

### COMPANY UPDATE

## Yestar International Holdings Company (2393 HK)

Accelerating Growth In Medical Consumable Business

**We met with management in Shanghai yesterday. After reporting a strong net profit growth of 30.7% yoy in 1H14, the company acquired Jiangsu Uno, a medical device and consumable distributor. With product expansion, increasing market penetration and M&As, Yestarguided strong earnings growth for 2014.**

#### WHAT'S NEW

- Strong 1H14 results.** Yestar International Holdings Co (Yestar) reported revenue of Rmb693.9m in 1H14, up 34.7%yoy. Net profit grew 30.7% yoy to Rmb37.3m. The medical film business contributed revenue of Rmb337.1m in 1H14, up 55.2% yoy. Revenue of the colour photographic business was Rmb247.0m, up 10.7%yoy. Revenue of the industrial image business was Rmb99.6m, up 55.5% yoy. EPS was 8 Rmb cents, flat yoy. There was no interim dividend declared for the period.
- Management guided solid organic net profit growth.** Management highlighted that by leveraging on Fujifilm's strong financial position and sales strategy of leasing out 2,000-3,000 medical devices per year, Yestar's medical film business will continue to gain market share. In addition, promotion activities will support further market share gain in the colour photographic business.
- Growth supported by M&As.** On 12 Sep 14, Yestar acquired 70% equity interest in Jiangsu Uno Technology Development Company (Jiangsu Uno), a primary distributor of Roche Diagnostic and Becton Dickinson diagnostic products. Yestar will maintain the current management and increase hospital coverage in Anhui Province. According to the profit guarantee agreement, Jiangsu Uno is expected to generate a net profit of Rmb45m, Rmb54m and Rmb64m in 2014, 2015 and 2016 respectively.
- Product launch to boost growth in 2015.** Yestar is expected to launch its own brand of thermal-dry film products, medical dry films, and medical dry film printers as well as Fujifilm dental films in 2015. The new products will be distributed through the company's sales and marketing network. We expect the product expansion to boost revenue and increase net profit in 2015.
- Valuation and share price catalysts.** Yestar is trading at 38.95x 2014F PE and 26.99x 2015F PE. Newflows on M&A and strong 2014 financial results are share price catalysts.

#### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2010	2011	2012	2013
Net turnover	977.1	523.2	977.1	955.8
EBITDA	82.8	39.2	82.8	91.4
Operating profit	77.0	30.3	77.0	85.0
Net profit (rep./act.)	47.3	19.3	47.3	56.5
Net profit (adj.)	47.3	19.3	47.3	56.5
EPS (Fen)	n.a.	n.a.	n.a.	n.a.
PE (x)	n.a.	n.a.	n.a.	n.a.
P/B (x)	n.a.	n.a.	n.a.	n.a.
EV/EBITDA (x)	41.0	91.4	41.0	37.2
Dividend yield (%)	n.a.	n.a.	n.a.	n.a.
Net margin (%)	4.8	3.7	4.8	5.9
Net debt/(cash) to equity (%)	-27.6	-3.4	-27.6	-36.6
Interest cover (x)	24.2	14.5	24.2	30.7
ROE (%)	35.1		35.1	37.9

Source: Yestar, UOB Kay Hian

### NOT RATED

Share Price	HK\$10.02
Target Price	n.a.
Upside	n.a.

#### COMPANY DESCRIPTION

Yestar International Holdings Co supplies colour photographic paper and a broad range of imaging products in China. The company processes colour photographic paper, image printing films and medical imaging films into the ready-to-use form by cutting and slitting master rolls into customised sizes.

#### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	2393 HK
Shares issued (m):	466.9
Market cap (HK\$m):	4678.1
Market cap (US\$m):	599.8
3-mth avg daily t'over (USDm):	3.4

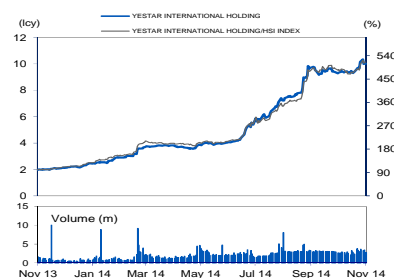
#### Price Performance (%)

52-week high/low	HK\$10.48/HK\$11.96			
<b>1mth</b>	<b>3mth</b>	<b>6m</b>	<b>1y</b>	<b>YTD</b>
6.8	38.2	157.6	403.5	351.4

#### Major Shareholders

	%
Jeane Hartono	36.25
James Hatono	14.21
Rico Hartono	6.40
Forever Nice	1.22

#### PRICE CHART



Source: Bloomberg

#### ANALYSTS

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**STOCK IMPACT**

- **Market share gain through expansion of hospital coverage and promotion activities.** Leveraging on Fujifilm's aggressive sales strategy of leasing out 2,000-3,000 medical devices per year and strong product quality, management highlighted that Yestar's medical film business will continue to gain market share through expansion of hospital coverage. In addition, continued promotion activities will support stable growth in the colour photographic business. Yestar is expected to see strong revenue and net profit growth in 2015, according to the management.
- **Product launches to boost growth in 2015.** Yestar is aiming to launch its own brand of thermal-dry films, medical dry films, and medical dry film printers, as well as Fujifilm dental films in 2015. The new products will be distributed through the company's sales and marketing network. According to our channel checks, medical and thermal dry films are the mainstream products used today while demand for dental films and wet films is significantly small. Our channel checks also suggest the ex-factory price of medical films is about Rmb12 per sheet and tendering price for medical films is Rmb21-23 per sheet, implying significant profits in the distribution process. Thus, the new product launch will boost revenue and increase gross profit for the medical imaging business in 2015.
- **M&As to fuel growth.** Yestar acquired 70% equity interest in Jiangsu Uno on 12 Sep 14 for Rmb245m. Jiangsu Uno is the only primary distributor of Roche Diagnostic (Roche) products in Anhui and Jiangsu and Becton Dickinson (DB) diagnostic products and medical equipment in Anhui. Roche is the world's largest IVD product provider and largest supplier of diagnostic products in China while DB is a leading international supplier of diagnostic products. Net profit of Jiangsu Uno was Rmb27.8m in 2013. Gross margin of the business was around 30% and net margin was over 10%. According to management, Yestar will retain the current management of Jiangsu Uno and Ms Hang Wenxia will remain as the general manager and retain the remaining 30% equity interest in the company. Yestar plans to increase the number of sales staff and distributors by 5 and 15 respectively and increase the coverage of Class III hospitals from 20% to 100% in Anhui. Under the profit guarantee agreement, vendors of the acquisition have guaranteed Yestar that the net profit of Jiangsu Uno should be not less than Rmb45m, Rmb54m and Rmb64m in 2014, 2015, and 2016 respectively.

**EARNINGS REVISION/RISK**

- Risk of faster-than-expected market decline of the imaging paper business due to threats from digitisation.
- Risk of decrease in tender prices for medical films and diagnostic products.
- Execution risk of M&As.
- Execution risk of product launches.

**VALUATION/RECOMMENDATION**

- Yestar's stock has performed strongly in 2014. The stock is trading at 38.95x 2014F PE and 26.99x 2015F PE.

**SHARE PRICE CATALYST**

- Further M&A.
- 2014 financial results.

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