


Yestar International (2393 HK)

 Target price: **HKD4.20** (from HKD4.10)

 Share price (15 Aug): **HKD3.53** | Up/downside: **+18.9%**

5 4 3 2 1

 **Buy**
(unchanged)

IVD business still shining

- Growth of new IVD business partly offset by decline in legacy business
- Gross margin set for expansion; we expect at least 1 M&A in 2016
- Raising 12-month TP to HKD4.20; reiterating Buy (1) rating

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What's new: Yestar International posted 1H16 results largely in line with Daiwa's expectations. The company's in-vitro diagnostics (IVD) business continued to drive both revenue and earnings higher, but the results were partly offset by a faster-than-expected shrinkage of its legacy imaging business. Nonetheless, we look for continued gross-margin expansion in 2H16 and 2017, and still expect at least one acquisition to come through by end-2016, which should offer upside to our estimates.

What's the impact: Due to contributions from Anbaida's IVD business (acquired in August 2015), Yestar's 1H16 revenue and net profit grew by 44% YoY and 67% YoY, respectively. While a full breakdown of the 2 recently acquired IVD businesses (Jiangsu Uno and Anbaida) was not disclosed, management said both companies' top lines grew by over 20% YoY organically and are on track to meet their profit guarantees for 2016 (part of their acquisition conditions). However, the company's legacy colour photo paper business (16% of total revenue) deteriorated faster than expected, posting a revenue decline of 16% YoY. We believe this trend will likely continue given the legacy technology, though it should be more than offset by the expansion of the IVD business.

We expect Yestar's gross margin to continue to expand in 2016-17 due to the following: 1) a rising proportion of IVD sales, which has a total gross margin of 36.7%, substantially higher than the group-level gross margin of 24.8% in 1H16, and 2) despite the decline in sales volume for the colour photo paper business, its gross margin improved to 19.8% in 1H16 (from 15.7% in 1H15). As such, after raising our gross-margin assumptions, our 2016-18 EPS forecasts rise by 4-8%.

What we recommend: We raise our 12-month target price to HKD4.20 (from HKD4.10), now based on a 28x PER (previously 30x, equivalent to 1sd above its average 1-year forward trading range) on the average of our revised 2016-17E EPS (previously 2016E EPS). We reiterate our Buy (1) rating. While our estimates do not take into account any future M&As, we continue to expect at least one acquisition in 2016. Management confirmed that the potential acquisition of a new IVD business announced on 30 May 2016 is still active and we believe the size is similar to Jiangsu Uno's. Although no further details were provided by management, we expect this deal to close before the end of 2016. The key risk to our call: Yestar's inability to sustain positive earnings growth for its 2 recently-acquired IVD companies.

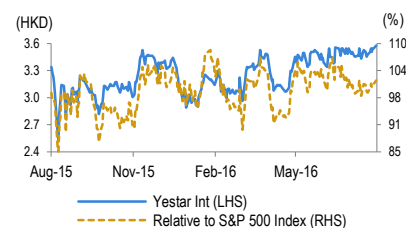
How we differ: Our revised 2017E EPS is 5% lower than the Bloomberg consensus as we factor in a faster decline of the legacy films business.

Forecast revisions (%)

Year to 31 Dec	16E	17E	18E
Revenue change	(1.2)	(3.4)	(2.3)
Net profit change	6.4	4.3	8.4
Core EPS (FD) change	6.4	4.3	8.4

Source: Daiwa forecasts

Share price performance



12-month range	2.53-3.53
Market cap (USDbn)	0.98
3m avg daily turnover (USDm)	1.27
Shares outstanding (m)	2,175
Major shareholder	Hartono Family (61.1%)

Financial summary (CNY)

