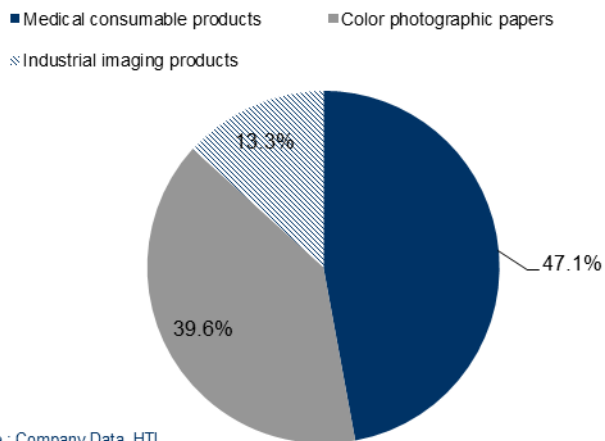
Source : Company Data, HTI

Revenue breakdown by products categories, FY13



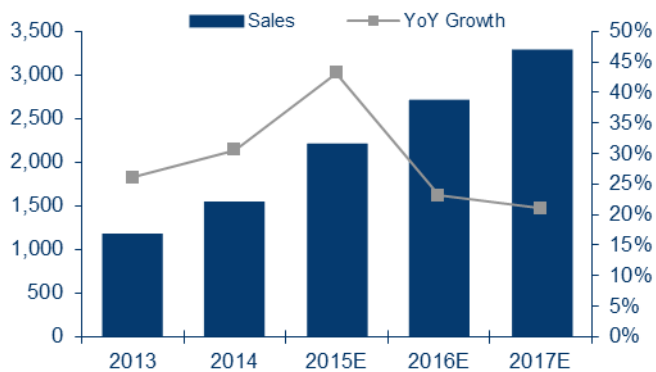
Source : Company Data, HTI

Revenue breakdown by products categories, FY14



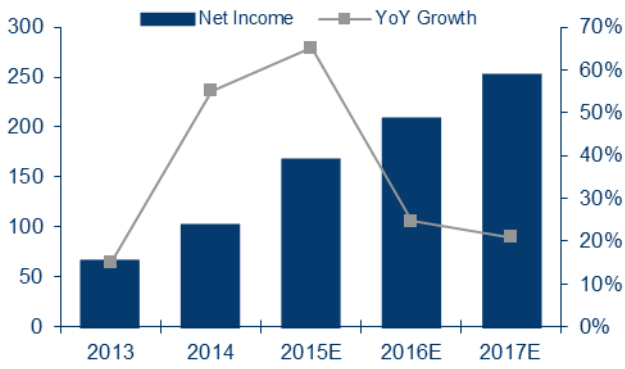
Source : Company Data, HTI

Sales (RMB mn) and YoY growth (2013-2017E)



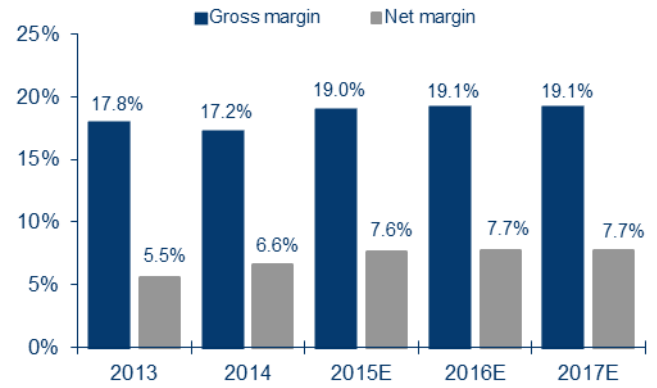
Source : Company Data, HTI

Net income (Rmb mn) and YoY growth (2013-2017E)



Source : Company Data , HTI

Gross and net margins (2013-2017E)



Source : Company Data, HTI

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	Rating	Remark
<b>Stock</b> (9 - 12 months)	Buy	Target price +15% or more above the current price
	Hold	Target price within 0% to +15% of the current price
	Sell	Target price below the current price
<b>Sector</b>	Overweight	Relative performance over Hang Seng Index $\geq 10\%$
	Neutral	Relative performance within Hang Seng Index $-10\%$ to $+10\%$
	Underweight	Relative performance below Hang Seng Index $\leq -10\%$

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