

# Yestar Healthcare Holdings Company (2393 HK)

 Target price: **HKD4.60** (from HKD5.20)

 Share price (16 Mar): **HKD4.04** | Up/downside: **+13.9%**

 5 4 3 **2** 1


**Outperform**  
 (from Buy)

## Downgrading: in pursuit of the next wave of growth

- 2017 likely another strong year; earnings should rise by 51% YoY
- But likely to need to tap equity markets to fund future M&As
- Lowering TP to HKD4.60; downgrading to Outperform (2)

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**What's new:** Yestar posted 2016 earnings that were below our estimate, mainly due to the slower-than-expected completion of its third acquisition, which we had factored into our model. However, excluding the contributions from the third acquisition, its core IVD business remains strong and largely in line with our expectations. While we remain positive on the company's long-term outlook, we believe the upside to the stock will be limited by the overhang of a potential new equity financing in the future.

**What's the impact:** We forecast substantial 2017 EPS growth of 51% YoY as the three new acquisitions announced in October-November 2016 have been completed in January-February of 2017. We have now factored at least 10 months of earnings contributions from all three companies into our model, but this is partly offset by an increase in amortisation expenses. We believe 2017 earnings will also be lifted by the lack of the minority interest expenses for Jiangsu Uno (the first IVD acquisition), since Yestar announced that it will acquire the rest of the 30% stake for a 10x PER (for CNY2.1bn) after the successful fulfilment of all of its profit guarantees.

While Yestar has reported CNY1.27bn in cash on its balance sheet as at end-2016, we expect at least CNY700m in cash outflows during 2017, with regard to the remaining payments for the above-mentioned transactions. We are now also assuming that the acquisition of the 30% stake in Anbaida (the 2<sup>nd</sup> IVD acquisition) will take place in early 2018 (at a cost of c.CNY660m) and have factored this into our model. Given Yestar's clear roll-up strategy and management's commitment to continue pursuing M&A in 2017 and beyond, we see an increasing possibility of a secondary equity offering to fund any major acquisitions in the future (the company has already raised USD200m in a bond issuance in September 2016 and we forecast net gearing to rise to around 70% in 2017-18E); this will likely be a near-term overhang for the stock price.

We cut our 2017-18E EPS by 5-6% on higher amortisation and interest expenses. We also introduce our 2019E EPS of CNY0.214.

**What we recommend:** We lower our 12-month target price to HKD4.60 (from HKD5.20), now based on a 29x PER (previously 33x, roughly 0.5 sd above its average PER forward trading range since 2014) on our revised 2017E EPS (previously: average of our 2016-17E EPS). We downgrade the stock to an Outperform (2) from a Buy (1). The key risk to our call: if future acquisitions do not come through.

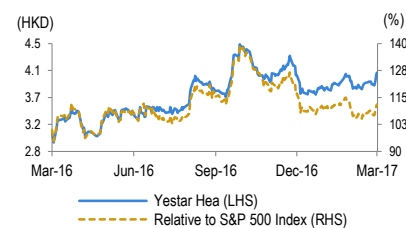
**How we differ:** Our 2017-18E EPS are largely in line with consensus, but we are the only broker cautious on a potential new financing overhang.

### Forecast revisions (%)

Year to 31 Dec	17E	18E	19E
Revenue change	10.6	12.7	n.a.
Net profit change	(5.1)	(5.6)	n.a.
Core EPS (FD) change	(5.1)	(5.6)	n.a.

Source: Daiwa forecasts

### Share price performance



12-month range	2.94-4.49
Market cap (USDbn)	1.13
3m avg daily turnover (USDm)	1.66
Shares outstanding (m)	2,175
Major shareholder	Hartono Family (61.1%)

### Financial summary (CNY)

Year to 31 Dec	17E	18E	19E
Revenue (m)	4,376	4,860	5,248
Operating profit (m)	678	756	848
Net profit (m)	303	412	465
Core EPS (fully-diluted)	0.140	0.189	0.214
EPS change (%)	50.9	35.8	12.8
Daiwa vs Cons. EPS (%)	1.8	1.3	n.a.
PER (x)	25.8	19.0	16.8
Dividend yield (%)	1.8	2.6	2.9
DPS	0.063	0.092	0.103
PBR (x)	6.2	4.9	4.0
EV/EBITDA (x)	11.2	10.5	9.2
ROE (%)	27.6	28.9	26.2