Year to 31 Dec	16E	17E	18E
Revenue (m)	3,349	3,622	3,885
Operating profit (m)	515	572	620
Net profit (m)	263	286	311
Core EPS (fully-diluted)	0.121	0.132	0.143
EPS change (%)	49.5	8.7	8.7
Daiwa vs Cons. EPS (%)	2.5	(4.7)	10.0
PER (x)	25.0	23.0	21.1
Dividend yield (%)	1.9	2.1	2.3
DPS	0.058	0.063	0.069
PBR (x)	6.6	5.2	4.2
EV/EBITDA (x)	11.1	9.7	8.5
ROE (%)	27.6	25.3	21.9

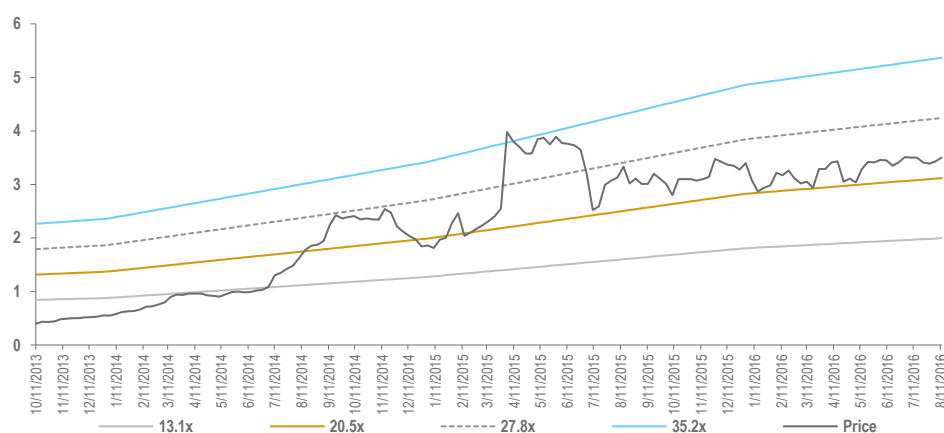
Source: FactSet, Daiwa forecasts

Yestar: key changes to Daiwa forecasts

CNYm	2016E			2017E			2018E		
Revenue	New	Old	Change	New	Old	Change	New	Old	Change
Medical Consumables Products	2,647	2,622	1%	2,986	3,011	-1%	3,309	3,268	1%
Color Photographic Paper and Other Digital Imaging	509	581	-12%	448	564	-21%	395	541	-27%
Industrial Imaging	192	186	3%	189	177	6%	181	168	8%
Total Revenue	3,349	3,390	-1%	3,622	3,752	-3%	3,885	3,977	-2%
Gross profit	853	797	7%	931	884	5%	993	935	6%
Operating profit	515	488	5%	572	546	5%	620	573	8%
Net profit	263	247	6%	286	275	4%	311	288	8%
Basic and diluted EPS (CNY)	0.121	0.114	6%	0.132	0.126	4%	0.143	0.132	8%
Gross margin	25.5%	23.5%	2.0	25.7%	23.6%	2.1	25.6%	23.5%	2.0
Operating margin	15.4%	14.4%	1.0	15.8%	14.6%	1.2	16.0%	14.4%	1.5
Net margin	7.9%	7.3%	0.6	7.9%	7.3%	0.6	8.0%	7.2%	0.8

Source: Daiwa forecasts

Yestar: 1 year-forward PER band chart



Source: Bloomberg, Daiwa

Financial summary

Key assumptions

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Medical consumable products - revenue growth rate (YoY %)	713	(3)	61	52	130	60	13	11
Colour photographic paper - revenue growth rate (YoY %)	39	(7)	(13)	11	(1)	(15)	(12)	(12)
Industrial imaging - revenue growth rate (YoY %)	n.a.	n.a.	323	32	(4)	(2)	(2)	(4)
Jiangsu Uno - Profit after Tax (CNYm)	0	0	28	46	55	73	85	95
Anbaida - Profit after Tax (CNYm)	0	58	84	97	160	190	220	250

Profit and loss (CNYm)

