

Yestar International Holdings

2393 HK

Business Updates

We had a conference call earlier with mgmt of Yestar International Holdings (YIH). Having entered the black-out period, mgmt instead provided us an outlook to YIH's business for FY12/16F. On traditional businesses (color photographic paper and industrial imaging products), mgmt expects moderate growth to continue with stable operating cash flow contribution. As a leading market player in color photographic paper (1st) and industrial imaging products (2nd) in China with few competitors, we see the guidance as achievable and in line with the steady demand in imaging products. Substantial capex is unlikely as production capacity of existing processing plants located in Nanning, Guangxi is sufficient to cater to the expected demand for company's traditional industrial products.

Medical consumables will lead YIH to a new phase of growth. YIH has tapped into Chinese in vitro diagnostics (IVD) market after acquiring Jiangsu Uno and Shanghai Emphasis, which were non-exclusive distributors of Roche Diagnostics (1st in China with 21% market share by revenue) products in Jiangsu Province and Shanghai city, respectively. Mgmt is in discussion with a number of Roche distributors in China in an attempt to increase YIH's market share in IVD product distribution through acquisitions. Although no further information on M&As is available as deals are yet confirmed, we expect the size of the forthcoming deal as comparable to that of Jiangsu Uno (per our initiation published in Oct 2015). As regards the source of financing, mgmt has reassured us that ample financing channels are available, including bank financing and share placement, to afford smooth completion of prospective acquisitions. Mgmt has also stressed that previous acquisitions of Jiangsu Uno and Shanghai Emphasis is indicative of external parties' support to YIH's further expansion in the Chinese IVD market.

Our view. YIH is regarded as a defensive play amid economic slowdown in China. On one hand, its long-standing relationship with Fujifilm assures steady value-added business which provides a base-case growth scenario for YIH. On the other hand, further acquisitions of IVD distributors in China at a fair acquisition price will empower YIH to establish a strong foothold in the Chinese IVD market, which is growing at 19.5% CAGR through 2018 according to Renub, a research firm. Being able to leverage its relationship with Roche, the largest IVD player in the world as well as in China, YIH gains access to Roche's portfolio of top-of-the-class diagnostics consumables and targets' established distribution network across Eastern China. The latest round of public hospital tenders will lead to increased procurement volume of consumables offsetting the effect of reduction in ASP.

Reiterate BUY call with TP of HK\$3.97. YIH stands to capitalize its vast distribution network for the wide range of traditional imaging products plus its growing portfolio of IVD products to support earnings upside. In the absence of major changes in financial performance, we recall our forecast on YIH with F.D. EPS of RMB0.078/0.115 for 15F/16F, respectively. We reiterate BUY call with TP of HK\$3.97 (unchanged). YIH's expected M&A in IVD sub-segment and its high ROE underpin its ongoing rich valuation, in our view.

Key catalysts: M&A on IVD business speeding up; smooth transition and integration of acquired companies leading to cost savings.

BUY (Unchanged)

China Healthcare

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Stock Data (2393 HK)

Rating	BUY
Price (HK\$)	3.12
Target Price (HK\$)	3.97
12m Price Range (HK\$)	2-4.61
Market cap. (HK\$m)	6,786.6
Daily t/o (HK\$m)	8.5
Free float (%)	30.8

Source: Bloomberg

Price Performance

	1M	3M	12M
Relative to HSI (%)	8.0%	17.7%	51.3%
Actual price change (%)	4.0%	2.3%	28.4%

Source: Bloomberg

Price Chart



Source: Bloomberg

Financial Summary					
Year to Dec	13A	14A	15F	16F	17F
Turnover (RMBm)	1,173.3	1,531.4	2,319.5	3,333.3	3,835.7
<i>Turnover growth (%)</i>	22.8%	30.5%	51.5%	43.7%	15.1%
Operating profit (RMBm)	99.4	152.8	279.1	483.8	579.7
<i>Operating profit growth (%)</i>	17.7%	53.6%	82.7%	73.3%	19.8%
Net profit (RMBm)	65.1	100.9	158.0	249.1	322.0
<i>Net profit growth (%)</i>	15.1%	55.1%	56.5%	57.7%	29.3%
EPS (RMB)	0.04	0.05	0.08	0.11	0.15
<i>EPS growth (%)</i>	6.3%	21.4%	44.6%	46.5%	29.3%
P/E (x)	54.7	46.2	33.3	23.1	17.9
P/B (x)	10.7	14.8	8.3	8.6	7.2
Dividend yield (%)	0.7%	1.1%	1.3%	1.9%	2.5%
Average ROE (%)	27.5%	31.1%	33.3%	38.4%	44.0%
N. Gear (%)	Cash	Cash	17.5%	12.9%	19.6%

Source: Company data, SBI China Capital

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BUY	: absolute upside of >10% over the next six months
HOLD	: absolute return of -10% to +10% over the next six months
SELL	: absolute downside of >10% over the next six months

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