COMPANY / INDUSTRY NEWS

Yestar International [2393.HK, HK$3.20] – Rapid expansion into fast-growing IVD industry via M&As

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Company background: Established in 2000 and listed in HKEx in 2013, Yestar is the sole processor and distributor of Fujifilm's medical films and color photographic paper in China. With two major acquisitions, the company has expanded and shifted its business focus to distribution of in-vitro diagnostics (IVD) for well-known Roche Diagnostics, Becker and Dickinson (BD), and Thermo Fisher (TF). Major shareholder Hartono family owns a 61.01% stake.

Rapidly growing IVD market: In-vitro diagnostics is a method to perform external diagnostic tests on an individual. This includes blood glucose monitoring, pregnancy test and pathogen detection for diseases like HIV and hepatitis. IVD market size was US$2,642m in 2013 and is expected to grow with CAGR of 19.1% between 2013 and 2018. Roche is currently the largest player in IVD in China with a market share of 21.5%.

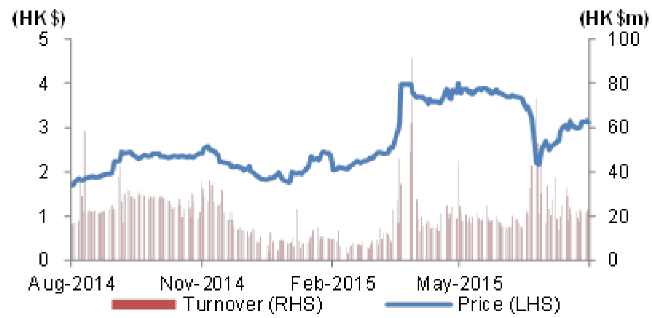
Strong earnings growth from M&A: 1H15 revenue of the company grew 44% YoY, driven mainly by the IVD distribution business acquired in November 2014. Gross margin also improved from 15.7% to 18% due to the high margin IVD distribution business. Net profit increased 49% YoY. Excluding contribution from IVD business, revenue only grew 9% YoY. Management believes the new IVD distribution business will be future growth driver for the company and the photographic paper business will be cash cow.

Entered IVD distribution business by two M&As: (1) In November 2014, the company completed acquiring 70% of equity interests in Jiangsu UNO by a consideration of RMB245m. UNO distributes IVD in Jiangsu and Anhui for Roche and BD. The vendor provided a profit guarantee of RMB45m/54m/64m for 2014/15/16 for the target company. The acquisition price implied a 2015E PER of 6.5x. (2) In June 2015, the company announced an acquisition of 70% stake in Shanghai Emphasis for RMB910m. The company distributes IVD in Shanghai for Roche and TF. The vendor provided a profit guarantee of RMB156m/187m/225m for 2015/16/17. The acquisition price implied a 2015E PER of 8.3x.

Based on the profit guarantee, this two businesses will contribute RMB176m to the bottom line of Yestar in 2016E.

Share placement at a premium: The company completed placing 307.7m shares (14.4% of expanded shares) at HK$3.00 per share (at a premium of 15.8% over the previous closing price) to 18 investors in July 2015. Net proceeds will be used to fund the above mentioned acquisitions and future potential acquisitions. Subscribers have a lock up period of six months starting from the completion date of subscription. On the list, we noticed some famous healthcare specific investors such as VIVO Capital and OrbiMed Healthcare Fund.

Yestar (2393.HK; NOT-RATED)



Market Cap: US$897.5m; Free Float: 39.0%

	2014	2015E	2016E	2017E
Revenue (RMBm)	1,531.4	2,569.0	3,699.0	4,343.0
EBIT(RMBm)	166.3	344.0	563.0	658.0
Net profit (RMBm)	100.9	178.0	290.0	346.0
Net margin (%)	6.6	6.9	7.8	8.0
EPS (RMB)	0.05	0.09	0.13	0.16
ROE (%)	31.1	23.6	22.4	23.1
Dividend yield (%)	1.03	1.51	2.65	3.03
PER (x)	48.9	29.4	20.3	16.5
PBR (x)	15.6	4.8	4.1	3.6

Source: Bloomberg

IVD to contribute over 50% of revenue in 2016E: IVD diagnostic, medical film, color photographic paper and industrial imaging products respectively accounted for 24%, 39%, 27% and 10% of total revenue in 1H15. With higher gross margin of 28.2%, IVD diagnostic contributed around 38% of gross profit within the period. With the completion of acquiring Shanghai Emphasis, we believe IVD will contribute more than 50% of top-line and around one-third of gross profit. The company expects a 10% growth for traditional business and IVD business will be the main growth driver.

Valuation: Yestar is currently trading at 2016E PER of 20.3x, at a significant premium to peers' average of 13.4x. We believe this premium is mainly due to the placement at a premium and potential M&A activities.

