CREDIT SUISSE

Yestar International Holdings Company Limited (2393.HK / 2393 HK)

INITIATION

A growing franchise in China's IVD market

Rating	OUTPERFORM
Price (05 Oct 16, HK$)	4.15
Target price (HK$)	4.90
Upside/downside (%)	18.1
Mkt cap (HK$/US$ mn)	9,027 / 1,164
Enterprise value (Rmb mn)	7,514
Number of shares (mn)	2,175
Free float (%)	30.0
52-wk price range (HK$)	4.15-2.80
ADTO-6M (US$ mn)	1.4

*Stock ratings are relative to the relevant country benchmark.
[1]Target price is for 12 months.

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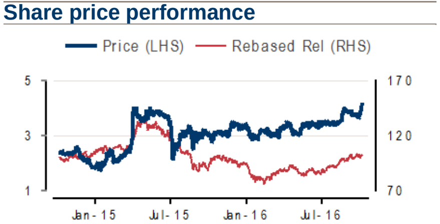
- **We initiate coverage on Yestar International Holdings Company Limited with an OUTPERFORM rating and target price of HK$4.90.** Yestar has been transforming itself from an imaging printing company into a medical consumable company since 2014 when it acquired a major distributor of the Roche In Vitro Diagnostics (IVD) business in China. As of 1H16, IVD contributed ~49% to Yestar's total revenue, and we expect this figure to reach ~54% by 2018E, and likely +80% with more acquisitions.
- **A leading IVD player in China with Roche's endorsement.** (1) China's IVD market is expected to grow at CAGR of ~20% in 2014-18E and Roche targets to achieve ~28% market share in 2018. (2) Roche IVD currently has ~160 distributors in China and endeavors to streamline its distribution network. Yestar acquired two of Roche IVD's distributors in 2014-15 and currently accounts for ~10% of Roche's IVD's business revenue in China. (3) Yestar will continue to expand its sales network in the affluent East and South China, by acquiring private IVD distributors by raising capital through the equity and debt markets. It pays a valuation multiple that is lower than its own trading multiple and requires profit guarantees from the targets.
- **Non-IVD business remains a cash cow.** Yestar's non-IVD business portfolio includes non-IVD medical consumables and image printing. Yestar has stable leadership in these mature markets with high working capital leverage. We expect the EBIT of the non-IVD business to be flat in 2016-18.
- **Our target price implies ~18% upside.** Our target price of HK$4.9 is based on 24x FY17 CS pro-forma EPS which factors in earnings accretion from all potential acquisitions in 2016-18, or PEG 1.0, for its stronger ROE than its peers and high growth visibility driven by acquisition. Execution of the acquisition in China's IVD market in the next 12 months will be the catalyst to our target price. Major risks include potential delays in the acquisition progress and unexpected setbacks in the business integration of past acquisitions.

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 6,580.99 on 05/10/16. On 05/10/16 the spot exchange rate was HK$7.76/US$1

Performance	1M	3M	12M
Absolute (%)	7.5	18.6	42.1
Relative (%)	5.9	1.9	34.8

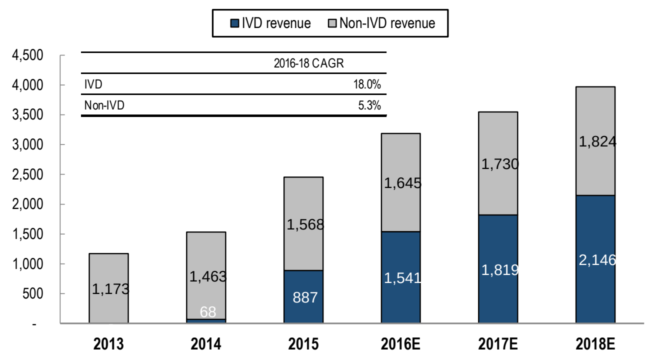
Financial and valuation metrics

Year	12/15A	12/16E	12/17E	12/18E
Revenue (Rmb mn)	2,454.7	3,186.4	3,548.7	3,969.5
EBITDA (Rmb mn)	364.0	565.5	642.9	724.2
EBIT (Rmb mn)	305.6	486.8	564.7	645.7
Net profit (Rmb mn)	162.8	315.2	391.2	483.2
EPS (CS adj.) (Rmb)	0.08	0.14	0.18	0.22
Change from previous EPS (%)	n.a.	-	-	-
Consensus EPS (Rmb)	n.a.	0.12	0.13	0.16
EPS growth (%)	49.7	79.1	24.1	23.5
P/E (x)	44.1	24.6	19.8	16.1
Dividend yield (%)	1.0	1.3	1.3	2.0
EV/EBITDA (x)	21.1	13.2	11.8	11.0
P/B (x)	8.55	8.20	7.83	6.34
ROE (%)	26.6	34.0	40.4	43.6
Net debt/equity (%)	Net Cash	Net Cash	Net Cash	12.3

Source: Company data, Thomson Reuters, Credit Suisse estimates

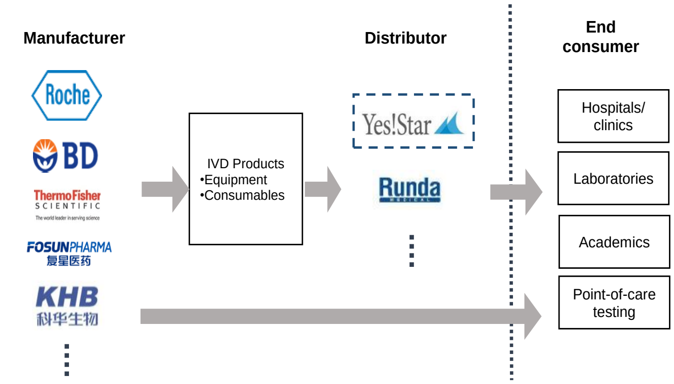
Focus Charts

Figure 1: IVD will account for ~54% of Yestar's total revenue by 2018



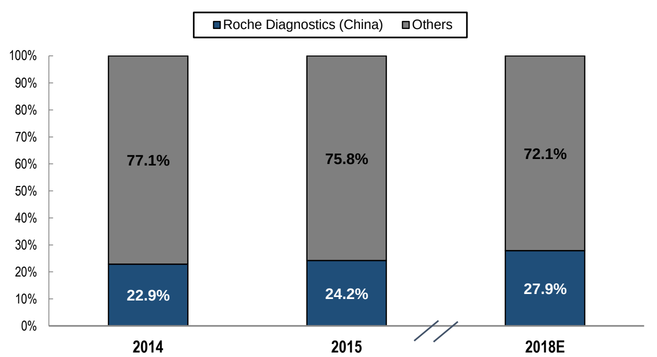
Source: Company data, Credit Suisse estimates

Figure 2: IVD industry roadmap



Source: Company data, Credit Suisse research

Figure 3: Roche targets ~28% market share in China IVD market by 2018.



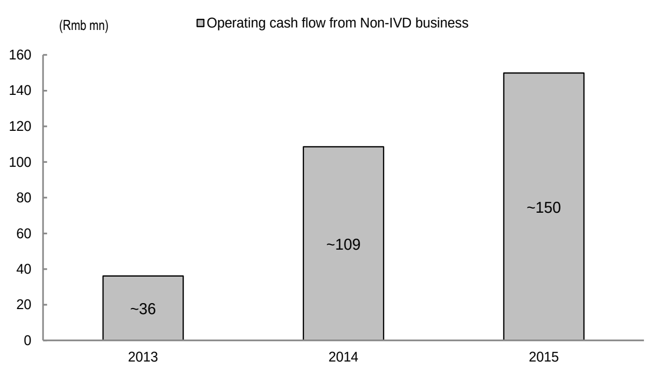
Source: *Renub*

Figure 4: Yestar's IVD distribution network covers ~600 hospital and clinics

IVD distribution channels	Shanghai	Jiangsu	Anhui
Brand	Roche, ThermoFisher SCIENTIFIC	Roche, BD	Roche, BD
Direct sales to hospital and clinic	101	115	20
Distributors	157	145	50
Total hospital and clinic distribution (2016)	**258**	**260**	**70**

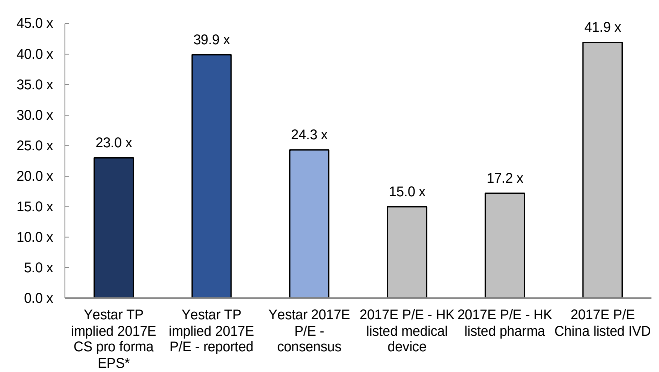
Source: Company data

Figure 5: Yestar's non-IVD business generated strong operating cash flow



Source: Company data

Figure 6: Valuation comps



Note: * CS pro forma EPS includes the effect of potential acquisition in the future with corporate notes issued in September 2016. Source: Company data, Credit Suisse estimates

A growing franchise in China's IVD market

We initiate coverage on Yestar with an OUTPERFORM rating and target price of HK$4.90 which implies ~18% upside.

Transforming into a medical consumables company

Yestar has been transforming itself from an imaging printing company focusing on colour photographic paper and industrial printing products, to a medical consumables company—mainly IVD (In Vitro Diagnosis) reagents and dental film products. It has been transforming since 2014 when it acquired one major distributor of Roche IVD's business in China. As of 1H16, IVD contributed ~49% to Yestar's total revenue and we expect this figure to reach ~54% in 2018E, and likely +80% with more acquisitions..

A leading IVD player in China with Roche's endorsement

IVD products are used to collect specimens from the human body and for examining them in hospital and laboratory settings. China's IVD market has seen fast growth in recent years, and we expect the market to grow at ~20% 2014-2018E CAGR.

Roche was the biggest player with ~24% market share in China's IVD market in 2015, and it aims to increase its market share to ~28% in 2018E. Roche IVD currently has approximately 160 distributors in China and endeavors to streamline its distribution network. Yestar acquired the No.6 distributor of Roche in 2014 and the No.2 distributor of Roche in 2015, and has demonstrated its abilities to integrate these businesses and generate synergy after the acquisitions. We believe Roche will be supportive of Yestar's further acquisitions in the future.

Yestar's strategy with expansion related to the IVD business is to acquire private IVD distributors by raising capital through the equity and debt market. It pays lower valuation multiple than its own trading multiple to the acquisition targets and requires profit guarantee from the targets as downside protection. As of 1H16, Yestar has a sales network of 588 hospitals and clinics in Shanghai, Jiangsu and Anhui—+117.8% change YoY. Given its recent debt financing of Rmb1,334 mn (~US$ 200 mn), we believe Yestar will have more acquisitions in the near term.

Non-IVD business remains a cash cow

Yestar's non-IVD business portfolio includes non-IVD medical consumables and image printing and had an operating cash flow CAGR of 104% during 2013-15. Yestar has stable leadership in these mature markets with high working capital leverage. We expect the EBIT of non-IVD business to be flat in 2016-18.

Our target price implies ~18% upside

Our target price of HK$4.90 is based on 24x FY17 CS pro-forma EPS, or 1.0 PEG (2016-18 CS pro-forma EPS CAGR of 23.8%), at a ~45% premium to the HK-listed pharma and medical device company average trading FY17 P/E of ~16.5x, as: (1) Yestar has much stronger ROE. During 2013-15, its average ROE was 23.5% vs the peers' average of 16.4%; (2) If we assume that Yestar will use up all the processes from the newly issued bond for acquisition by the end of 2017 and acquire the remaining 30% equity interests of Uno and Anbaida, our pro-forma EPS will have ~24% CAGR in 2016-18, higher than the peers' average of 18.3%. The execution of acquisitions in the IVD market in the next 12 months will be the catalyst to our target price. **Major risks** to our OUTPERFORM rating and target price of HK$4.9 include potential delay in the acquisition progress and unexpected setbacks in the business integration of previous acquisitions.