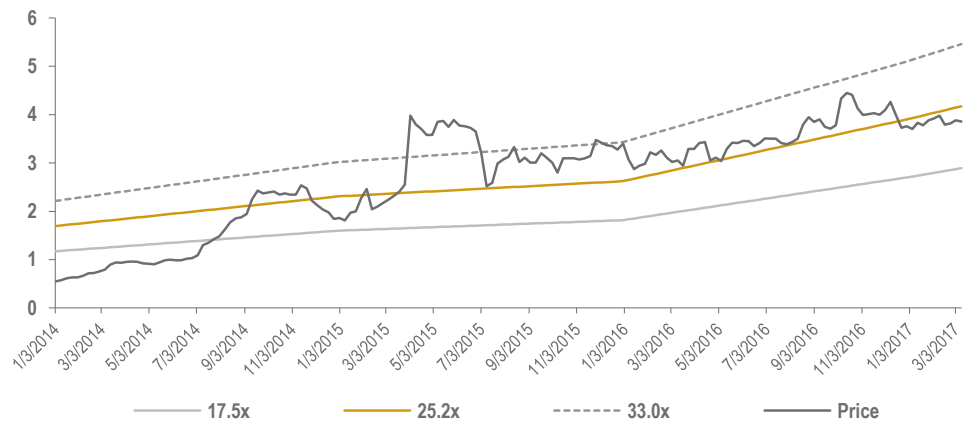
Source: FactSet, Daiwa forecasts

**Yestar: key changes to Daiwa forecasts**

CNYm	2017			2018			2019		
	New	Old	Change	New	Old	Change	New	Old	Change
<b>Revenue</b>									
Medical Consumables Products	3,742	3,319	13%	4,289	3,736	15%	4,734	n.a.	n.a.
Legacy photo imaging division	634	637	0%	571	575	-1%	514	n.a.	n.a.
<b>Total Revenue</b>	<b>4,376</b>	<b>3,956</b>	<b>11%</b>	<b>4,860</b>	<b>4,312</b>	<b>13%</b>	<b>5,248</b>	n.a.	n.a.
<b>Gross profit</b>	<b>1,185</b>	<b>1,054</b>	<b>12%</b>	<b>1,324</b>	<b>1,151</b>	<b>15%</b>	<b>1,451</b>	n.a.	n.a.
<b>Operating profit</b>	<b>678</b>	<b>670</b>	<b>1%</b>	<b>756</b>	<b>741</b>	<b>2%</b>	<b>848</b>	n.a.	n.a.
<b>Net profit</b>	<b>303</b>	<b>320</b>	<b>-5%</b>	<b>412</b>	<b>436</b>	<b>-6%</b>	<b>465</b>	n.a.	n.a.
<b>Basic and diluted EPS (CNY)</b>	<b>0.140</b>	<b>0.147</b>	<b>-5%</b>	<b>0.189</b>	<b>0.201</b>	<b>-6%</b>	<b>0.214</b>	n.a.	n.a.
<b>Gross margin</b>	<b>27.1%</b>	<b>26.6%</b>	<b>0.4</b>	<b>27.3%</b>	<b>26.7%</b>	<b>0.6</b>	<b>27.7%</b>	n.a.	n.a.
<b>Operating margin</b>	<b>15.5%</b>	<b>16.9%</b>	<b>-1.5</b>	<b>15.6%</b>	<b>17.2%</b>	<b>-1.6</b>	<b>16.2%</b>	n.a.	n.a.
<b>Net margin</b>	<b>6.9%</b>	<b>8.1%</b>	<b>-1.2</b>	<b>8.5%</b>	<b>10.1%</b>	<b>-1.6</b>	<b>8.9%</b>	n.a.	n.a.

