

## Yestar International Holdings Company Limited----- Maintain OUTPERFORM

**Acquisition on track; potential upside from Fujifilm's recent acquisition in IVD**
**EPS: ▼ TP: ▼**

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- Yestar's acquisition is on track. YTD, it has closed three acquisitions to cover the south China market. Managements of acquired companies are bullish on the business growth.
- Yestar has consistent strategy in acquisition. It acquires 70% stake in the targets initially and then acquires the remaining 30% if the three-year profit guarantees are achieved. The profit guarantees imply 19.3-34.3% growth per year.
- We see potential upside for Yestar from Fujifilm's recent announced acquisition of Wako, an IVD reagent company. We believe Fujifilm will likely enter into China's IVD market after closing the transaction expected in April 2017, and is likely to set up a joint venture with its partner Yestar which has distribution network and operational experience in the local market.
- We revise down our EPS and net profit by 1.3%/1.9% in 2017/18E due to slower growth in non-IVD business. Our new TP of HK\$4.75 (from HK\$4.90) is derived from DCF. Maintain OUTPERFORM rating.

Bbg/RIC	2393 HK / 2393.HK	Price (13 Apr 17, HK\$)	3.98		
Rating (prev. rating)	O (O)	TP (prev. TP HK\$)	4.75 (4.90)		
Shares outstanding (mn)	2,175.20	Est. pot. % chg. to TP	19		
Daily trad vol - 6m avg (mn)	3.2	52-wk range (HK\$)	4.49 - 3.04		
Daily trad val - 6m avg (US\$ mn)	1.6	Mkt cap (HK\$/US\$ mn)	8,657.3/ 1,113.8		
Free float (%)	29.4	<b>Performance</b>	<b>1M 3M 12M</b>		
Major shareholders	The Hortono family	Absolute (%)	(1.7) 4.7 16.0		
		Relative (%)	(1.7) (4.7) 1.2		
<b>Year</b>	<b>12/15A</b>	<b>12/16A</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>
Revenue (Rmb mn)	2,455	3,022	4,085	4,628	5,275
EBITDA (Rmb mn)	364	539	801	919	1,072
Net profit (Rmb mn)	198.5	284.9	386.2	474.0	591.9
EPS (CS adj. Rmb)	0.10	0.13	0.18	0.22	0.27
- Change from prev. EPS (%)	n.a.	n.a.	(1.3)	(1.9)	
- Consensus EPS (Rmb)	n.a.	n.a.	0.15	0.19	0.23
EPS growth (%)	78.0	32.7	35.6	22.7	24.9
P/E (x)	35.7	26.9	19.9	16.2	13.0
Dividend yield (%)	1.0	1.2	1.5	2.1	2.6
EV/EBITDA (x)	20.8	15.0	11.2	9.7	8.1
P/B (x)	8.5	8.1	9.5	7.3	5.7
ROE (%)	32.5	30.8	44.2	50.9	49.1
Net debt(cash)/equity (%)	(9.3)	43.2	142.5	102.7	65.6

Note 1: 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.

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### Managements of acquired companies bullish on China IVD market growth

In the FY16 results analyst briefing meeting, managements from five acquired companies were confident to achieve the guaranteed 18-35% YoY profit growth targets, because: (1) Roche launches new products every year and Yestar is able to optimise its product offerings and maintain high growth and decent margin; (2) The acquired companies have strong cash flow and can continuously expand their customer bases. After paying the entire consolidation for the three newly acquired companies, Yestar still have ~Rmb500 mn cash in hand. We believe it will acquire more IVD distributors in the future.