Yestar International Holdings Company Limited (2393.HK / 2393 HK)

Price (05 Oct 2016): **HK$4.15**; Rating: **OUTPERFORM**; Target Price: **HK$4.90**; Analyst: **Iris Wang**

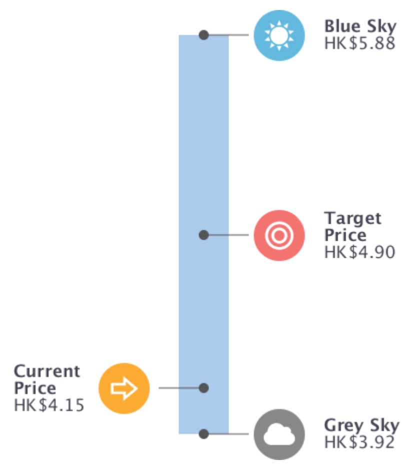
Income Statement (Rmb mn)	**12/15A**	**12/16E**	**12/17E**	**12/18E**
Sales revenue	**2,455**	**3,186**	**3,549**	**3,970**
Cost of goods sold	1,937	2,434	2,685	2,973
EBITDA	**364**	**566**	**643**	**724**
EBIT	**306**	**487**	**565**	**646**
Net interest expense/(inc.)	26	14	102	96
Recurring PBT	**280**	**473**	**463**	**550**
Profit after tax	**199**	**336**	**329**	**390**
Reported net profit	**163**	**254**	**257**	**390**
Net profit (Credit Suisse)	**163**	**315**	**391**	**483**
Balance Sheet (Rmb mn)	**12/15A**	**12/16E**	**12/17E**	**12/18E**
Cash & cash equivalents	506	537	1,705	1,229
Current receivables	553	495	769	753
Inventories	415	492	479	564
Other current assets	42	54	60	67
Current assets	**1,516**	**1,578**	**3,013**	**2,614**
Property, plant & equip.	117	112	110	110
Investments	0	0	0	0
Intangibles	1,510	1,460	1,410	1,360
Other non-current assets	21	24	23	25
Total assets	**3,164**	**3,174**	**4,557**	**4,109**
Current liabilities	**1,142**	**969**	**1,007**	**1,050**
Total liabilities	**2,246**	**2,136**	**3,402**	**2,721**
Shareholders' equity	**907**	**946**	**992**	**1,225**
Minority interests	10	92	163	163
Total liabilities & equity	**3,164**	**3,174**	**4,557**	**4,109**
Cash Flow (Rmb mn)	**12/15A**	**12/16E**	**12/17E**	**12/18E**
EBIT	**306**	**487**	**565**	**646**
Net interest	24	9	91	81
Tax paid	(60)	(56)	(138)	(123)
Working capital	(139)	26	(174)	(20)
Other cash & non-cash items	34	65	(24)	(17)
Operating cash flow	**165**	**530**	**319**	**566**
Capex	(19)	(23)	(25)	(28)
Free cash flow to the firm	**147**	**507**	**294**	**539**
Investing cash flow	**(807)**	**(204)**	**(206)**	**(690)**
Equity raised	714	0	0	0
Dividends paid	(50)	(102)	(103)	(156)
Financing cash flow	**952**	**(296)**	**1,055**	**(352)**
Total cash flow	**310**	**31**	**1,168**	**(476)**
Adjustments	1	0	0	0
Net change in cash	**311**	**31**	**1,168**	**(476)**
Per share	**12/15A**	**12/16E**	**12/17E**	**12/18E**
Shares (wtd avg.) (mn)	2,012	2,175	2,175	2,175
EPS (Credit Suisse) (Rmb)	**0.08**	**0.14**	**0.18**	**0.22**
DPS (Rmb)	0.04	0.05	0.05	0.07
Operating CFPS (Rmb)	0.08	0.24	0.15	0.26
Earnings	**12/15A**	**12/16E**	**12/17E**	**12/18E**
Growth (%)				
Sales revenue	60.3	29.8	11.4	11.9
EBIT	100.1	59.3	16.0	14.3
EPS	49.7	79.1	24.1	23.5
Margins (%)				
EBITDA	14.8	17.7	18.1	18.2
EBIT	12.5	15.3	15.9	16.3
Valuation (x)	**12/15A**	**12/16E**	**12/17E**	**12/18E**
P/E	44.1	24.6	19.8	16.1
P/B	8.55	8.20	7.83	6.34
Dividend yield (%)	1.0	1.3	1.3	2.0
EV/sales	3.1	2.3	2.1	2.0
EV/EBITDA	21.1	13.2	11.8	11.0
EV/EBIT	25.1	15.3	13.4	12.3
ROE analysis (%)	**12/15A**	**12/16E**	**12/17E**	**12/18E**
ROE	26.6	34.0	40.4	43.6
ROIC	40.6	43.9	47.4	36.5
Credit ratios	**12/15A**	**12/16E**	**12/17E**	**12/18E**
Net debt/equity (%)	(9.3)	(28.6)	(17.7)	12.3
Net debt/EBITDA (x)	(0.24)	(0.52)	(0.32)	0.24

Source: Company data, Thomson Reuters, Credit Suisse estimates

Company Background

Yestar International Holdings Company Limited is a PRC based company focuses on manufacturing and distributing various products, including non-medical consumables like printing photo paper, and medical consumables such as IVD products and etc.

Blue/Grey Sky Scenario



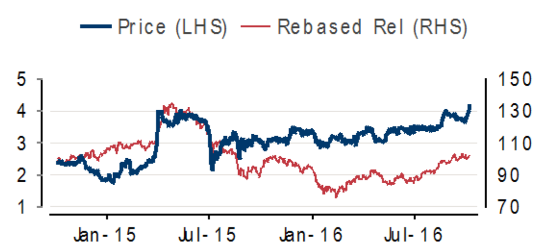
Our Blue Sky Scenario (HK$)	**5.88**

We derive blue-sky price of HK$5.9 with following assumptions: (1) Revenue from existing IVD companies, Uno and Anbaida will grow faster at 30% YoY in 2016/17; (2) Potential acquisition in 2017 will be cheaper at 8.5x 2017E P/E, compared with 9.0x 2017E P/E.

Our Grey Sky Scenario (HK$)	**3.92**

We derive grey-sky price of HK$3.9 with following assumptions: (1) Revenue from existing IVD companies, Uno and Anbaida will grow slower at 10% YoY in 2016/17; (2) Failure in execution of M&A of IVD companies in 2017.

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 6,580.99 on 05-Oct-2016

On 05-Oct-2016 the spot exchange rate was HK$7.76/US$1

Transforming into a medical consumables company

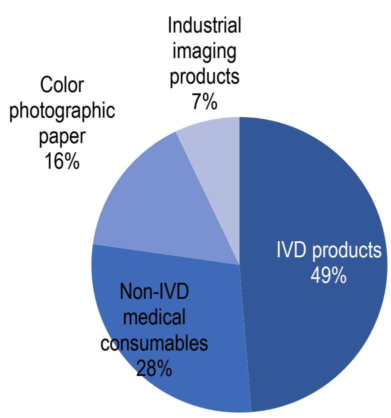
Since 2001, Yestar has become a sole processor and largest distributor of Fujifilm products (including color photographic papers, industrial imaging products and some medical films) in China. It started the distribution business of In Vitro Diagnostics (IVD) products in 2014 when it acquired Roche's sixth largest distributor in China—Jiangsu Uno.

Yestar has been transforming into a medical consumables company since 2014, with the IVD business contributing 49% of its revenue. We believe the IVD business will be its growth driver with ~34% 2015-18 CAGR

In 2015, Yestar successfully expanded its distribution network for the IVD business by acquiring the second largest distributor of Roche in the PRC market—Shanghai Anbaida. Since then, Yestar has successfully transformed itself into a healthcare company focusing on the distribution of IVD products.

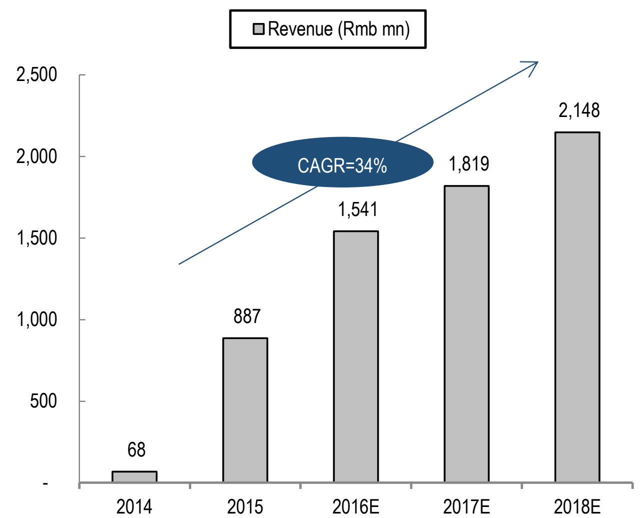
Yestar's revenue breakdown is into three segments: medical consumables, color photographic paper and others, and industrial imaging products, which accounted for 68%, 24% and 8% of the company's total revenue in 2015, respectively. The company's revenue from IVD, the fastest-growing segment of medical consumables, is expected to deliver CAGR of ~34% during 2015-2018E, as per our forecast.

Figure 7: Revenue breakdown in 1H16



Source: Company data

Figure 8: IVD revenue will grow at ~34% CAGR in 2015-18E

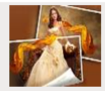
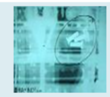


Source: Company data, Credit Suisse estimates

Yestar's **medical consumable business** includes IVD products, medical films, and dental films. For medical film and dental film, the company does not only have the Fujifilm brand, but also its in-house brand "Yes!Star." IVD has become the growth driver for Yestar. In 2015, IVD accounted for ~60% of revenue from medical consumables business. Yestar currently distributes Roche, BD and Thermo Fisher branded IVD products in Shanghai, Jiangsu, and Anhui provinces, and has become the largest Roche IVD product distributor in China with ~10% share.

Its **imaging printing business** includes products from two sub-segments: (1) color photographic paper and others (24.4% of FY15 revenue, Rmb600 mn) and (2) Industrial imaging products (8.0% of FY15 revenue, Rmb196 mn). Yestar is the sole processor and exclusive distributor of Fujifilm color photographic papers and industrial imaging products (including NDT x-ray films and PWB films). **Color photographic paper** includes customised, ready-to-use sized color photographic papers, and the firm offers both Professional and Minilab papers. The firm not only processes and distributes Fujifilm's products but also manufactures its own label products. Customers for the color photographic papers are wholesalers and end users like professional photo processing labs or shops. **Industrial imaging products** include non-destructive testing (NDT) x-ray films, and printed wiring board (PWB) films. Yestar manufactures and distributes both Fujifilm brand and "Yes!Star" NDT x-ray films to wholesalers and end users. Besides, it helps Fujifilm process PWB products and then sells back to Fujifilm.

Figure 9: Product matrix of Yestar

	Medical Consumable Products			Color Photographic Papers and Others		Industrial Imaging Products	
GROWTH DRIVER	In Vitro Diagnostic (IVD) Products	Medical film	Dental film	Professional	Minilab	NDT x-ray films	PWB films
Products							
Uses	▪ Used in performing medical examination e.g. blood, tissues test for medical diagnosis	▪ Used in diagnostic imaging from x-ray and other image modalities	▪ Dental x-ray examination showing pictures of teeth, bones, etc.	▪ Customized ready-to-use sized color photographic papers		▪ For checking structural integrity of machinery	▪ Photo-tooling film for production of printed circuit boards
Brands	Roche, BD, ThermoFisher SCIENTIFIC ▪ Distribution	FUJIFILM, Yes!Star ▪ Manufacturing ▪ Distribution	FUJIFILM, Yes!Star ▪ Manufacturing ▪ Distribution	FUJIFILM, Yes!Star ▪ Manufacturing ▪ Distribution*	FUJIFILM, Yes!Star ▪ Manufacturing ▪ Distribution*	FUJIFILM, Yes!Star ▪ Manufacturing ▪ Distribution	FUJIFILM ▪ Manufacturing
Customers	▪ Hospitals, clinics and wholesalers	▪ Fujifilm Group ▪ Hospitals, clinics and wholesalers	▪ Hospitals, clinics and wholesalers	▪ Wholesalers and end users (e.g. professional photo processing labs)	▪ Wholesalers and end users (e.g. image printing shops)	▪ Wholesalers and end users	▪ Fujifilm Group
1H16 Revenues	RMB1,110 mm (77.3%)			RMB225mm (15.7%)		RMB102 mm (7%)	
Market position	▪ Roche has the no.1 market share in China at c. 22%	▪ c.20-22% market share (no.2)	▪ n/a	▪ c.55% share (no.1)		▪ 2012: c.5.4% share (no.4)	▪ 2012: c.37.3% share (no.1)

Note:*Exclusive distribution right in the PRC market; Source: Company data

A leading IVD player in China with Roche's endorsement

Since 2014, Yestar has focused on the distribution of high-margin and fast-growing IVD products by building partnerships with global IVD brand leaders such as Roche Diagnostic (Roche), Becton Dickinson (BD) and Thermo Fisher Technology (Thermo Fisher). In 1H16, ~49% of revenue of Yestar was from the IVD business, according to management. Yestar has become the largest distributor of Roche's PRC IVD reagents, accounting for ~10% of Roche's revenue from the PRC IVD business.