Source: Daiwa forecasts

**Yestar: 1-year-forward PER band chart**



Source: Bloomberg, Daiwa

## Financial summary

### Key assumptions

Year to 31 Dec	2012	2013	2014	2015	2016	2017E	2018E	2019E
Medical consumable products - revenue growth rate (YoY %)	(3)	61	52	130	40	61	15	10
Colour photographic paper - revenue growth rate (YoY %)	(7)	(13)	11	(1)	(11)	(10)	(10)	(10)
Industrial imaging - revenue growth rate (YoY %)	n.a.	323	32	(4)	(11)	(10)	(10)	(10)
Jiangsu Uno - Profit after Tax (CNYm)	0	28	46	55	70	85	95	105
Anbaida - Profit after Tax (CNYm)	58	84	97	160	214	220	250	250
Guangzhon Hongen - Profit after Tax (CNYm)	0	0	0	0	39	50	64	85

### Profit and loss (CNYm)

Year to 31 Dec	2012	2013	2014	2015	2016	2017E	2018E	2019E
Medical Consumables Products	295	474	721	1,659	2,317	3,742	4,289	4,734
Color Photographic Paper and Other Digital Imaging	625	545	607	599	531	478	430	387
Other Revenue	36	154	204	196	174	156	141	127
<b>Total Revenue</b>	<b>956</b>	<b>1,173</b>	<b>1,531</b>	<b>2,455</b>	<b>3,022</b>	<b>4,376</b>	<b>4,860</b>	<b>5,248</b>
Other income	0	0	0	0	0	0	0	0
COGS	(789)	(964)	(1,268)	(1,937)	(2,255)	(3,191)	(3,535)	(3,796)
SG&A	(91)	(115)	(116)	(225)	(343)	(508)	(569)	(604)
Other op. expenses	10	13	17	58	93	109	123	125
<b>Operating profit</b>	<b>77</b>	<b>94</b>	<b>148</b>	<b>292</b>	<b>423</b>	<b>678</b>	<b>756</b>	<b>848</b>
Net-interest inc./(exp.)	6	1	5	(5)	(31)	(92)	(95)	(90)
Assoc/forex/extraord./others	(1)	(2)	(6)	(7)	(8)	(9)	(10)	(11)
<b>Pre-tax profit</b>	<b>82</b>	<b>94</b>	<b>147</b>	<b>280</b>	<b>384</b>	<b>576</b>	<b>652</b>	<b>747</b>
Tax	(24)	(28)	(44)	(81)	(114)	(173)	(195)	(224)
Min. int./pref. div./others	(2)	(0)	(3)	(36)	(69)	(100)	(44)	(58)
<b>Net profit (reported)</b>	<b>57</b>	<b>65</b>	<b>101</b>	<b>163</b>	<b>201</b>	<b>303</b>	<b>412</b>	<b>465</b>
<b>Net profit (adjusted)</b>	<b>57</b>	<b>65</b>	<b>101</b>	<b>163</b>	<b>201</b>	<b>303</b>	<b>412</b>	<b>465</b>
<b>EPS (reported)(CNY)</b>	<b>0.042</b>	<b>0.044</b>	<b>0.054</b>	<b>0.081</b>	<b>0.092</b>	<b>0.140</b>	<b>0.189</b>	<b>0.214</b>
<b>EPS (adjusted)(CNY)</b>	<b>0.042</b>	<b>0.044</b>	<b>0.054</b>	<b>0.081</b>	<b>0.092</b>	<b>0.140</b>	<b>0.189</b>	<b>0.214</b>
<b>EPS (adjusted fully-diluted)(CNY)</b>	<b>0.042</b>	<b>0.044</b>	<b>0.054</b>	<b>0.081</b>	<b>0.092</b>	<b>0.140</b>	<b>0.189</b>	<b>0.214</b>
<b>DPS (CNY)</b>	<b>0.000</b>	<b>0.022</b>	<b>0.034</b>	<b>0.039</b>	<b>0.044</b>	<b>0.063</b>	<b>0.092</b>	<b>0.103</b>
<b>EBIT</b>	<b>77</b>	<b>94</b>	<b>148</b>	<b>292</b>	<b>423</b>	<b>678</b>	<b>756</b>	<b>848</b>
<b>EBITDA</b>	<b>86</b>	<b>107</b>	<b>165</b>	<b>350</b>	<b>515</b>	<b>787</b>	<b>879</b>	<b>973</b>