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Medical Consumables Products	303	295	474	721	1,659	2,647	2,986	3,309
Color Photographic Paper and Other Digital Imaging	674	625	545	607	599	509	448	395
Other Revenue	0	36	154	204	196	192	189	181
Total Revenue	977	956	1,173	1,531	2,455	3,349	3,622	3,885
Other income	0	0	0	0	0	0	0	0
COGS	(814)	(789)	(964)	(1,268)	(1,937)	(2,496)	(2,692)	(2,892)
SG&A	(97)	(91)	(115)	(116)	(225)	(338)	(359)	(373)
Other op.expenses	10	10	13	17	58	73	75	76
Operating profit	66	77	94	148	292	515	572	620
Net-interest inc./(exp.)	7	6	1	5	(5)	(17)	(21)	(15)
Assoc/forex/extraord./others	(4)	(1)	(2)	(6)	(7)	(9)	(11)	(13)
Pre-tax profit	69	82	94	147	280	489	539	592
Tax	(21)	(24)	(28)	(44)	(81)	(147)	(162)	(178)
Min. int./pref. div./others	(1)	(2)	(0)	(3)	(36)	(79)	(92)	(104)
Net profit (reported)	47	57	65	101	163	263	286	311
Net profit (adjusted)	47	57	65	101	163	263	286	311
EPS (reported)(CNY)	n.a.	0.042	0.044	0.054	0.081	0.121	0.132	0.143
EPS (adjusted)(CNY)	n.a.	0.042	0.044	0.054	0.081	0.121	0.132	0.143
EPS (adjusted fully-diluted)(CNY)	n.a.	0.042	0.044	0.054	0.081	0.121	0.132	0.143
DPS (CNY)	0.000	0.000	0.022	0.034	0.039	0.058	0.063	0.069
EBIT	66	77	94	148	292	515	572	620
EBITDA	76	86	107	165	350	588	647	696

Cash flow (CNYm)

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Profit before tax	69	82	94	147	280	489	539	592
Depreciation and amortisation	10	10	13	18	58	73	75	76
Tax paid	(10)	(21)	(43)	(29)	(60)	(147)	(162)	(178)
Change in working capital	23	(26)	(34)	(26)	(139)	(157)	(82)	(24)
Other operational CF items	4	0	5	3	24	38	38	32
Cash flow from operations	96	45	35	113	163	296	409	499
Capex	(7)	(52)	(22)	(10)	(19)	(20)	(20)	(20)
Net (acquisitions)/disposals	(3)	5	1	(141)	(790)	(182)	0	0
Other investing CF items	(22)	25	(6)	2	1	4	4	7
Cash flow from investing	(33)	(22)	(27)	(149)	(807)	(198)	(16)	(13)
Change in debt	10	(2)	72	(11)	314	100	(20)	(20)
Net share issues/(repurchases)	0	0	129	0	714	0	0	0
Dividends paid	0	0	(81)	(36)	(50)	(71)	(105)	(114)
Other financing CF items	(4)	(3)	(6)	(6)	(26)	(42)	(43)	(39)
Cash flow from financing	6	(4)	114	(53)	952	(14)	(169)	(174)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	70	19	123	(89)	308	84	224	312
Free cash flow	89	(7)	13	103	145	276	389	479

Source: FactSet, Daiwa forecasts

Financial summary continued ...