China IVD market to grow at ~20% in 2014-18E

IVD industry roadmap

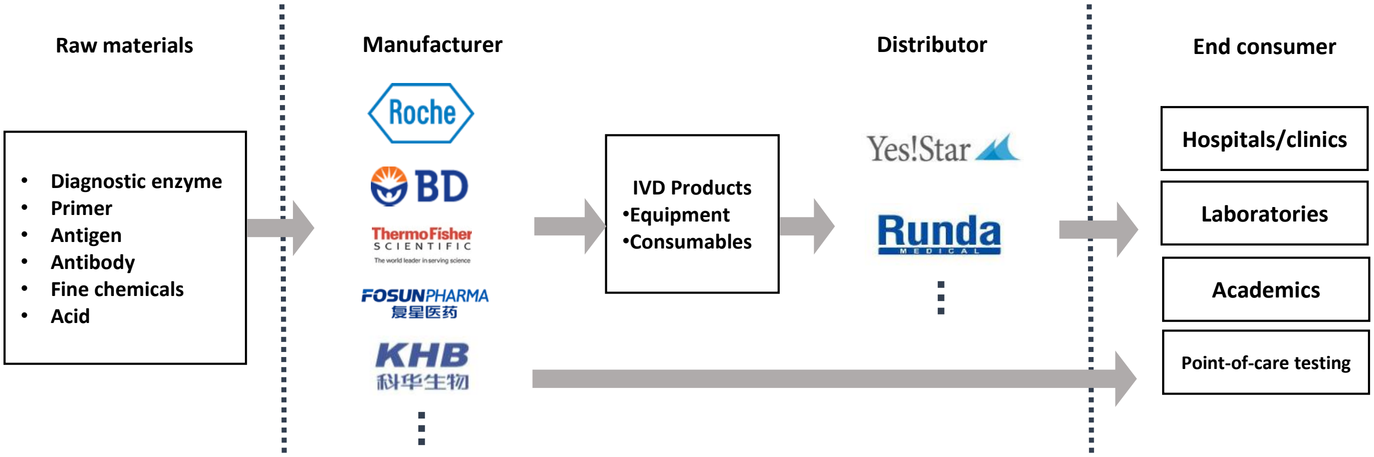
IVD (In Vitro Diagnosis) refers to tests which use instruments or reagents to determine health statuses or to diagnose diseases, thereby curing, alleviating, and monitoring diseases, infections and their sequelae. IVD products are explicitly designed and manufactured to collect specimens such as blood samples, body fluid and tissues derived from the human body, and to examine them in hospital and laboratory settings.

Figure 10 shows the value chain of the IVD industry. Upstream IVD raw materials include diagnostic enzyme, antibody and fine chemicals like sodium chloride, and other kinds of acids. Because IVD's raw materials made in China still have a gap with the global standards with relation to manufacturing technology and product purity, domestic manufacturers depend on imported raw materials.

The middle stream includes IVD product manufacturers as well as distributors. Major MNC manufacturers include Roche (RHHBY US), Becton Dikinson (BDX US), Thermo Fisher (TMO US) and Sysmex (6869 JP), and prominent domestic ones include Fosun Pharma (2196 HK/600196 CH) and Shanghai Kehua (002022 CH) and Mindray. As of 2015, among all the manufactures in China, Roche was the largest player with 14.7% market share by sales volume—11 players out of top 15 were domestic players. In terms of distribution, manufacturers can either directly sell to end consumers or use distributors. While domestic players tend to directly sell to end consumers, most MNCs rely on distributors who have the knowhow in local distribution.

Typical end customers of IVD products are hospitals, clinics, experimental laboratories, academics, as well as point-of-care testing institutions.

Figure 10: IVD industry roadmap



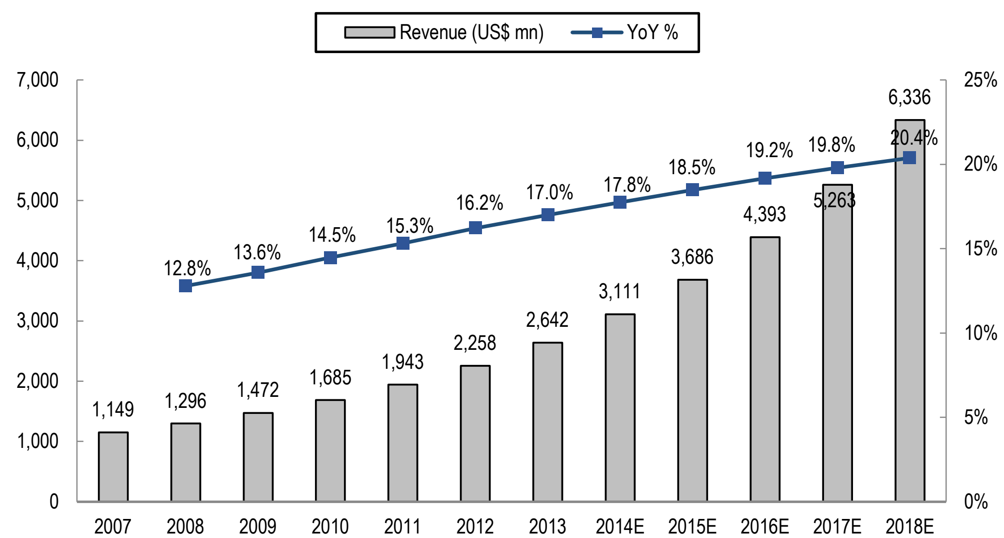
Source: Company data, Credit Suisse research

China's IVD market growth to accelerate

China's IVD market has seen major growth in recent years, and we expect the market to grow at ~20% 2014-2018E CAGR, driven by (1) favourable government policy, (2) changing demographics, and (3) progressive diagnostics technology.

China IVD market is to accelerate and is growing at ~20% 2014-18E CAGR.

Figure 11: China IVD market size will reach over US$6 bn in 2018



Source: Report issued by Renub Research in December 2014, Credit Suisse estimates

Favorable government policy: The Chinese government has been supportive on the healthcare sector. It is planning to provide universal healthcare access and treatment for both urban and rural citizens by 2020. Moreover, in March 2015, the MoST (Ministry of Science and Technology) announced its plan to invest Rmb60 bn (US$9.45 bn) in precision medicine projects by 2030 during the First Precision Medicine Conference. We believe these policies encourage direct and indirect investment in IVD processing facilities and diagnostics labs.

Changing demographics: The growing middle class and aging population in China will increase demand for IVD market products. UNICEF estimated that the Chinese population of people aged 60 and over will increase from ~15% in 2013 to ~23.4% in 2030. We believe the aging population will require more IVD products.

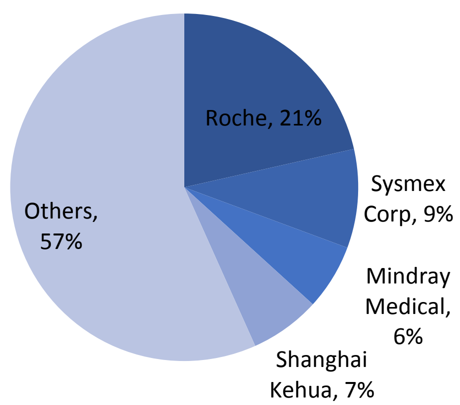
Progressive diagnostics technology: IVD technology is rapidly evolving, especially in molecular diagnostics—the analysis of DNA and RNA at the molecular level. Driven by the understanding of the human genome, advances in molecular diagnostics technology holds immense business potential based on the intention of identifying viruses and infectious diseases more accurately and at an earlier stage. With increasing incidences of various chronic diseases in China, we believe such progression brings more upside potential in IVD's market growth.

China has been the growth driver for Roche's IVD business. It will allocate more resources to China to capture the fast growing China IVD market opportunities

Endorsed by Roche, the No.1 IVD player in China

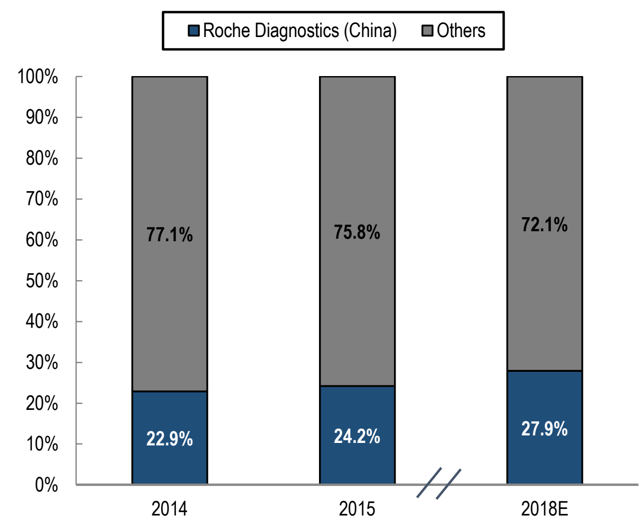
Roche is the biggest player with ~24% market share in China IVD market in 2015, and aims to increase its market share to ~28% in 2018E

Figure 12: PRC IVD market competition landscape in 2013



Source: Frost & Sullivan

Figure 13: Roche is expected to account for 28% of PRC IVD market in 2018

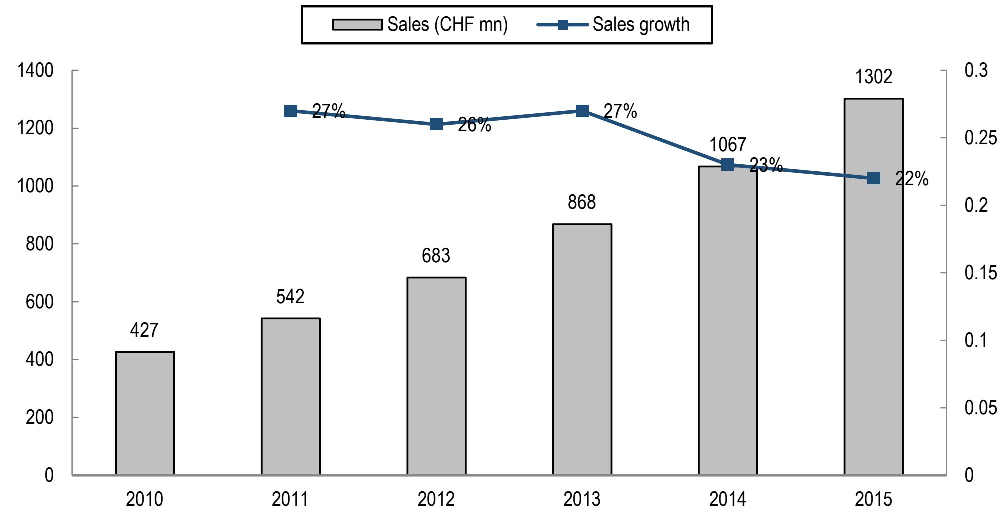


Source: *Renub*

The Chinese market has been the growth driver for Roche's diagnostic business since 2010 when Roche began the IVD business in China. Compared to the single-digit growth of its overall diagnosis business, Roche's China diagnosis is growing faster at 20+%.

