

Yestar International (2393 HK)

Share price (27 Oct): **HKD4.20**12-mth rating: **Buy (1)**Target price: **HKD5.20**

4th IVD acquisition announced

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What's New?: Yestar International has announced the acquisition of Shenzhen De Run Li Jia, its fourth IVD-related acquisition. This follows on the heels of its third acquisition 2 weeks ago. While the acquisition price is slightly more expensive than previously, we think the deal should be immediately earnings-accretive.

Key highlights: Same structure as the previous 3 deals, but slightly more expensive.

Like the previous 3 deals, Yestar will first acquire 70% of the distributor, followed by 3 years of profit guarantee and the obligation to acquire the rest of the 30% stake, if all the profit guarantees are met. The acquisition is valued at CNY428.4m for the 70% stake and the profit guarantees for 2017-19 are CNY51m, CNY68m and CNY92m. This implies that the forward acquisition multiple is 12.0x, which is the highest of all its IVD acquisitions (the acquisition of Guangzhou Hongen was valued at 10x, while the first two acquisitions were around 8x). The 30% stake to be acquired in 3 years if all the profit guarantees are met and pegged to 12x of 2019E net profit (capped at CNY332m), which is again higher than the 10x multiple previously.

Rush to deploy bond capital. The acquisition was no surprise to us as the company had announced it was already doing due diligence on another deal 2 weeks ago. However, we believe Yestar has lost some bargaining power in negotiating acquisitions, due to: 1) the company's clear roll-up strategy for sizable Roche distributors; and 2) the time pressure to deploy the excess capital raised from its USD200m bond issuance in September 2016. While the annual profit guarantee growth rates for this acquisition is slightly higher than the previous Guangzhou Hongen acquisition (33-35% vs. 30%), we believe it does not justify the difference in the acquisition multiple (12x vs 10x 2017E net profit). Assuming Yestar has refinanced CNY350m of some of its old loans and including the payment of these two recent acquisitions, we believe the company would have roughly CNY250m left to spend.

Another Roche distributor. The target company holds the distribution rights for some Roche Diagnostics products in Shenzhen, Guangdong province, under the dealership agreement and authorization letters with Roche. This acquisition adds to the distribution coverage of Guangzhou Hongen, which also had the rights to distribute Roche diagnostics products in Guangdong province. Management said there is no overlap of businesses between the two companies, as the product scopes are different. Given that the acquisition is to be settled in cash, if the acquisition closes by the start of 2017, we estimate it should add CNY0.017 per share to the EPS that year.

Recommendation: We have a 12-month target price of HKD5.20, based on a 33x PER (roughly 0.8x PEG and equivalent to just under 2SD above its average 1-year forward trading range) on the average of our 2016-17E EPS. We have a Buy (1) rating. The key risk to our call: if future acquisitions do not come through.

Please [click here](#) for details of the previous Guangzhou Hongen acquisition.

In the interests of timeliness, this document has not been edited.

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Rating	Percentage of total
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Sell***	14.8%

Source: Daiwa

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