Balance sheet (CNYm)

As at 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Cash & short-term investment	142	160	283	195	506	590	814	1,126
Inventory	133	178	273	327	415	513	516	555
Accounts receivable	37	101	17	105	553	459	595	639
Other current assets	90	29	33	27	42	36	38	41
Total current assets	401	468	605	654	1,516	1,597	1,963	2,360
Fixed assets	53	96	104	104	117	118	117	115
Goodwill & intangibles	3	3	3	337	1,510	1,458	1,405	1,352
Other non-current assets	19	21	24	23	21	22	21	21
Total assets	476	587	736	1,118	3,164	3,194	3,506	3,847
Short-term debt	47	25	117	102	248	320	300	280
Accounts payable	184	244	215	283	450	513	553	594
Other current liabilities	59	139	48	167	444	223	242	262
Total current liabilities	289	408	380	552	1,142	1,056	1,096	1,137
Long-term debt	0	20	0	5	173	200	200	200
Other non-current liabilities	5	10	13	237	932	932	932	932
Total liabilities	294	438	394	793	2,246	2,187	2,227	2,268
Share capital	0	0	37	37	43	43	43	43
Reserves/R.E./others	158	140	296	279	864	953	1,226	1,526
Shareholders' equity	158	140	333	316	907	996	1,269	1,569
Minority interests	23	9	9	9	10	10	10	10
Total equity & liabilities	476	587	736	1,118	3,164	3,194	3,506	3,847
EV	6,506	6,472	6,422	6,499	6,503	6,519	6,274	5,942
Net debt/(cash)	(95)	(115)	(166)	(89)	(86)	(70)	(314)	(646)
BVPS (CNY)	n.a.	n.a.	0.178	0.169	0.417	0.458	0.583	0.721

Key ratios (%)

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Sales (YoY)	86.8	(2.2)	22.8	30.5	60.3	36.4	8.2	7.2
EBITDA (YoY)	141.3	13.5	24.1	54.2	111.9	67.9	10.0	7.7
Operating profit (YoY)	198.8	15.7	22.8	57.1	97.7	76.2	11.1	8.4
Net profit (YoY)	145.2	19.5	15.1	55.1	61.3	61.7	8.7	8.7
Core EPS (fully-diluted) (YoY)	n.a.	n.a.	6.3	21.4	49.7	49.5	8.7	8.7
Gross-profit margin	16.7	17.5	17.8	17.2	21.1	25.5	25.7	25.6
EBITDA margin	7.8	9.0	9.1	10.8	14.3	17.6	17.9	17.9
Operating-profit margin	6.8	8.0	8.0	9.7	11.9	15.4	15.8	16.0
Net profit margin	4.8	5.9	5.5	6.6	6.6	7.9	7.9	8.0
ROAE	35.1	37.9	27.5	31.1	26.6	27.6	25.3	21.9
ROAA	11.6	10.6	9.8	10.9	7.6	8.3	8.5	8.5
ROCE	33.2	36.3	28.8	33.2	33.0	35.9	34.6	32.3
ROIC	49.1	90.9	62.5	50.4	38.8	40.7	42.1	45.7
Net debt to equity	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Effective tax rate	30.3	28.9	30.2	29.6	29.1	30.0	30.0	30.0
Accounts receivable (days)	9.1	26.3	18.3	14.5	48.9	55.1	53.1	58.0
Current ratio (x)	1.4	1.1	1.6	1.2	1.3	1.5	1.8	2.1
Net interest cover (x)	n.a.	n.a.	n.a.	n.a.	58.6	30.9	27.1	42.5
Net dividend payout	0.0	0.0	38.7	50.3	40.2	40.0	40.0	40.0
Free cash flow yield	1.4	n.a.	0.2	1.6	2.2	4.2	5.9	7.3

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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- "1": the security could outperform the local index by more than 15% over the next 12 months.
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- "4": the security is expected to underperform the local index by 5-15% over the next 12 months.
- "5": the security could underperform the local index by more than 15% over the next 12 months.

Disclosure of investment ratings

Rating	Percentage of total
Buy*	65.8%
Hold**	21.8%
Sell***	12.4%

Source: Daiwa

Notes: data is for single-branded Daiwa research in Asia (ex Japan) and correct as of 30 June 2016.

* comprised of Daiwa's Buy and Outperform ratings.

** comprised of Daiwa's Hold ratings.

*** comprised of Daiwa's Underperform and Sell ratings.

Additional information may be available upon request.

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