To capitalise the opportunity in the fast growing PRC IVD market, Roche will allocate more resources to China. In 2014, Roche announced its decision to invest Rmb450 mn to build a 48,000 sq m diagnostic manufacturing facility in Suzhou. Roche Diagnostics Suzhou, a wholly-owned subsidiary of Roche, is expected to start operations in 2H16, while full operations are scheduled for 2018. Yestar is currently the largest distributor of Roche IVD China and accounts for around 10% of Roche IVD's revenue in China. We believe it will benefit from Roche’s expansion strategy in China.

Figure 14: Roche diagnostic business grew fast in China



Source: Roche

Roche IVD currently has approximately 160 distributors in China and endeavors to streamline its distribution network. Yestar acquired the No.6 distributor of Roche in 2014 and the No.2 distributor of Roche in 2015, and has demonstrated its ability to integrate these businesses and generate synergy after the acquisitions. We believe Roche will be supportive of Yestar's further acquisitions in the future.

Roche is to streamline its distribution network in China. We believe Roche will be supportive of Yestar's future acquisition considering its good track record

Accretive acquisitions backed by profit guarantee

Yestar's expansion strategy related to the IVD business is to acquire private IVD distributors by raising capital through the equity and debt market. It pays valuation multiple that is lower than its own trading multiple to the acquisition targets and requires profit guarantee from the targets as a downside protection.

Acquisition of Jiangsu Uno and Anbaida

In 2014, Yestar acquired 70% equity stake of Jiangsu Uno, which was founded in 2011 and is a major distributor of Roche's and BD's products. At the time of acquisition, Uno had a sales network covering 279 (mostly Class III) hospitals and clinics in the Jiangsu and Anhui provinces. As of 1H16, Jiangsu Uno has covered more than 330 hospitals and clinics. Since this acquisition, the medical consumables business has become Yestar's largest revenue and profit contributor, surpassing the imaging printing business.

In April 2015, Yestar acquired 70% equity interest of Anbaida Group, and further extended its sales network through the latter's hospital and clinic network in Shanghai. Anbaida is primarily engaged in the sales and distribution of medical IVD consumables, medical equipment as well as clinical laboratory analytical instruments in Shanghai, and is one of the second largest IVD products distributors of Roche with an extensive network of 258 hospitals and clinics.

Management confirmed that it made a reference to the transaction between Humanwell Healthcare and Beijing Baron Medical Equipment group while determining the pricing of the Anbaida acquisition. The Beijing Baron acquisition was comparable to the Anbaida acquisition as Beijing Baron was the largest distributor of Roche back then and both Beijing and Shanghai are tier-one cities in the PRC. Humanwell paid 8.3x 2012E P/E of Beijing Baron at the time of acquisition. Yestar paid ~8x 1FYE P/E multiple for its two acquisitions in 2014-15, in line with Humanwell's acquisition two years earlier. Both acquisitions added value to Yestar's shareholders since the valuation paid to the targets were lower than Yestar's average trading multiple during the six months right before the announcement of the acquisition.

Figure 15: Recent M&A involving distributors of Roche Diagnostics China

Acquirer	Yestar	Yestar	Humanwell Healthcare
Subsidiary	Jiangsu Uno	Anbaida Group	Beijing Baron Medical Equipment
Date	Nov-14	Oct-15	Jun-12
Position	RMB245mn for 70% of equity interest	RMB910mn for 70% of equity interest	RMB776mn for 80% of equity interest
Valuation	7.8x (based on FY14E net profit guarantee)	13x (based on 2014 IFRS NPAT)	10x (based on FY11 historical PE)
	6.5x (based on FY15E net profit guarantee)	8.3x (based on FY15E net profit guarantee)	8.3x (based on FY12E net profit guarantee)
Trading multiple*	~32x	~27x	
Profit Guarantee	RMB45/ 54/ 64 for FY14E/ FY15E/ FY16E	RMB156/ 187/ 225 for FY15E/ FY16E/ FY17E	RMB116/ 140/168 for FY12E/ FY13E/FY14E
Other information	Yestar shall acquire the remaining 30% equity interest in the Jiangsu Uno for RMB250mn implying 10x 2016E guaranteed profit	Yestar shall acquire the remaining 30% equity interest in Shanghai Emphasis for RMB675mn implying 10x 2017E guaranteed profit	N/A

Note: *trading multiple refers to the average of the 1FY E P/E multiple for six month before the announcement of the acquisition; Source: Company data

Financed by issuing equity and debt

In June 2015, Yestar issued new shares at HK$3.00 per share and raised HK$938.7 mn. With the fund raising, Yestar successfully acquired Anbaida.

In September 2016, Yestar announced the issuance of a 5-year US$200 mn corporate note with interest rate of 6.9%. We believe the company will execute other acquisitions in near term, probably in 4Q16.

Further expansion in sales network

As of 1H16, the firm has a sales network of 588 hospitals and clinics in Shanghai, Jiangsu, and Anhui, with +117.8% change YoY.

Figure 16: An overview of Yestar's IVD products distribution channels

	IVD distribution channels		
	Shanghai	Jiangsu	Anhui
Brand	Roche, ThermoFisher SCIENTIFIC	Roche, BD	Roche, BD
Direct sales to hospital and clinic	101	115	20
Distributors	157	145	50
Total hospital and clinic distribution (2016)	**258**	**260**	**70**

Source: Company data, Credit Suisse estimates

Yestar contributes approximately 10% to Roche’s revenue from IVD products in China, and is targeting at acquiring more of Roche’s IVD product distributors based in the affluent East and South China region to capture another 20% revenue of Roche's IVD business in China. Its criteria for acquisition targets include (1) location in developed regions, (2) strong free cash flow, (3) stable market position, (4) direct distributorship of Roche products, and (5) faster growth rate than the sector average of ~20%.

Given its recent debt financing of Rmb1,334 mn (~US$200 mn), we believe Yestar will have more acquisition in the near term. Roche IVD has ~160 distributors in China, and most of the top 10 have been acquired. Future targets available for Yestar will be smaller than Uno and Anbaida, in our view.

Yestar is to expand its distribution network in East China and South China, by acquiring more private IVD distributors

Figure 17: Yestar's IVD business is to expand in East China and South China

Source: Company data, Credit Suisse estimates

Non-IVD business remains a cash cow

Non-IVD business contributed ~51% to Yestar's entire business revenue in 1H16, and included non-IVD medial consumable products (~29% of 1H16 total revenue, medical and dental film products), and imaging printing business (~23% of 1H16 total revenue).

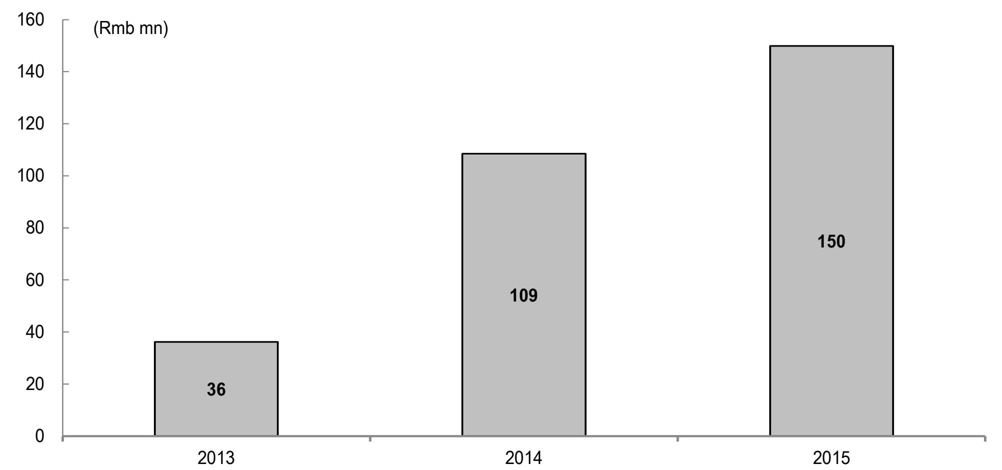
Imaging printing is Yestar's legacy business before the company expanded to the China IVD market, and is a good cash cow to the company thanks to its strong cash flow, low working capital requirement and established market leadership in the market, based on Yestar's long-term and trust-based relationship with Fujifilm.

Strong cash flow

The non-IVD business generated notable operating cash flow of Rmb36 mn in FY13, which was more than half of the reported net profit. In FY14 and 15, the segment continued to provide strong cash generation of Rmb109 mn, and Rmb150 mn, respectively.

Non-IVD business remains a cash cow, with strong cash flow and low working capital requirement

Figure 18: Non-IVD business had strong cash



Source: Company data, Credit Suisse estimates

Low working capital requirement

As customers need to pay cash before receiving products such as photographic papers or x-ray films, the business has very low accounts receivable days ranging from ~5 days to 10 days in 2013-15.

Established market leadership

In the color photographic paper segment, Yestar ranks the No.1 position in the PRC market with 55% market share. However, the recent decline in the imaging printing product segment's revenue from -11.9% YoY to 22.7% in 1H16 is mainly due to the stiff competition within the industrial imaging product segment. It is primarily because of Fujifilm's reduction in ASP to gain more market share within the industry, which further negatively impacted Yestar's ASP of Yestar-manufactured Fujifilm products. Currently, Yestar's or Fujifilm's market share for industrial imaging product segment is 6-7%, ranking No.4.

Long-term and trust-based relationship with Fujifilm

The founder and Chairman (Mr. James Hartono) of Yestar and his family have built a trustworthy business relationship with Fujifilm for over 43 years, since 1971. In PRC, Yestar has partnered with Fujifilm since 2001 and has co-developed the local imaging consumable market. Currently, Yestar is the largest distributor of Fujifilm products in the PRC.

Financial analysis

Yestar is transforming itself into a company focusing on medical consumable distributors, especially the distribution of IVD products. We believe the IVD business will be the key driver for the company in 2016-18E. With more revenue from the IVD business, margins for Yestar are to expand thanks to higher margin of the IVD business. However, this will also lead to sacrifices in the cash conversion cycle (CCC).

IVD business is the major growth driver

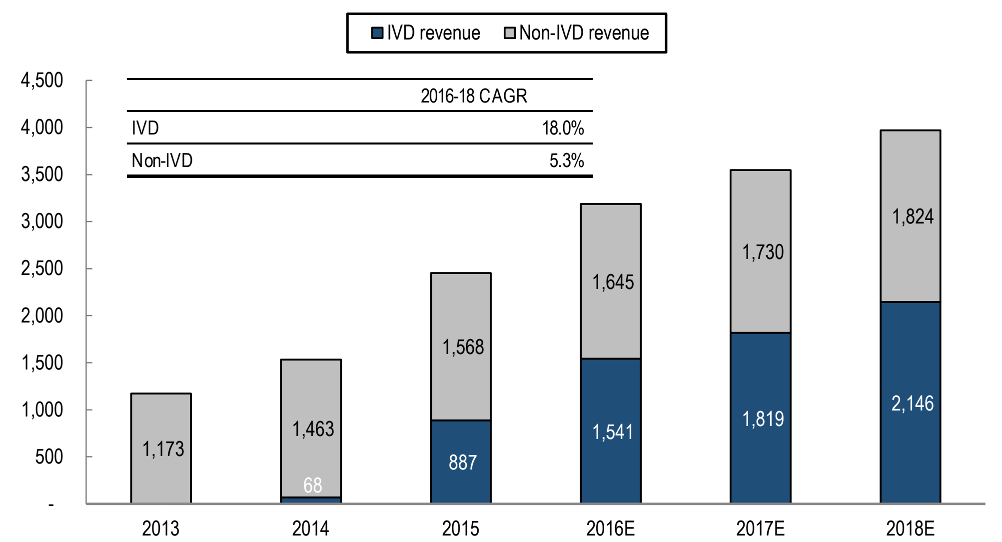
Since the first acquisition of IVD products in 2014, the IVD business has become the major growth engine for Yestar. In 2014/15/1H16, revenue from the IVD business accounted for 4.5%/36.1%/49% of total revenue. With the full-year consolidation of Anbaida in 2016, we expect the revenue from IVD business to be Rmb1,541 mn, or 48% in total revenue.