Catalysts: Potential M&As, organic growth of IVD

Risks: Lost of distribution rights from major suppliers

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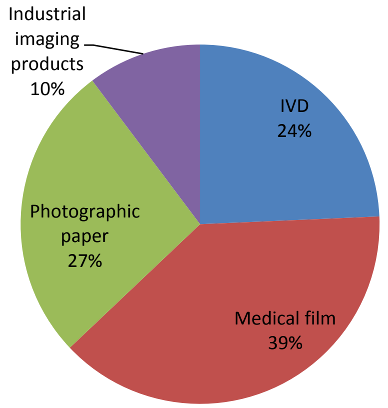
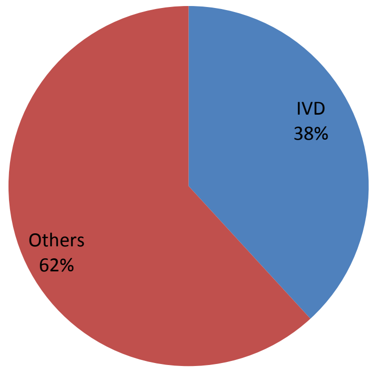
Figure 1: Turnover by product in 1H15



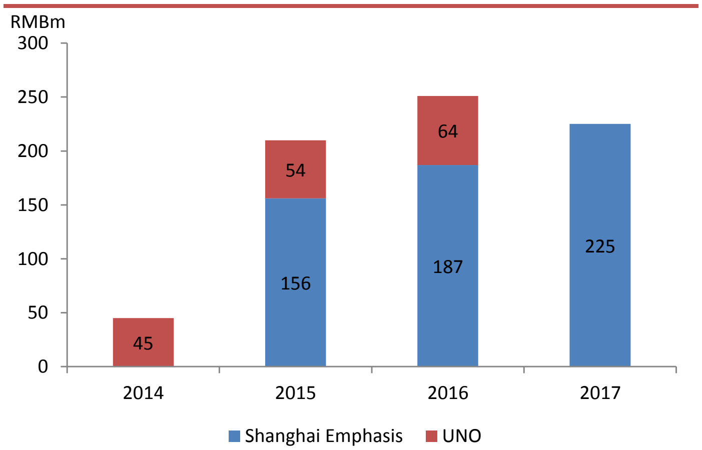
Source: Company

Figure 2: Gross profit breakdown in 1H15



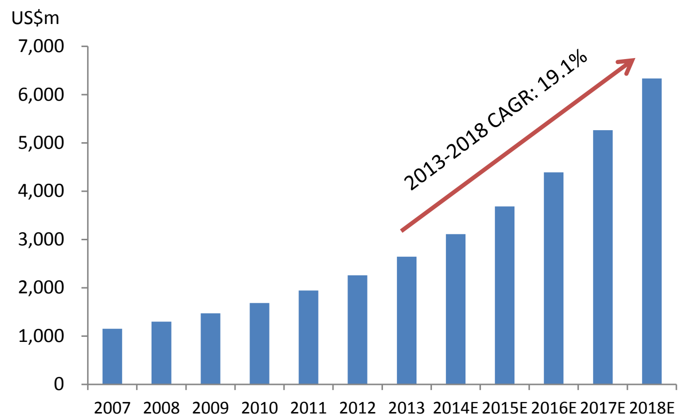
Source: Company

Figure 3: Profit guarantee of two acquisitions



Source: Company

Figure 4: China IVD market



Source: Renub Research, Company

Figure 5: Peers valuation

				PER(x)			PBR(x)			ROE(%)			EV/EBITDA(x)		
Company name	Ticker	Price (HK$)	larket cap (HK$n	2014	2015F	2016F	2014	2015F	2016F	2014	2015F	2016F	2014	2015F	2016F
Yestar	**2393**	**3.20**	**6,961**	**47.2**	**29.3**	**20.3**	**12.0**	**4.8**	**4.1**	**27.5**	**23.6**	**22.4**	**N/A**	**N/A**	**N/A**
Sinopharm	1099	28.55	79,001	21.5	17.9	14.8	2.3	2.1	1.8	12.2	12.4	13.5	10.3	8.8	7.7
Shanghai Pharm	2607	18.40	66,080	16.4	14.1	12.4	1.5	1.3	1.2	9.1	9.6	9.9	12.4	11.2	10.3
CMS	867	9.30	23,131	21.3	17.2	13.9	5.1	3.7	3.2	22.9	23.0	23.4	20.2	15.3	11.9
Pioneer	1345	4.42	5,893	16.0	14.0	11.1	3.8	3.5	3.0	24.5	26.1	29.4	13.4	12.5	10.2
Universal Health	2211	2.94	5,880	10.6	8.7	7.8	1.8	1.6	1.3	18.0	19.2	18.0	5.7	4.6	3.7
Average				**22.1**	**16.9**	**13.4**	**4.4**	**2.8**	**2.5**	**19.0**	**19.0**	**19.4**	**12.4**	**10.5**	**8.8**

Source: Company

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