### Cash flow (CNYm)

Year to 31 Dec	2012	2013	2014	2015	2016	2017E	2018E	2019E
Profit before tax	82	94	147	280	384	576	652	747
Depreciation and amortisation	10	13	18	58	93	109	123	125
Tax paid	(21)	(43)	(29)	(60)	(114)	(173)	(195)	(224)
Change in working capital	(26)	(34)	(26)	(139)	(64)	(228)	(217)	(193)
Other operational CF items	0	5	3	24	59	109	112	107
<b>Cash flow from operations</b>	<b>45</b>	<b>35</b>	<b>113</b>	<b>163</b>	<b>358</b>	<b>394</b>	<b>474</b>	<b>563</b>
Capex	(52)	(22)	(10)	(19)	(20)	(20)	(20)	(20)
Net (acquisitions)/disposals	5	1	(141)	(790)	(710)	(716)	(660)	0
Other investing CF items	25	(6)	2	1	4	6	2	2
<b>Cash flow from investing</b>	<b>(22)</b>	<b>(27)</b>	<b>(149)</b>	<b>(807)</b>	<b>(726)</b>	<b>(729)</b>	<b>(678)</b>	<b>(18)</b>
Change in debt	(2)	72	(11)	314	1,263	16	(70)	(50)
Net share issues/(repurchases)	0	129	0	714	0	0	0	0
Dividends paid	0	(81)	(36)	(50)	(67)	(86)	(121)	(165)
Other financing CF items	(3)	(6)	(6)	(26)	(63)	(117)	(115)	(111)
<b>Cash flow from financing</b>	<b>(4)</b>	<b>114</b>	<b>(53)</b>	<b>952</b>	<b>1,134</b>	<b>(186)</b>	<b>(306)</b>	<b>(326)</b>
Forex effect/others	0	0	0	0	0	0	0	0
<b>Change in cash</b>	<b>19</b>	<b>123</b>	<b>(89)</b>	<b>308</b>	<b>765</b>	<b>(521)</b>	<b>(510)</b>	<b>220</b>
Free cash flow	(7)	13	103	145	338	374	454	543

Source: FactSet, Daiwa forecasts

## Financial summary continued ...

### Balance sheet (CNYm)

As at 31 Dec	2012	2013	2014	2015	2016	2017E	2018E	2019E
Cash & short-term investment	160	283	195	506	1,273	751	242	461
Inventory	178	273	327	415	455	612	678	728
Accounts receivable	101	17	105	553	651	959	1,132	1,294
Other current assets	29	33	27	42	53	75	83	90
<b>Total current assets</b>	<b>468</b>	<b>605</b>	<b>654</b>	<b>1,516</b>	<b>2,431</b>	<b>2,397</b>	<b>2,135</b>	<b>2,573</b>
Fixed assets	96	104	104	117	108	106	103	98
Goodwill & intangibles	3	3	337	1,510	1,439	2,526	3,087	2,988
Other non-current assets	21	24	23	21	478	20	20	20
<b>Total assets</b>	<b>587</b>	<b>736</b>	<b>1,118</b>	<b>3,164</b>	<b>4,456</b>	<b>5,050</b>	<b>5,345</b>	<b>5,679</b>
Short-term debt	25	117	102	248	225	300	280	280
Accounts payable	244	215	283	450	367	656	726	780
Other current liabilities	139	48	167	444	612	582	542	514
<b>Total current liabilities</b>	<b>408</b>	<b>380</b>	<b>552</b>	<b>1,142</b>	<b>1,204</b>	<b>1,538</b>	<b>1,548</b>	<b>1,574</b>
Long-term debt	20	0	5	173	1,459	1,400	1,350	1,300
Other non-current liabilities	10	13	237	932	842	842	842	842
<b>Total liabilities</b>	<b>438</b>	<b>394</b>	<b>793</b>	<b>2,246</b>	<b>3,504</b>	<b>3,780</b>	<b>3,740</b>	<b>3,716</b>
Share capital	0	37	37	43	43	43	43	43
Reserves/R.E./others	140	296	279	864	899	1,217	1,551	1,910
<b>Shareholders' equity</b>	<b>140</b>	<b>333</b>	<b>316</b>	<b>907</b>	<b>942</b>	<b>1,260</b>	<b>1,594</b>	<b>1,953</b>
Minority interests	9	9	9	10	10	10	10	10
<b>Total equity &amp; liabilities</b>	<b>587</b>	<b>736</b>	<b>1,118</b>	<b>3,164</b>	<b>4,456</b>	<b>5,050</b>	<b>5,345</b>	<b>5,679</b>
EV	7,711	7,661	7,739	7,742	8,239	8,777	9,217	8,947
<b>Net debt/(cash)</b>	<b>(115)</b>	<b>(166)</b>	<b>(89)</b>	<b>(86)</b>	<b>411</b>	<b>949</b>	<b>1,388</b>	<b>1,119</b>
<b>BVPS (CNY)</b>	<b>n.a.</b>	<b>0.178</b>	<b>0.169</b>	<b>0.417</b>	<b>0.433</b>	<b>0.579</b>	<b>0.733</b>	<b>0.898</b>