We expect Yestar's IVD business to deliver revenue growth of 73.8%/18%/18% YoY in 2016E/17E/18E, without factoring in future acquisitions. The growth of 2016E is significantly higher because Yestar only consolidated Anbaida's P&L for five months in 2015.

IVD business will be the major growth driver, delivering 2016-18 CAGR of 18% in revenue

The non-IVD business growth will be slower. (1) Non-IVD medical consumables including medical film and dental film will grow at 5.28% 2016E-18E CAGR; (2) we expect there will be no growth for colour photographic paper business, as Yestar has become the No.1 player in the PRC market with 55% market share and market size growth is minimal; (3) The growth of industrial imaging products business will also be flat given the increasing competition in the PWB products.

Figure 19: IVD business will become the future growth driver for Yestar



Source: Company data, Credit Suisse estimates

Figure 20: Revenue breakdown for Yestar

(Rmb mn)	2013	2014	2015	2016E	2017E	2018E
Medical consumables	**474**	**721**	**1,659**	**2,391**	**2,753**	**3,174**
IVD products	-	68	887	1,541	1,819	2,146
YoY			*1199.0%*	*73.8%*	*18.0%*	*18.0%*
Medical film and non-medical film	471	589	677	744	819	901
Color photographic paper and others	**545**	**607**	**599**	**599**	**599**	**599**
Industrial imaging products	**154**	**204**	**196**	**196**	**196**	**196**
Total	**1,173**	**1,531**	**2,455**	**3,186**	**3,549**	**3,970**
YoY		***30.5%***	***60.3%***	***29.8%***	***11.4%***	***11.9%***

Source: Company data, Credit Suisse estimates

Margin to expand for product mix change

The company's gross margin for Yestar increased from 13.7% in 2013 to 21.1% in 2015, driven by the ramping-up of the high-margin IVD business.

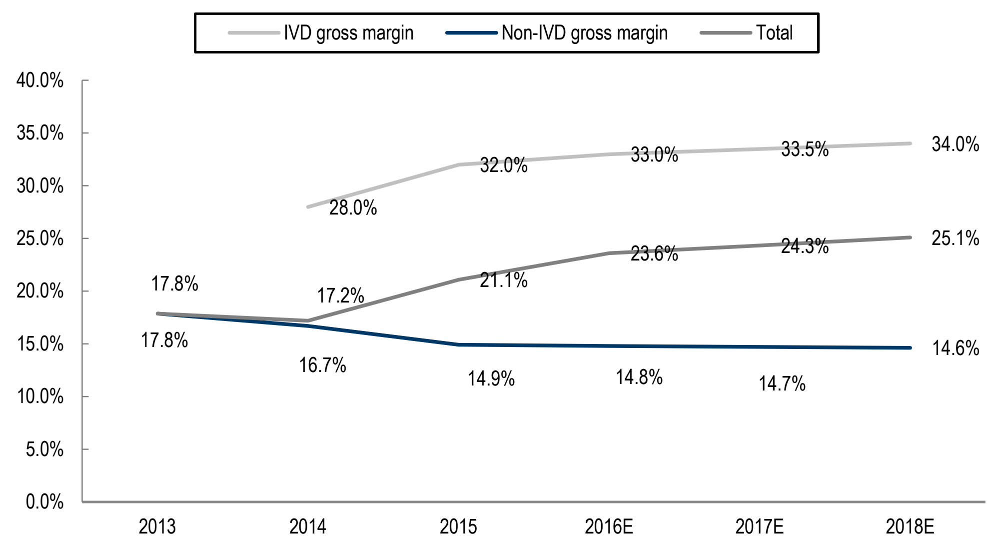
Gross margin, EBIT margin, and net margin will expand in the future with more revenue contributed by higher margin IVD business

Gross margins for the IVD business were 28%/32%/36% in 2014/2015/1H16, higher than the 16.7%/14.9%//14.1% of the non-IVD business in the same period. The improvement in the IVD business' gross margin was primarily because of Yestar's strong pricing power backed by Roche's strong branding, and its continuous expansion of sales network driven by both in-house development and acquisition.

For the non-IVD business, we expect gross margin to remain stable at 14.8%/14.7%/14.6% in FY16/17/18, compared with 14.9% in 2015.

We expect the company's overall gross margin to improve further to 23.6%/24.3%/25.1% in FY16/17/18, thanks to rapidly growing IVD business and stable non-IVD business.

Figure 21: Gross margin is improving for higher portion of IVD business

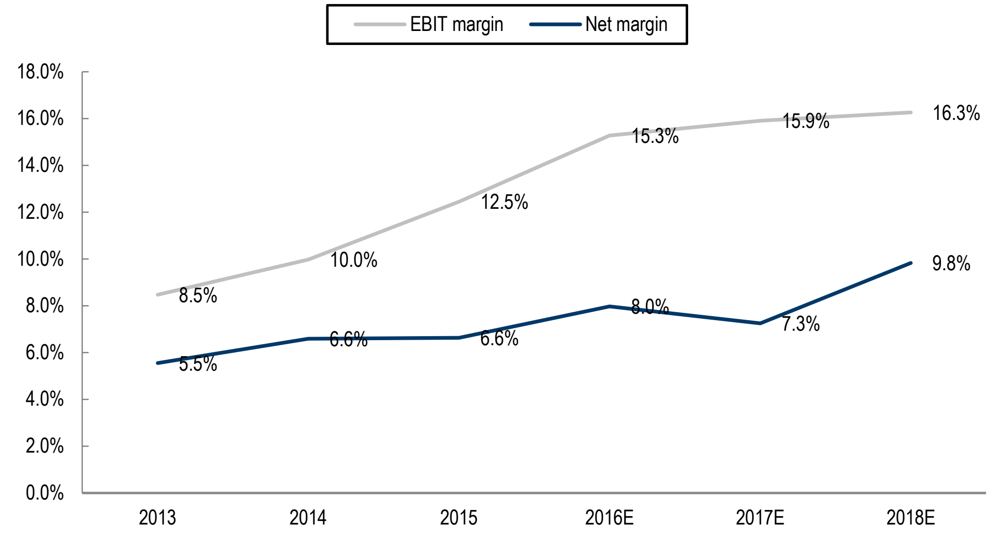


Source: Company data, Credit Suisse estimates

The overall EBIT margin for Yestar increased from 8.5% in 2013 to 12.5% in 2015, and is expected to grow to 14.8%/15.8%/16.6% in FY16E/17E/18E driven by the operational efficiency improvement of IVD business post acquisition.

Net margin also improved from 5.5% in 2013 to 6.6% in 2015, and is expected to improve to 8.0%/7.3%/9.6% in 2016/17/18, driven by the improving profitability of the IVD business as well. The decline of net margin in 2017 is caused by the increasing finance cost from the corporate notes issued in September 2016.

Figure 22: Improving EBIT margin and net margin



Source: Company data, Credit Suisse estimates

Cash conversion cycle to extend

The IVD business has a different business nature with Yestar's non-IVD business.

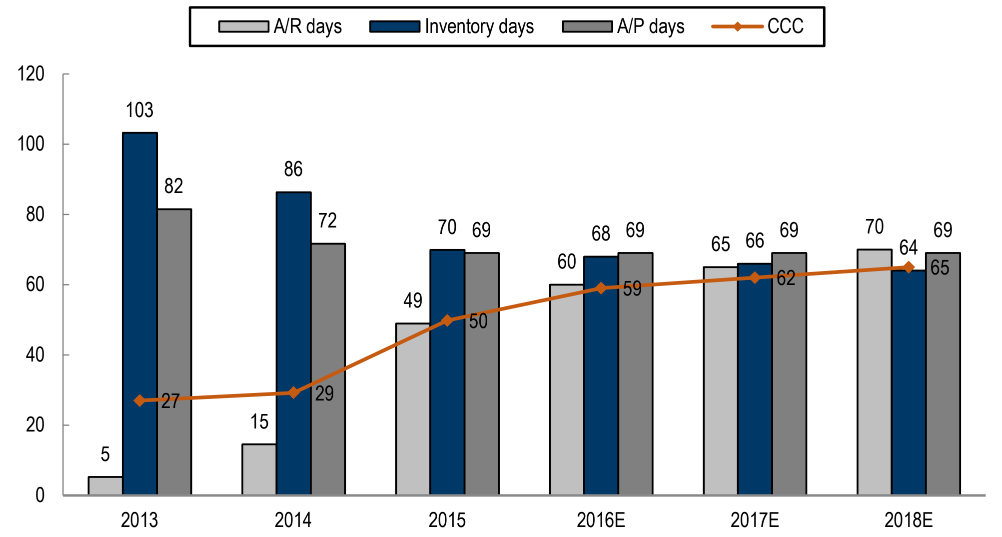
CCC is to extend with the increasing percentage of revenue from IVD business

- The most important customers for the IVD business are public hospital, which have relatively stronger bargaining power and typically require about three months of payment term. In contrast, Yestar seldom gives a payment term to its non-IVD business customers, i.e., most customers who want to purchase color photographic paper from Yestar need to pay in advance.
- Compared to the suppliers of the non-IVD business, Roche has shorter payment days.
- The IVD business has shorter inventory days than non-IVD because Yestar can purchase from Roche and sell to its customers rapidly without manufacturing. In addition, IVD products have a shorter period of expiration which is almost three months, Yestar generally stores IVD products no longer than two months.

As a result, the increasing revenue contribution from the IVD business results in an increasing demand in working capital and longer cash conversion cycle (CCC) which increased from 27 days in 2013 to 29 days in 2014, and further to 50 days in 2015.

We expect overall cash conversion cycle (CCC) to be longer in 2016E-18E, due to longer receivable days, decreasing inventory days and shorter payable days. We believe the extending CCC level remains healthy to Yester, given its large exposure to the IVD business which is growing very fast.

Figure 23: CCC is to extend (days)



Source: Company data, Credit Suisse estimates

Figure 24: Income statement

Income Statement (Rmb mn)	2013	2014	2015	2016E	2017E	2018E
Revenue	**1,173**	**1,531**	**2,455**	**3,186**	**3,549**	**3,970**
YoY		*30.5%*	*60.3%*	*29.8%*	*11.4%*	*11.9%*
Cost of sales	(964)	(1,268)	(1,937)	(2,434)	(2,685)	(2,973)
Gross profit	**209**	**263**	**517**	**752**	**864**	**996**
Selling and distribution expenses	(52)	(57)	(83)	(105)	(114)	(123)
Administrative expenses	(63)	(59)	(142)	(167)	(197)	(252)
Other income and gains	7	11	21	14	20	24
Other expenses	(2)	(6)	(7)	(7)	(9)	(10)
EBIT	**99**	**153**	**306**	**487**	**565**	**635**
Finance costs	(6)	(6)	(26)	(14)	(102)	(96)
Profit before tax	94	147	280	473	463	539
Income tax expense	(28)	(44)	(81)	(137)	(134)	(156)
Profit for the year	**65**	**104**	**199**	**336**	**329**	**383**
Non-controlling interests	0	3	36	82	71	-
Net profit	**65**	**101**	**163**	**254**	**257**	**383**
CS pro-forma net profit	**65**	**101**	**163**	**315**	**391**	**476**
YoY		*55.1%*	*61.3%*	*93.6%*	*24.1%*	*21.6%*
Margins:						
Gross margin	17.8%	17.2%	21.1%	23.6%	24.3%	25.1%
Selling expense ratio	4.5%	3.7%	3.4%	3.3%	3.2%	3.1%
Administrative expense ratio	5.4%	3.8%	5.8%	5.2%	5.5%	6.3%
EBIT margin	8.5%	10.0%	12.5%	15.3%	15.9%	16.0%
Net margin	5.5%	6.6%	6.6%	8.0%	7.3%	9.6%

