

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

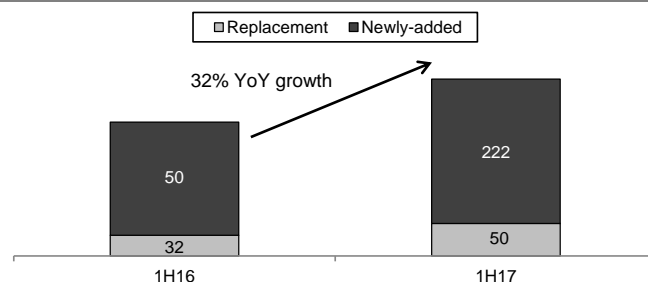
**IVD business delivered more than 50% growth**

EPS: ▼ TP: ▼

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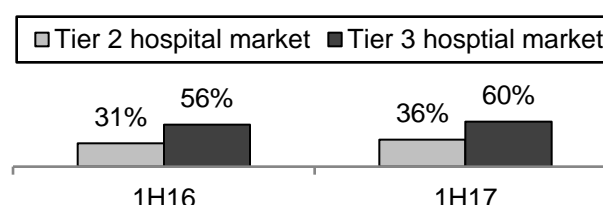
- Yestar reported a revenue growth of 22.7% YoY in 1H17. Gross profit increased by 38.9% YoY and gross margin improved from 24.8% in 1H16 to 28.1% in 1H17 for the increasing proportion of higher margin IVD business.
- Net profit grew by 6% YoY to Rmb148 mn, lower than the EBIT growth of 31.8%, mainly due to the higher finance cost and seasonally higher effective tax rate compared to that in 1H16. Management guides the net profit growth in 2H17 will be stronger.
- The company's IVD business growth remains very strong, with revenue growth of 60.3% YoY. The number of hospitals Yestar covered doubled from 1H16 to 1H17. Non-IVD business revenue booked a 13% decline, lower than our expectations of flat revenue.
- Yestar's IVD sales network covers seven provinces which accounted for 62% of total GDP in 2016, and looks well positioned to capture the strong growth in the China IVD market, a 10%+ CAGR in 2017-21E. We slightly cut 2017/18/19 EPS by 1.4%/2.5%/3.4% and our TP to HK\$4.6 (from HK\$4.75) for the slowing down in non-IVD business. Maintain OUTPERFORM.

**Figure 1: Number of newly-installed machines increased by 32% YoY**



Source: Company data

**Figure 2: Penetration in both tier-2 and 3 hospitals continued to increase**



Source: Company data

**Figure 3: Yestar 1H17 financial highlights**

(Rmb mn)	1H16	1H17	YoY
<b>Revenue</b>	<b>1,437</b>	<b>1,763</b>	<b>22.7%</b>
Imaging printing products	327	260	-20.3%
Medical products and equipment	1,110	1,502	35.3%
IVD	698	1118	60.3%
Medical & dental film products	413	384	-6.9%
<b>Gross profit</b>	<b>356</b>	<b>495</b>	<b>38.9%</b>
Imaging printing products	100	89	-10.7%
Medical products and equipment	256	405	58.3%
Selling and distribution expenses	(54)	(82)	52.4%
Administrative expenses	(96)	(135)	41.0%
<b>EBIT</b>	<b>217</b>	<b>286</b>	<b>31.8%</b>
<b>Finance cost</b>			
<b>Income tax</b>			
Profit after tax	106	107	0.5%
Net profit to shareholders			
<b>Ratio Analysis</b>			
Gross margin	24.8%	28.1%	
Imaging printing products	17.6%	16.5%	
Medical products and equipment	26.9%	30.1%	
Selling expense as % of revenue	3.8%	4.7%	
Administrative expense as % of revenue	6.7%	7.7%	
EBIT margin	15.1%	16.3%	
EBITDA margin	18.4%	20.2%	
Net margin	9.8%	8.4%	

Source: Company data, Credit Suisse Research

**Slightly cut EPS and TP; maintain OUTPERFORM rating**

We slightly cut 2017E/18E/19E EPS by 1.4%/2.5%/3.4% for the slowing down in the non-IVD business including medical film and imaging printing products. Our new target price HK\$ 4.6 is based on a 9% WACC (weighted average cost of capital) and 3% perpetual growth. Catalysts include incoming acquisitions. Major risks include delays in the acquisition progress and unexpected setbacks in the business integration of past acquisitions.

