

# China / Hong Kong Flash Note

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DBS Group Research . Equity

16 Mar 2017

## Yestar International (2393 HK) : BUY

Mkt. Cap: US\$1,131m | 3m Avg. Daily Val: US\$1.7m

Last Traded Price ( 15 Mar 2017): HK\$4.01

Price Target 12-mth: HK\$4.60 (15% upside) (Prev HK\$4.70)

### Analyst

Mark Kong +852 2820 4619; mark\_kong@dbs.com

## Company Guide

[Yestar International](#)



Summary of our point of view, and highlights the relevant data points, which are actively tracked

## Potential EPS CAGR acceleration through M&A and co-development of new business with Fujifilm

- FY16 earnings below estimates by 17% due to one-off expenses, higher interest & distribution cost
- Lowered FY17F-18F earnings by 2%/5% on higher distribution cost and lower gross margin due to ASP pressure on conventional products; TP lowered to HK\$4.6
- Maintain BUY for 1) 29% EPS CAGR in 2016-19F driven by IVD devices business; 2) M&A of more IVD devices players and co-development of new business with Fujifilm can accelerate EPS growth

### Forecasts and Valuation

FY Dec (RMB m)	2015A	2016A	2017F	2018F
Turnover	2,455	3,022	4,186	4,838
EBITDA	360	536	803	948
Pre-tax Profit	280	384	566	711
Net Profit	163	201	261	337
Net Pft (Pre Ex) (core profit)	163	201	261	338
Net Profit Gth (Pre-ex) (%)	61.3	23.5	30.0	29.0
EPS (RMB)	0.08	0.09	0.12	0.15
EPS (HK\$)	0.09	0.10	0.14	0.18
Core EPS (HK\$)	0.09	0.10	0.14	0.18
Core EPS (RMB)	0.08	0.09	0.12	0.16
EPS Gth (%)	49.7	14.2	30.0	29.0
Core EPS Gth (%)	49.7	14.2	30.0	29.4
Diluted EPS (HK\$)	0.09	0.10	0.14	0.18
DPS (HK\$)	0.04	0.04	0.07	0.09
BV Per Share (HK\$)	0.47	0.49	0.58	0.69
PE (X)	44.1	38.6	29.7	23.0
Core PE (X)	44.1	38.6	29.7	22.9
P/Cash Flow (X)	43.4	26.2	23.8	12.5
P/Free CF (X)	48.7	28.1	25.4	12.9
EV/EBITDA (X)	19.7	15.3	10.5	8.7
Net Div Yield (%)	0.9	1.1	1.7	2.2
P/Book Value (X)	8.6	8.2	6.9	5.9
Net Debt/Equity (X)	CASH	0.4	0.4	0.1
ROAE (%)	26.6	21.7	25.4	27.6

Earnings Rev (%): (2) (5)  
 Consensus EPS (RMB) 0.15 0.19  
 Other Broker Recs: B: 4 S: 0 H: 0

Source: Company, DBS Vickers, Thomson Reuters

### What's New

**FY16 earnings 17% below estimates due to one-off items, higher interest & distribution** Yestar's 2016 earnings increased by 23% to Rmb201m, which is 17% below DBS' estimates. The variance was due to:

1. Professional fees of c.Rmb10m for acquisition of three IVD device distributors in 2016;
2. Interest cost in 2016 was c.Rmb10m higher than our estimates due to borrowings for acquisition of three IVD devices distributors in Guangdong province;
3. Distribution cost as a percentage of sales was 0.5ppt higher than our expectations.

The company declared final dividend of HK\$0.044 p.s., up 13%, payout ratio maintained at around 42%. After issuance of corporate bond to raise c.Rmb1.4bn last Sep, Yestar changed from net cash position as of Dec 2015 to net debt position (net debt to equity: 43%) as of Dec 2016.

**Lowered 17F/18F earnings by 2%/5% to reflect higher distribution cost and ASP pressure on conventional products:** We made the adjustment to reflect:

1. Distribution cost as a percentage of sales in 17F/18F raised by 0.5ppt to 3.9%/3.9% to reflect cost increases as Yestar penetrates into lower tiered hospitals for its IVD devices;
2. We lowered the gross margin of IVD devices segment in FY17F/18F from 38% respectively to 35.5%

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(0.5ppt higher than 2016) as we believe there will be ASP pressure on conventional products.

Yestar acquired a 70% stake in Jiangsu Uno (an IVD devices distributor) from the founder in 2014. On 16 Mar 2017, it announced to acquire the remaining stake for Rmb210m. With its stake in Jiangsu Uno increased, there should be additional earnings contribution of c.Rmb20m to Yestar. Net-net, we revised down FY17F/18F earnings by 2%/5%.