Source: Company data, Credit Suisse estimates

Figure 25: Balance sheet

Balance Sheet (Rmb mn)	2013	2014	2015	2016E	2017E	2018E
Property, plant and equipment	104	104	117	112	110	110
Prepaid land lease payments	16	15	15	15	14	14
Intangible assets	3	250	1,029	979	929	878
Goodwill	-	87	482	482	482	482
Deferred tax assets	8	7	6	9	9	11
Total non-current assets	**131**	**464**	**1,648**	**1,596**	**1,544**	**1,495**
Inventories	273	327	415	492	479	564
Trade and bills receivables	17	105	553	495	769	753
Prepayments, deposits and other receivables	29	23	42	54	60	67
Derivative financial instruments	-	-	-	-	-	-
Pledged deposits	3	4	1	-	-	-
Cash and cash equivalents	283	195	506	537	1,705	1,221
Total current assets	**605**	**654**	**1,516**	**1,578**	**3,013**	**2,605**
TOTAL ASSETS	**736**	**1,118**	**3,164**	**3,174**	**4,557**	**4,100**
Interest-bearing bank and other borrowings	117	102	248	118	68	18
Trade and bills payables	215	283	450	470	545	579
Other payables and accruals	37	40	143	180	199	220
Tax payable	7	29	119	200	196	228
Amounts due to non-controlling interests	-	98	182	-	-	-
Dividends payable	3	-	-	-	-	-
Total current liabilities	**380**	**552**	**1,142**	**969**	**1,007**	**1,046**
Interest-bearing bank and other borrowings	-	5	173	123	1,433	1,383
Deferred tax liabilities	4	72	276	276	276	276
Other long term payables	9	164	656	770	687	13
Total non-current liabilities	**13**	**241**	**1,104**	**1,168**	**2,395**	**1,671**
TOTAL LIABILITIES	**394**	**793**	**2,246**	**2,136**	**3,402**	**2,717**
Issued capital	37	37	43	43	43	43
Reserves	296	279	864	903	949	1,177
Non-controlling interests	9	9	10	92	163	163
TOTAL EQUITY	**342**	**325**	**917**	**1,038**	**1,155**	**1,383**

Source: Company data, Credit Suisse estimates

Figure 26: Cash flow statement

Cash flow statement (Rmb mn)	2013	2014	2015	2016E	2017E	2018E
Profit before tax	94	147	280	473	463	539
Adjustments for:						
Finance costs	6	6	26	14	102	96
Interest income	(1)	(3)	(2)	(5)	(11)	(15)
Reversal of impairment of inventories	1	-	(1)	-	-	-
Impairment of trade receivables	-	-	3	-	-	-
Depreciation of items of property, plant and equipment	13	14	18	28	27	28
Amortisation of prepaid land lease payments	0	0	0	0	0	0
Amortisation of other intangible assets	1	3	40	50	50	51
Fair value gains, net: derivative financial instruments	-	-	-	-	-	-
Recognition of deferred income	-	-	-	-	-	-
(Gain)/loss on disposal of items of property, plant and equipment	(0)	0	(0)	-	-	-
Sub total	19	21	84	87	169	160
(Increase)/decrease in trade and bills receivables	84	(60)	(238)	58	(274)	16
(Increase)/decrease in prepayments, deposits and other receivables	(4)	56	2	(12)	(6)	(7)
(Increase)/decrease in inventories	(96)	(17)	(13)	(77)	14	(85)
Increase/(decrease) in trade and bills payables	(29)	7	70	20	74	35
Increase/(decrease) in other payables and accruals	12	(11)	36	37	19	21
(increase)/decrease in pledged deposits	(1)	(1)	4	1	-	-
Increase/(decrease) in deferred tax liabilities	-	-	-	-	-	-
Change in working capital	(34)	(26)	(139)	26	(174)	(20)
Income tax paid	(43)	(29)	(60)	(56)	(138)	(124)
Net cash flow from operating activities	**36**	**113**	**165**	**530**	**319**	**555**
Purchases of items of property, plant and equipment	(22)	(10)	(19)	(23)	(25)	(28)
Additions to prepaid land lease payments	(1)	-	-	(0)	(0)	(0)
Purchases of intangible assets	(0)	(1)	(0)	(0)	(0)	(0)
"Proceeds from disposal of items of property, plant and equipment"	1	0	1	-	-	-
Interest received from term deposits	-	3	1	5	11	15
Acquisition of entities under common control	(6)	-	-	-	-	-
Acquisition of subsidiaries	-	(141)	(791)	(182)	(192)	(675)
Others	2	-	-	(4)	0	(2)
Net cash flow from investing activities	**(27)**	**(149)**	**(807)**	**(204)**	**(206)**	**(690)**
Net proceeds from capital contribution	129	-	729	-	-	-
Share issue expense	-	-	(15)	-	-	-
New interest-bearing loans	97	(287)	495	(180)	1,260	(100)
Repayment of bank loans	(25)	276	(181)	-	-	-
Dividends paid	(81)	(36)	(50)	(102)	(103)	(153)
Interest paid	(6)	(6)	(26)	(14)	(102)	(96)
Net cash flow from financing activities	**114**	**(53)**	**952**	**(296)**	**1,055**	**(349)**
Net increase/(decrease) in cash and cash equivalents	123	(89)	310	31	1,168	(484)
Cash and cash equivalents at beginning of year	**160**	**283**	**195**	**506**	**537**	**1,705**
Effect of foreign exchange rate changes, net	(1)	0	1	-	-	-
Cash and cash equivalents at end of year	**283**	**195**	**506**	**537**	**1,705**	**1,221**

Source: Company data, Credit Suisse estimates

Our target price implies ~18% upside

We use P/E multiple as our valuation method. Considering there are no other IVD companies listed in Hong Kong, we use pharmaceutical and medical device companies as comparable companies, which are trading at ~15x and ~17x FY17 P/E.

To factor in the potential acquisition of IVD companies, we use CS pro forma net profit rather than reported net profit

To factor in the potential acquisition of IVD companies, we calculate CS pro-forma net profit as below:

- We assume all proceeds raised from the US$200 mn corporate note will be used to finance acquisitions by the end of 2017, based on 9.0x 2017E P/E which is in line with the multiple paid in past acquisitions. This implies net profit of Rmb151 mn for the targets in 2017.
- We also assume the net profit of the acquired companies as above will grow at 20% YoY in 2018, in line with sector average, and 75% of the acquired company will be booked as an intangible asset which will be amortised in 15 years.
- Our pro-forma forecast in 2016-18 also factors in the earnings accretion from the remaining 30% equity interests in Uno and Anbaida, assuming Yestar consolidates 100% of these two companies' net profits after the intangible asset amortisation cost.

Figure 27: CS pro-forma net profit includes potential acquisition of IVD companies

(Rmb mn)	2013	2014	2015	2016E	2017E	2018E
Net profit - reported	**65**	**101**	**163**	**254**	**257**	**383**
Net profit accretion(1) from acquisitions paid by bond proceeds	-	-	-	-	151	181
Amortization of intangible assets(2)	-	-	-	-	68	68
Net profit accretion from acquisition of remaining 30% equity of Uno and Anbaida	-	-	-	82	71	-
Amortization of intangible assets associated with 30% equity of Uno and Anbaida	-	-	-	21	21	21
CS pro forma net profit	**65**	**101**	**163**	**315**	**391**	**476**
EPS - reported	**0.18**	**0.05**	**0.08**	**0.12**	**0.12**	**0.18**
EPS - CS pro forma	**0.18**	**0.05**	**0.08**	**0.14**	**0.18**	**0.22**

Note: (1) Net profit accretion from potential acquisition will be paid with US$200mn corporate notes proceeds at 9.0x FY17 P/E; net profit will grow at 20% YoY in 2018; (2) Intangible assets accounted for 75% of the payment and will be amortized in 15 years. Source: Company data, Credit Suisse estimates

Because Yestar focuses on distribution instead of upstream such as R&D and manufacturing, its gross margin and EBIT margins are in general lower than its peers. However, it has a stronger ROE thanks to higher asset turnover and higher working capital leverage.

Our target price of HK$4.90 is based on 24x FY17 CS pro-forma EPS, or 1.0x PEG (2016-18 CS pro forma EPS CAGR 23.8%), at a ~45% premium to the HK-listed pharma and medical device company average trading FY17 P/E of ~16.5x, because:

- Yestar has much stronger ROE. During 2013-15, its average ROE was 23.5% vs the peers' average of 16.4%.
- If we assume Yestar will use up all the processes from the newly issued bond for acquisition by the end of 2017 and acquire the remaining 30% equity interests of Uno and Anbaida, then our pro-forma EPS will have ~24% CAGR in 2016-18, higher than the peers' average 18.3%.

The execution of acquisitions in the IVD market in the next 12 months will be the catalyst to our target price. Major risks to our OUTPERFORM rating and target price of HK$4.90 include potential delay in the acquisition progress and unexpected setback in the business integration past acquisition.