Bbg/RIC	2393 HK / 2393.HK	Price (17 Aug 17, HK\$)	3.60		
Rating (prev. rating)	O (O)	TP (prev. TP HK\$)	4.60 (4.75)		
52-wk range (HK\$)	4.49 - 3.55	Est. pot. % chg. to TP	28		
Mkt cap (HK\$/US\$ mn)	7,830.7/ 1,001.1	Blue sky scenario (HK\$)	5.88		
ADTO-6M (US\$ mn)	1.4	Grey sky scenario (HK\$)	3.92		
Free float (%)	29.3	<b>Performance</b>	<b>1M 3M 12M</b>		
Major shareholders	The Hortono family	Absolute (%)	(10.7) (5.3) 1.4		
		Relative (%)	(15.7) (19.0) (28.3)		
<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	4,016	4,462	4,992
EBITDA (Rmb mn)	364	539	778	886	1,027
Net profit (Rmb mn)	198.5	284.9	375.8	456.8	566.3
EPS (CS adj. Rmb)	0.10	0.13	0.17	0.21	0.26
- Change from prev. EPS (%)	n.a.	n.a.	(1.4)	(2.5)	(3.4)
- Consensus EPS (Rmb)	n.a.	n.a.	0.14	0.17	0.21
EPS growth (%)	78.0	32.7	31.9	21.5	24.0
P/E (x)	31.1	23.4	17.8	14.6	11.8
Dividend yield (%)	1.2	1.4	1.6	2.3	2.8
EV/EBITDA (x)	18.1	13.1	10.1	8.8	7.4
P/B (x)	7.4	7.1	8.3	6.5	5.1
ROE (%)	32.5	30.8	43.2	49.8	48.2
Net debt(cash)/equity (%)	(9.3)	43.2	130.6	94.8	58.2

Note 1: Yestar International Holdings Company Limited is a PRC-based company focused on manufacturing and distributing various products, including non-medical consumables like printing photo paper, and medical consumables such as IVD (in vitro diagnostic) products, etc.

[Click here](#) for detailed financials

**1H17 financial results**

1H17 revenue grew by 22.7% YoY, net profit by 6% YoY. Adjusted net margin improved from 9.8% in 1H16 to 11% in 1H17, excluding the ~Rmb60.5 mn amortisation of intangible assets from acquisitions.

**IVD business: Strong expansion in customer base**

Yestar acquired IVD (In Vitro Diagnostic) distributor companies in 1Q17, namely Guangzhou Hongen, Shenzhen De Run Li Jia and Guangzhou Shengshiyuan, and has gained access to the Shenzhen and Guangdong markets in South China. During 1H17, IVD business revenue was up by 60.3%, or ~20% excluding the revenue consolidation from the three newly acquired companies. The number of hospitals Yestar covered doubled from 1H16 to 1H17 (details as below). Both the number of newly-installed machines and hospital penetration rate recorded strong growth in 1H17.

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**Companies Mentioned** (Price as of 17-Aug-2017)

**Yestar International Holdings Company Limited** (2393.HK, HK\$3.6, OUTPERFORM, TP HK\$4.6)

**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 *
17-Apr-17	3.98	4.75	

\* Asterisk signifies initiation or assumption of coverage.



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Underperform/Sell*	14%	(53% banking clients)
Restricted	2%	

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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 of HK\$4.6 for Yestar International Holdings Company Limited is derived from DCF (discounted cash flow) with cost of capital of 9% and terminal growth of 3%. We rate the stock OUTPERFORM for its high growth visibility driven by acquisitions.

**Risk:** Major risks to our HK\$4.6 target price and OUTPERFORM rating for Yestar International Holdings Company Limited include potential delays in the acquisition progress and unexpected setbacks in the business integration of past acquisitions.

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