**Figure 1: Yestar has acquired five IVD contract sales organisations**

Target	Date	Valuation	Profit Guarantee
Jiangsu Uno	Nov 2014	(1) Acquire 70% stake for Rmb245 mn; (2) 7.8x 2014 net profit (based on 2014 NP guarantee)/ 6.5x 2015 net profit (based on 2015 NP guarantee); (3) Acquire the remaining 30% interest, when all the profit guarantees had been achieved for Rmb250 mn	Rmb 45mn/54mn/6 4mn in 14/15/16
Shanghai Emphasis	Aug 2015	(1) Acquire 70% stake for Rmb910 mn; (2) 13.0x 2014 net profit (based on IFRS)/ 8.3x 2015 net profit (based on 2015 NP guarantee); (3) Acquire the remaining 30% interest, when all the profit guarantees had been achieved for Rmb675mn	Rmb 156mn/187mn /225mn in 15/16/17
Guangzhou Hongen	Jan 2017	(1) Acquire 70% stake for Rmb336 mn; (2) 10.0x 2017 net profit (Based on 2017 NP guarantee); (3) Acquire the remaining 30% interest, when all the profit guarantees had been achieved at a maximum consideration up to Rmb270 mn	Rmb 48mn/62.4mn/ 81.1mn in 17/18/19
Shenzhen De Run Li	Jan 2017	(1) Acquire 70% stake for Rmb428 mn; (2) 12.0x 2017 net profit (based on 2017 NP guarantee); (3) Acquire the remaining 30% interest, when all the profit guarantees had been achieved at a maximum consideration up to Rmb332 mn	Rmb 51mn/68mn/9 2mn in 17/18/19
Jia			
Guangzhou Shengshi-yuan	Feb 2017	(1) Acquire 70% stake for Rmb167 mn; (2) 10.0x 2017 net profit (based on 2017 NP guarantee); (3) Acquire the remaining 30% interest, when all the profit guarantees had been achieved at a maximum consideration up to Rmb120 mn	Rmb 23.8mn/29.8mn /37.2mn in 17/18/19

Source: Company data.

### Potential upside from Fujifilm's recent acquisition in IVD

Fujifilm approved the acquisition of Wako Pure Chemical Industries Ltd., a leading reagent manufacturer in Japan, on 15 December, 2016. According to Fujifilm's official announcement, the acquisition would take place by a tender offer of ~¥154.7 bn.

Wako has been selling its laboratory chemicals in China to support its customer's R&D endeavors through five local distributors. However, Wako has not yet started its business to sell diagnostics reagents in China, based on which we consider there will be minimal overlap with Roche's existing business in China.

We believe Fujifilm will initiate its IVD business in China after transaction close which is expected in April 2017. As IVD is new to Fujifilm and it lacks operational experience in running the business in China, where we believe Yestar, which has established 15+ years' partnership with Fujifilm, is likely to set up a joint venture with Fujifilm in China to: (1) distribute Fujifilm's IVD products; (2) help Fujifilm registering their IVD products, etc.

### Maintain OUTPERFORM rating

We revise down our EPS and net profit by 1.3%/ 1.9% in 2017/18E due to the slower-than-expected growth in non-IVD business. Our new TP of HK\$4.75 is derived from DCF, implying 19.9x 2017E P/E, with the assumption of WACC of 6.9% and perpetual growth of 2%. Catalysts include major progress in Fujifilm's China IVD business and incoming acquisitions. Major risks include potential delay in the acquisition progress and unexpected setbacks in the business integration of past acquisition.

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Companies Mentioned (Price as of 16-Apr-2017)

Yestar International Holdings Company Limited (2393.HK, HK\$3.98, OUTPERFORM, TP HK\$4.75)

Disclosure Appendix

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3-Year Price and Rating History for Yestar International Holdings Company Limited (2393.HK)

2393.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
06-Oct-16	4.32	4.90	O *

\* Asterisk signifies initiation or assumption of coverage.



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

**Method:** Our target price of HK\$4.75 for Yestar International Holdings Company Limited is derived from DCF (discounted cash flow) with cost of capital of 6.9% and terminal growth of 2%, implying 19.9x 2017E P/E. We rate the stock OUTPERFORM for its high growth visibility driven by acquisitions.

**Risk:** Potential upside from Fujifilm's recent acquisition will be the catalyst to our target price; major risks to our HK\$4.75 target price and OUTPERFORM rating for Yestar International Holdings Company Limited include potential delay in the acquisition progress and unexpected setbacks in the business integration of past acquisition

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