### Key ratios (%)

Year to 31 Dec	2012	2013	2014	2015	2016	2017E	2018E	2019E
Sales (YoY)	(2.2)	22.8	30.5	60.3	23.1	44.8	11.0	8.0
EBITDA (YoY)	13.5	24.1	54.2	111.9	47.2	52.7	11.7	10.7
Operating profit (YoY)	15.7	22.8	57.1	97.7	44.7	60.2	11.6	12.2
Net profit (YoY)	19.5	15.1	55.1	61.3	23.5	50.9	35.8	12.8
Core EPS (fully-diluted) (YoY)	n.a.	6.3	21.4	49.7	14.2	50.9	35.8	12.8
Gross-profit margin	17.5	17.8	17.2	21.1	25.4	27.1	27.3	27.7
EBITDA margin	9.0	9.1	10.8	14.3	17.1	18.0	18.1	18.5
Operating-profit margin	8.0	8.0	9.7	11.9	14.0	15.5	15.6	16.2
Net profit margin	5.9	5.5	6.6	6.6	6.7	6.9	8.5	8.9
ROAE	37.9	27.5	31.1	26.6	21.7	27.6	28.9	26.2
ROAA	10.6	9.8	10.9	7.6	5.3	6.4	7.9	8.4
ROCE	36.3	28.8	33.2	33.0	21.3	24.2	24.4	25.0
ROIC	90.9	62.5	50.4	38.8	27.1	26.5	20.3	19.5
Net debt to equity	n.a.	n.a.	n.a.	n.a.	43.7	75.3	87.1	57.3
Effective tax rate	28.9	30.2	29.6	29.1	29.7	30.0	30.0	30.0
Accounts receivable (days)	26.3	18.3	14.5	48.9	72.7	67.1	78.5	84.4
Current ratio (x)	1.1	1.6	1.2	1.3	2.0	1.6	1.4	1.6
Net interest cover (x)	n.a.	n.a.	n.a.	58.6	13.6	7.3	8.0	9.4
Net dividend payout	0.0	38.7	50.3	39.8	40.7	40.0	40.0	40.0
Free cash flow yield	n.a.	0.2	1.3	1.9	4.3	4.8	5.8	6.9

Source: FactSet, Daiwa forecasts

## Company profile

Yestar International is a processor and distributor of Fujifilm imaging products in China. Through the acquisitions of Jiangsu Uno and Anbaida in 2014 and 2015, respectively, the company has become a major distributor of in-vitro diagnostics (IVD) products in China.

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Rating	Percentage of total
Buy*	63.9%
Hold**	21.9%
Sell***	14.2%

Source: Daiwa

Notes: data is for single-branded Daiwa research in Asia (ex Japan) and correct as of 31 December 2016.

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