Figure 28: Operating comps

Company Name	Ticker	Gross margin FY2013	Gross margin FY2014	Gross margin FY2015	EBIT margin FY2013	EBIT margin FY2014	EBIT margin FY2015	ROE FY2013	ROE FY2014	ROE FY2015	Net margin FY2013	Net margin FY2014	Net margin FY2015	Assets/Equtiy FY2013	Assets/Equtiy FY2014	Assets/Equtiy FY2015	Asset turnover FY2015
Yestar	**2393 HK**	17.8%	17.2%	21.1%	8.4%	9.7%	12.0%	19.0%	31.0%	20.4%	5.5%	6.6%	6.6%	2.2	2.7	3.6	80.1%
HK listed pharma and medical device companies																	
Weigao	1066 HK	59.1%	58.8%	59.4%	23.7%	24.2%	22.3%	4.3%	11.0%	11.2%	8.3%	20.6%	18.8%	1.2	1.2	1.8	46.0%
Bloomage	963 HK	79.9%	78.0%	74.9%	35.4%	42.0%	37.7%	16.7%	21.5%	15.3%	25.1%	33.7%	29.3%	1.4	1.3	1.7	24.6%
HaohaiBiological	6826 HK	86.3%	87.2%	84.2%	40.5%	41.0%	38.2%	26.7%	30.9%	11.5%	35.3%	35.6%	41.2%	1.2	1.3	1.1	38.0%
HK listed medical device avg.		**75.1%**	**74.7%**	**72.8%**	**33.2%**	**35.7%**	**32.7%**	**15.9%**	**21.1%**	**12.7%**	**22.9%**	**29.9%**	**29.8%**	**1.3**	**1.3**	**1.5**	**36.2%**
Fosun Pharma	2196 HK	44.1%	43.7%	49.5%	11.4%	9.8%	11.6%	9.0%	11.1%	13.8%	20.5%	17.8%	19.7%	1.9	2.0	2.1	9.0%
CSPC	1093 HK	31.5%	38.2%	45.8%	11.6%	15.3%	19.0%	12.8%	15.6%	18.6%	9.8%	11.6%	14.6%	1.7	1.6	1.6	43.9%
Sino Biopharm	1177 HK	77.5%	76.4%	77.7%	17.9%	19.3%	20.5%	14.3%	17.2%	30.1%	10.5%	12.2%	12.2%	1.8	2.1	2.2	24.7%
CMS	867 HK	54.5%	56.2%	57.6%	28.1%	39.2%	30.1%	19.9%	26.2%	18.5%	28.3%	35.5%	28.0%	1.2	1.2	1.2	32.5%
3SBio	1530 HK	90.5%	92.3%	85.5%	24.8%	31.6%	29.3%	8.9%	30.9%	10.6%	11.0%	25.8%	31.5%	1.2	2.5	1.2	38.2%
Luye Pharma	2186 HK	83.6%	81.0%	81.4%	16.1%	28.3%	32.4%	16.4%	12.0%	13.8%	12.3%	23.8%	29.4%	1.9	1.2	1.2	39.3%
Lijun Intl Pharm	2005 HK	48.1%	50.9%	47.2%	27.5%	29.7%	24.4%	14.4%	18.5%	14.8%	23.9%	28.8%	18.2%	1.7	1.6	1.8	21.9%
Livzon	1513 HK	62.8%	60.9%	60.6%	12.6%	11.0%	11.9%	13.5%	12.6%	14.9%	10.7%	9.4%	9.5%	2.0	2.0	1.9	86.0%
HK listed pharma avg.		**61.6%**	**62.5%**	**63.2%**	**18.8%**	**23.0%**	**22.4%**	**13.6%**	**18.0%**	**16.9%**	**15.9%**	**20.6%**	**20.4%**	**1.7**	**1.8**	**1.7**	**36.9%**
IVD companies																	
Sinocare Inc	300298 CH	66.8%	68.5%	65.3%	32.8%	32.1%	17.6%	17.5%	17.8%	12.8%	37.2%	36.7%	22.6%	1.1	1.1	1.1	13.0%
Beijing Leadman Biochemistry Co Ltd	300289 CH	62.7%	61.5%	57.3%	34.8%	32.2%	31.7%	12.9%	11.7%	14.7%	32.4%	24.1%	23.2%	1.5	1.5	1.5	11.3%
Shanghai Kehua Bio-Engineering	002022 CH	48.3%	45.2%	41.7%	28.6%	26.7%	17.6%	23.9%	23.0%	12.9%	26.1%	24.1%	18.4%	1.2	1.2	1.2	17.9%
Dirui Industrial Co Ltd	300396 CH	55.4%	55.4%	58.3%	20.5%	18.4%	17.5%	23.5%	11.0%	11.2%	20.4%	21.1%	19.4%	1.4	1.2	1.5	25.2%
Sichuan Maker Biotechnology Co Ltd	300463 CH	55.9%	58.8%	56.6%	32.8%	32.3%	28.4%	32.0%	28.6%	14.1%	25.1%	24.5%	23.8%	1.4	1.5	1.2	59.8%
Ningbo Medical System Biotechnology	300439 CH	57.6%	55.7%	58.3%	30.9%	29.2%	25.6%	33.6%	33.2%	14.2%	24.2%	23.2%	23.8%	1.5	1.5	1.1	66.7%
Guangzhou Wondfo Biotech Co Ltd	300482 CH	56.8%	64.8%	66.7%	18.0%	24.4%	26.0%	24.4%	31.4%	21.1%	23.8%	27.0%	29.3%	1.4	1.3	1.1	72.2%
Autobio Diagnostics Co Ltd	603658 CH	72.4%	76.2%	72.4%	33.3%	41.6%	43.6%	36.4%	41.6%	40.2%	30.7%	37.4%	39.3%	1.2	1.3	1.3	89.7%
Shanghai Fosun Pharmaceutical Group Co	600196 CH	44.1%	43.7%	49.5%	11.4%	9.8%	11.6%	9.0%	11.1%	13.8%	20.5%	17.8%	19.7%	1.9	2.0	2.1	9.0%
Humanwell Healthcare Group Co Ltd	600079 CH	41.1%	40.9%	35.9%	15.0%	13.4%	10.8%	8.2%	7.9%	8.6%	7.0%	6.4%	6.5%	2.5	2.4	2.2	17.9%
Shanghai Runda Medical Technology	603108 CH	31.8%	26.3%	27.0%	10.8%	10.0%	9.4%	16.8%	15.8%	11.4%	6.6%	5.5%	5.6%	2.1	2.3	1.8	60.6%
Di An Diagnosis	300244 CH	37.0%	36.4%	33.5%	10.6%	10.9%	10.3%	14.6%	17.8%	10.6%	8.5%	9.3%	9.4%	1.4	1.4	2.2	33.5%
China listed avg.		**52.5%**	**52.8%**	**51.9%**	**23.3%**	**23.4%**	**20.9%**	**21.1%**	**20.9%**	**15.5%**	**21.9%**	**21.4%**	**20.1%**	**1.6**	**1.6**	**1.5**	**39.7%**
Roche Diagnostics	RHHBY US	74.5%	71.8%	67.9%	35.0%	29.7%	28.7%	52.6%	43.3%	n.a.	23.8%	19.8%	18.5%	3.6	3.7	3.8	33.9%
Abbot	ABT US	53.2%	54.5%	57.1%	10.9%	12.8%	14.1%	10.2%	10.6%	20.9%	12.4%	11.3%	21.7%	1.8	1.8	2.0	12.1%
Bayer	BAYN GR	51.4%	51.8%	54.3%	12.3%	13.1%	13.5%	15.3%	16.9%	18.1%	7.9%	8.4%	9.0%	2.6	3.0	3.3	15.8%
Sysmex Corp	6869 JP	61.1%	62.7%	56.9%	15.0%	17.8%	20.1%	11.9%	14.1%	18.6%	10.7%	12.9%	13.3%	1.4	1.4	1.4	25.5%
Becton Dikinson	BDX US	51.8%	50.9%	45.7%	15.6%	19.0%	10.4%	25.6%	23.5%	15.8%	11.5%	13.6%	6.1%	2.4	2.7	3.8	13.7%
Other regions listed avg.		**58.4%**	**58.4%**	**56.4%**	**17.7%**	**18.5%**	**17.4%**	**23.1%**	**21.7%**	**18.4%**	**13.3%**	**13.2%**	**13.7%**	**2.4**	**2.5**	**2.8**	**20.2%**

Source: Bloomberg

Figure 29: Valuation comps (As of October 5th)

5-Oct-2016 Company Name	Ticker	Market cap (US$, bn)	Last fiscal year	P/E FY15	P/E FY16	P/E FY17	P/B FY15	P/B FY16	P/B FY17	ROE FY15	ROE FY16	ROE FY17	EV/EBITDA FY15	EV/EBITDA FY16	EV/EBITDA FY17	EPS CAGR % 2016-18	PEG 2017
Yestar	**2393 HK**	1.2	12/2015	41.5	29.7	25.5	8.5	7.3	6.0	20.4%	24.7%	23.6%	21.1	13.4	12.0	13.0%	2.0
HK listed pharma and medical device companies																	
Weigao	1066 HK	3.1	12/2015	17.6	18.5	15.2	2.0	1.8	1.6	11.2%	9.5%	10.5%	10.6	11.0	9.2	17.0%	0.9
Bloomage	963 HK	0.6	12/2015	19.6	19.1	15.6	3.0	3.0	2.5	15.3%	15.7%	16.1%	15.6	12.5	10.8	23.4%	0.7
HaohaiBiological	6826 HK	0.8	12/2015	16.7	17.8	15.0	1.9	1.8	1.6	11.5%	10.2%	10.9%	12.3	9.9	8.1	16.1%	0.9
HK listed medical device avg.				**18.0**	**18.5**	**15.3**	**2.3**	**2.2**	**1.9**	**12.7%**	**11.8%**	**12.5%**	**12.8**	**11.2**	**9.3**	**18.8%**	**0.8**
Fosun Pharma	2196 HK	8.0	12/2015	19.0	17.8	15.4	2.6	2.4	2.2	13.8%	13.5%	14.1%	28.5	25.7	21.9	14.2%	1.1
CSPC	1093 HK	6.5	12/2015	29.6	23.9	19.6	5.5	4.9	4.3	18.6%	20.6%	21.7%	18.1	15.4	13.0	20.2%	1.0
Sino Biopharm	1177 HK	5.5	12/2015	16.8	21.1	18.4	5.1	4.3	3.6	30.1%	20.6%	19.5%	12.2	11.2	9.9	13.4%	1.4
CMS	867 HK	4.2	12/2015	26.1	20.7	17.1	4.8	4.4	3.6	18.5%	21.3%	21.1%	24.0	18.6	15.1	19.2%	0.9
3SBio	1530 HK	2.9	12/2015	31.3	26.1	19.8	3.3	3.1	2.7	10.6%	11.8%	13.6%	36.7	20.0	15.8	27.9%	0.7
Luye Pharma	2186 HK	2.4	12/2015	19.6	17.7	16.1	2.7	2.4	2.1	13.8%	13.3%	12.9%	14.1	13.5	12.1	12.9%	1.2
Lijun Intl Pharm	2005 HK	1.0	12/2015	19.3	16.4	15.0	2.9	2.8	2.5	14.8%	17.2%	17.0%	11.9	11.5	10.3	15.5%	1.0
Livzon	1513 HK	3.2	12/2015	24.0	22.1	18.5	3.6	3.0	2.6	14.9%	13.4%	14.0%	18.9	17.3	14.5	18.6%	1.0
HK listed pharma avg.				**23.2**	**20.7**	**17.5**	**3.8**	**3.4**	**4.7**	**16.9%**	**16.5%**	**22.0%**	**20.6**	**16.7**	**14.1**	**18.4%**	**1.0**
IVD companies																	
Sinocare Inc	300298 CH	1.0	12/2015	43.4	69.6	50.4	5.5	5.5	4.9	12.8%	7.9%	9.8%	44.8	n.a.	n.a.	53.5%	0.9
Beijing Leadman Biochemistry Co Ltd	300289 CH	0.9	12/2015	31.7	53.2	48.1	4.7	4.5	4.2	14.7%	8.5%	8.7%	20.5	27.9	25.9	n.a.	
Shanghai Kehua Bio-Engineering	002022 CH	1.8	12/2015	53.1	47.5	35.2	6.8	6.4	5.6	12.9%	13.4%	15.9%	44.3	34.4	29.2	18.5%	1.9
Dirui Industrial Co Ltd	300396 CH	1.1	12/2015	61.6	52.7	44.3	6.9	5.0	4.5	11.2%	9.4%	10.1%	55.3	n.a.	n.a.	18.7%	2.4
Sichuan Maker Biotechnology Co Ltd	300463 CH	2.2	12/2015	51.6	48.4	39.8	7.3	6.4	5.5	14.1%	13.3%	13.8%	40.5	28.4	21.9	23.2%	1.7
Ningbo Medical System Biotechnology	300439 CH	1.7	12/2015	58.5	53.8	43.6	8.3	7.2	6.1	14.2%	13.4%	14.1%	49.0	39.5	31.7	21.1%	2.1
Guangzhou Wondfo Biotech Co Ltd	300482 CH	1.6	12/2015	69.5	69.9	55.0	14.7	13.0	11.0	21.1%	18.6%	20.1%	72.6	n.a.	n.a.	22.6%	2.4
Autobio Diagnostics Co Ltd	603658 CH	3.3	12/2015	66.0	n.a.	n.a.	26.5	n.a.	n.a.	40.2%	n.a.	n.a.	57.0	n.a.	n.a.	n.a.	
Shanghai Fosun Pharmaceutical Group Co	600156 CH	0.6	12/2015	20.6	18.7	16.4	2.8	2.6	2.3	13.8%	13.8%	14.0%	28.5	26.2	22.4	13.5%	1.2
Humanwell Healthcare Group Co Ltd	600079 CH	4.0	12/2015	37.2	29.9	23.9	3.2	3.0	2.6	8.6%	9.9%	11.0%	25.9	19.4	15.6	21.5%	1.1
Shanghai Runda Medical Technology	603108 CH	1.4	12/2015	85.6	73.9	56.9	9.8	7.2	6.4	11.4%	9.7%	11.3%	41.9	40.2	32.9	25.8%	2.2
Di An Diagnosis	300244 CH	2.6	12/2015	82.9	63.5	46.3	8.8	7.5	6.2	10.6%	11.8%	13.3%	74.6	46.6	34.3	35.6%	1.3
China listed avg.				**55.1**	**52.8**	**41.8**	**8.8**	**6.2**	**5.4**	**15.5%**	**11.8%**	**12.9%**	**46.2**	**32.8**	**26.7**	**22.3%**	**1.8**
Roche	RHHBY US	212.0	12/2015	n.a.	16.2	15.0	n.a.	8.2	6.9	n.a.	50.9%	46.3%	11.8	11.0	10.3	8.3%	1.8
Abbot	ABT US	61.9	12/2015	14.3	19.1	17.2	3.0	2.9	2.7	20.9%	15.1%	16.0%	15.3	13.0	11.5	11.2%	1.5
Bayer	BAYN GR	82.8	12/2015	18.1	12.1	11.2	3.3	2.8	2.6	18.1%	23.2%	22.9%	9.8	8.5	8.0	8.7%	1.3
Sysmex Corp	6869 JP	15.2	03/2016	40.6	35.7	32.0	7.6	6.5	5.7	18.6%	18.2%	17.7%	21.7	19.4	17.8	27.7%	1.2
Becton Dickinson	BDX US	37.5	09/2015	29.3	19.5	17.7	4.6	4.3	3.8	15.8%	22.1%	21.6%	17.7	13.3	12.2	10.2%	1.7
Other regions listed avg.				**25.6**	**20.5**	**18.6**	**4.6**	**5.0**	**4.3**	**18.4%**	**25.9%**	**24.9%**	**15.3**	**13.0**	**12.0**	**15.5%**	**1.4**

Source: Bloomberg

Investment risks

Business integration risk post-acquisition

With the recent strategic acquisition of Jiangsu Uno and Anbaida Group Companies, the full integration will come to an end gradually year by year. Thus, a new financial, operational, and compliance associated integration is expected and is in progress, and this could potentially incur expenses in additional training costs, operating expenses, as well as professional fees. We believe any delays or failures to successfully integrate with the subsidiaries may result in loss of operational efficiency or financial performance.