**Maintain BUY for decent EPS CAGR and possible EPS CAGR acceleration through M&A and co-development of new business with Fujifilm:** We maintain BUY for three reasons:

1. Expected EPS CAGR of 29% in 2016-19F driven by IVD business penetration into lower tiered hospitals. We expect revenue contribution from this segment will increase from 49% in 2016 to 62%/66%/70% in 2017F/18F/19F.

In 2017, we expect the earnings growth to be 30% driven by: a) c.Rmb20m of additional earnings contribution thanks to increased stake in Jiangsu Uno; b) Yestar will complete the acquisition of the three IVD devices distributors in Guangdong provinces in 1Q17. We expect them to contribute earnings of c.Rmb40m in 2017;

2. Potential M&A of more IVD devices distributors to accelerate EPS growth. We believe Yestar is actively looking for M&A targets. Last Sep, it issued corporate bonds to raise c.Rmb1.4bn. We expect net cash inflow from operations of c.Rmb326m this year. After deducting c.Rmb400m for the remaining balance to be paid for the M&A last year, repayment of short term debt of Rmb225m, Yestar should still have c.Rmb900m for M&A;
3. Co-development of new business with Fujifilm should accelerate EPS growth. Yestar has been producing and distributing Fujifilm's medical film and colour photograph paper in China for over 15 years. They have recently jointly announced that they will co-operate in a new business. We estimate Yestar could distribute Fujifilm's immune analysis system and laboratory chemicals for biochemical analysis through its network in China;

Our previous TP is based on 34x FY17F PE. Based on the same multiples, we have lowered our TP to HK\$4.6.

**Interim Income Statement (RMBm)**

FY Dec	2H2015	1H2016	2H2016	% chg yoy	% chg hoh
Revenue	1,455	1,437	1,585	8.9	10.3
Cost of Goods Sold	(1,117)	(1,081)	(1,175)	5.2	8.7
<b>Gross Profit</b>	<b>338</b>	<b>356</b>	<b>410</b>	<b>21.4</b>	<b>15.1</b>
Other Oper. (Exp)/Inc	(135)	(141)	(183)	35.2	29.8
<b>Operating Profit</b>	<b>203</b>	<b>216</b>	<b>228</b>	<b>12.1</b>	<b>5.5</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	(18.2)	(17.8)	(41.6)	(128.1)	(133.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
<b>Pre-tax Profit</b>	<b>185</b>	<b>198</b>	<b>186</b>	<b>0.7</b>	<b>(6.0)</b>
Tax	(53.6)	(56.9)	(57.0)	6.4	0.2
Minority Interest	(24.0)	(34.6)	(34.3)	(42.9)	(0.9)
<b>Net Profit</b>	<b>107</b>	<b>106</b>	<b>94.7</b>	<b>(11.6)</b>	<b>(10.9)</b>
Net profit bef Except.	107	106	94.7	(11.6)	(10.9)
EBITDA	203	216	228	12.1	5.5
<b>Margins (%)</b>					
Gross Margins	23.2	24.8	25.9		
Opg Profit Margins	13.9	15.0	14.4		
Net Profit Margins	7.4	7.4	6.0		

Source: Company, DBS Vickers

**Income Statement (RMB m)**

FY Dec	2015A	2016A	% chg yoy
Revenue	2,455	3,022	23.1
Cost of Goods Sold	(1,937)	(2,255)	16.4
<b>Gross Profit</b>	<b>517</b>	<b>766</b>	<b>48.1</b>
Other Opng (Exp)/Inc	(215)	(323)	50.3
<b>Operating Profit</b>	<b>302</b>	<b>443</b>	<b>46.5</b>
Other Non Opg (Exp)/Inc	0	0	nm
Associates & JV Inc	0	0	nm
Net Interest (Exp)/Inc	(23)	(59)	(163.7)
Exceptional Gain/(Loss)	0	0	nm
<b>Pre-tax Profit</b>	<b>280</b>	<b>384</b>	<b>37.1</b>
Tax	(81)	(114)	39.9
Minority Interest	(36)	(69)	(92.7)
<b>Net Profit</b>	<b>163</b>	<b>201</b>	<b>23.5</b>
Net Profit before Except.	163	201	23.5
EBITDA	360	536	48.6
<b>Margins &amp; Ratio</b>			
Gross Margins (%)	21.1	25.4	
Opg Profit Margin (%)	12.3	14.7	
Net Profit Margin (%)	6.6	6.7	

Source: Company, DBS Vickers

DBSVHK recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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## DBS Vickers (Hong Kong) Limited

18<sup>th</sup> Floor Man Yee building, 68 Des Voeux Road Central, Central, Hong Kong

Tel: (852) 2820-4888, Fax: (852) 2868-1523

Company Regn. No. 31758