Liquidity risk

The company's conversion from an image consumable company to a higher margin medical consumable manufacturer and distributor in the PRC gives the company more exposure on liquidity risks stemming from the IVD products. The IVD business generally has a longer CCC of 3 to 12 months than conventional industrial products. With higher exposure on IVD business, the firm will generate higher receivable days. This could potentially lengthen CCC that may decrease the liquidity level. We believe discount in liquidity level might result in the company's inability to meet loan payment schedule and operating expenses.

Risk of dependency

As one of the major business components of Yestar is its co-operation with Fujifilm, dependency is another major risk facing the firm. Despite the strong trust-based relationship with Fujifilm Group since 1971, Yestar has not given guarantee on either distribution rights or processing rights of Fujifilm group's products, mainly due to Fujifilm's sole and exclusive distributor, Fujifilm China Investment Co., Ltd.'s power in the PRC market.

Risk of patent infringement

Due to high dependency of the firm on suppliers for both processing needs of manufactured goods and finished goods for distribution purposes, any infringement on intellectual property right of our suppliers (e.g. Fujifilm) by a third party may pose a significant risk on Yestar, causing potential negative impact on business as well as financial performance.

Competition risk

Increasing number of domestic players jumping into the healthcare industry creates more competitive landscape for Yestar, and this could lead to potential price competition between market players to protect market share, showing possible negative impact on the firm's profitability.

Other major risks

We believe the company may also be exposed to other risks, in addition to those previously mentioned. These include:

- Changes in Chinese government policy on healthcare reform
- Potential price competition coming from domestic IVD product manufacturers entering high-end IVD market
- Increase in material costs for imaging products due to RMB devaluation

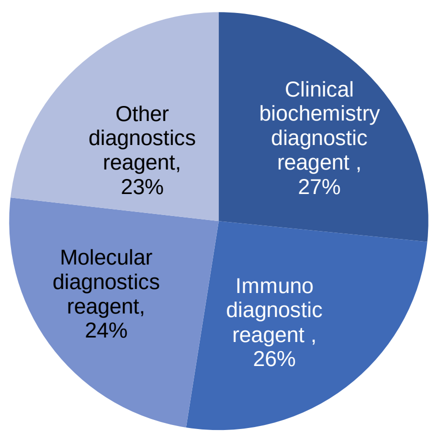
Appendix

Three main IVD reagents accounted for 77% in PRC market

In the PRC IVD market, there are three major IVD reagents, (1) clinical biochemistry diagnostics (27%), (2) immunodiagnostic (26%), and (3) molecular diagnostics (24%).

Clinical biochemistry diagnostics refers to the analysis of the blood plasma for a wide variety of substances. Immunodiagnostics is the analysis that uses an antigen-antibody reaction as their primary means of detection, and molecular diagnostics is the collection of techniques analysing biological markers in the genome and proteome by applying molecular biology to medical testing.

Figure 30: Three main IVD reagents accounted for 77% in PRC market, 2014



Source: *In Vitro Diagnostics Companies in China*, Asia Market Info and Dev Co.

Yestar's management team has established extensive sales network within the PRC, and this is benefiting the firm's distribution business segment. Backed by both extensive sales network and strategic partnerships with global market leaders, Yestar has been successfully established its business progression as one of the largest IVD product distributor within the booming domestic healthcare industry in the PRC.

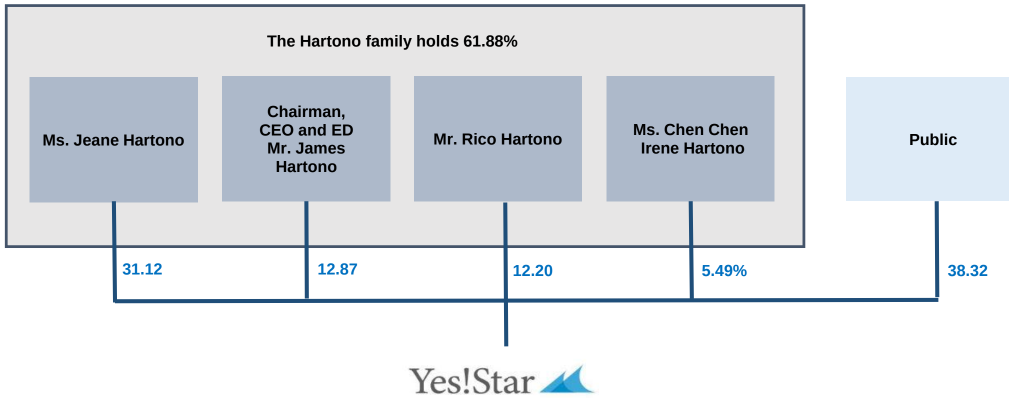
Over the last two years, Yestar has acquired two subsidiaries, Jiangsu Uno and Anbaida, to enhance its sales network in the affluent eastern area of the PRC.

In its 1H16 interim report, Yestar revealed its intention to seek potential merger and acquisition opportunities to accelerate its sales network expansion in the near term.

Shareholding structure

The Hartono family is the largest shareholder of Yestar, with 62% interest. The remaining 38% share is held by public shareholders.

Figure 31: Yestar shareholding structure



Source: Company data

History and milestones

Yestar was established in Shanghai in 2000 and was engaged in the imaging business. From 2004, Yestar began to process and distribute the photographic paper of Fujifilm. Since 2010, Yestar began to engage in the medical consumable business: it commenced processing and distribution of Fujifilm medical film and NDT x-ray film since 2010 and began to manufacture its in-house brand "Yes!Star" dental film and NDT x-ray film in 2011. In addition, Yestar's dedication in the photographic paper business was recognized by Fujifilm and Yestar was authorised as the sole and exclusive distributor of Fujifilm color photographic paper in the PRC market. In 2014, Yestar acquired its first IVD company, Jiangsu Uno, and stepped into the fast-growing IVD industry. In 2015, to expand its distribution network, Yestar acquired Shanghai Anbaida, the second largest distributor of Roche Diagnostic in China.

Figure 32: Yestar's history and milestones

2000	• Yestar Shanghai was established to engage in the imaging business
2004	• 25 branch companies and representative offices in various cities in the PRC • Authorized by Fujifilm to establish Fujifilm Yestar Digital Imaging Stores in the PRC
2005	• First production line for color photographic paper and color film commenced operation in Gaoxin Processing Plant
2010	• Commenced processing and sales of Fujifilm medical dry films to Fujifilm Group in the PRC
2011	• Started to manufacture and sell dental film and industrial NDT x-ray film under own Yes!Star brand in the PRC
2012	• Began to distribute Fujifilm industrial NDT x-ray film in the PRC
2013	• Appointed by Fujifilm China Investment as the sole and exclusive distributor of Fujifilm color photographic paper in the PRC • Listed on the Main Board of the Hong Kong Stock Exchange
2014-15	• Extensive sales and distribution network nationwide with 18 representative offices covering 18 cities in the PRC A dominating player with leading market share in the PRC's color photographic paper market in 2014 • Became a distributor of Roche Diagnostic (the largest IVD researcher and provider in the world), BD products and Thermal Fisher products in Shanghai, Jiangsu and Anhui Provinces through the acquisition of Jiangsu UNO and Shanghai Emphasis

Source: Company data, Credit Suisse estimates

Senior management background

Before 2014, Yestar focused on the imaging printing industry. After 2014, Yestar transformed itself into a medical consumable focused company, with more and more revenue from the IVD business, while Yestar will also keep its original non-IVD business because of its stable operating cash flow. Most key managements have rich experience in imaging printing industry. However, with more and more attention to the medical consumable business, especially the IVD business, we believe Yestar will hire more senior management with rich experience in medical consumable business.

Figure 33: Yestar's senior management background

Name	Position	Responsibility	Background
Mr. HARTONO James	Chairman, CEO, Executive Director	Responsible for the overall strategic development	Over 14 years of experience in the distribution of image printing products; Awarded the Honored citizenship from Nanning city in 2009
Ms. WANG Hong	CFO, Executive Director	Responsible for overseeing finance and accounting and financial planning	Over 12 years of experience in the PRC financial accounting and auditing field; Worked as an accountant for different companies for more than 5 years
Mr. CHAN To Keung	Executive Director	Responsible for overseeing the Group's production	Over 34 years of experience in the production of image printing products; Worked in Fuji Photo Products Co., Ltd, engaging in the distribution of Fujifilm products in Hong Kong and Macau
Ms. WANG Ying	Executive Director	Responsible for formulating sales strategies and product development	Over 31 years of experience in image industry; A committee member of the Chinese Society for Imaging Science and Technology since 2001
Mr. CHAN Chung Man	Executive Director	Responsible for the business development, marketing and management of the medical consumable division	Over 15 years of distribution development and management experiences in both overseas and China market; Held the position of Chief Executive Officer of International MinhViet Joint Stock Company

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 05-Oct-2016)*

3SBio Inc. (1530.HK, HK$8.9)
Abbott Laboratories (ABT.N, $42.1)
Autobio (603658.SS, Rmb51.97)
BD (BDX.N, $176.08)
Bayer (BAYGn.DE, €90.03)
Bloomage BioTechnology Corporation Limited (0963.HK, HK$13.64)
CSPC Pharmaceutical Group Ltd (1093.HK, HK$8.36)
China Medical System Holdings Ltd. (0867.HK, HK$13.0)
DIAN DIAGNOSTICS (300244.SZ, Rmb31.86)
Dirui Medical (300396.SZ, Rmb46.52)
Humanwell Healthcare Group Co Ltd (600079.SS, Rmb20.59)
Kehua Bio-Engine (002022.SZ, Rmb23.53)
Leadman (300289.SZ, Rmb13.51)
Livzon Group (1513.HK, HK$48.0)
Luye Pharma Group Ltd. (2186.HK, HK$5.5)
MedicalSystem (300439.SZ, Rmb32.4)
Roche (ROG.S, SFr241.9)
Runda Medical (603108.SS, Rmb33.12)
SSY Group (2005.HK, HK$2.67)
Shandong Weigao Group Medical (1066.HK, HK$5.44)
Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (2196.HK, HK$25.05)
Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (600196.SS, Rmb23.48)
Shanghai Haohai Biological Technology Co., Ltd (6826.HK, HK$38.4)
Sichuan Maccura (300463.SZ, Rmb26.89)
Sino Biopharmaceutical Limited (1177.HK, HK$5.72)
Sinocare (300298.SZ, Rmb19.56)
Sysmex (6869.T, ¥7,510)
WONDFO BIOTECH (300482.SZ, Rmb60.28)
Yestar International Holdings Company Limited (2393.HK, HK$4.15, OUTPERFORM, TP HK$4.9)

Disclosure Appendix

Important Global Disclosures

I, Iris Wang, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.
Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

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Target Price and Rating
Valuation Methodology and Risks: (12 months) for Yestar International Holdings Company Limited (2393.HK)

Method: Our target price HK$4.9 is based on 24x FY17 CS pro forma EPS which factor in the earnings accretion from all the potential acquisitions in 2016-18, or PEG 1.0. Initiate at OUTPERFORM rating, for its stronger ROE than its peers and high growth visibility driven by acquisition.

Risk: Execution of acquisition in China IVD market in the next 12 months will be the catalyst to our target price; major risks to our target price and OUTPERFORM rating include potential delay in the acquisition progress and unexpected setback in the business integration past acquisition.

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