

# China / Hong Kong Company Focus

## Yestar International

Bloomberg: 2393 HK Equity | Reuters: 2393.HK

Refer to important disclosures at the end of this report

Group Research . Equity

10 September 2014

### BUY HK\$7.86 HSI: 24,705

(Initiating coverage)

Price Target : 12-Month HK\$ 10.00

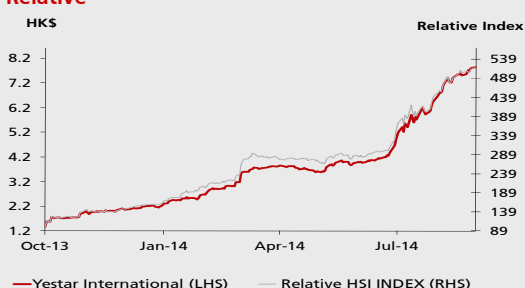
Reason for Report : Initiation of coverage

Potential Catalyst: Successful M&A

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#### Price Relative



#### Forecasts and Valuation

FY Dec (RMB m)	2013A	2014F	2015F	2016F
Turnover	1,173	1,523	1,768	2,057
EBITDA	127	161	187	216
Pre-tax Profit	94	143	172	203
Net Profit	65	100	120	141
Net Pft (Pre Ex.)	81	100	120	141
EPS (RMB)	0.18	0.21	0.26	0.30
EPS (HK\$)	0.22	0.27	0.32	0.38
EPS Gth (%)	6.3	20.4	20.1	17.6
Diluted EPS (HK\$)	0.22	0.27	0.32	0.38
DPS (HK\$)	0.11	0.14	0.16	0.19
BV Per Share (HK\$)	1.15	1.08	1.27	1.49
PE (X)	35.0	29.1	24.2	20.6
P/Cash Flow (X)	61.2	30.6	23.9	19.9
P/Free CF (X)	153.9	32.8	25.2	20.8
EV/EBITDA (X)	16.6	16.7	14.1	11.8
Net Div Yield (%)	1.4	1.7	2.1	2.4
P/Book Value (X)	6.8	7.3	6.2	5.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	27.5	27.3	27.6	27.6
Earnings Rev (%)		New	New	New
Consensus EPS (RMB)		N/A	N/A	N/A
Other Broker Recs:		B: 0	S: 0	H: 0

ICB Industry: Industrials

ICB Sector: Support Services

Principal Business: Healthcare

Source of all data: Company, DBSV, Thomson Reuters, HKEX

### Dark horse in medical device industry

- 43-year relationship with the global imaging device leader Fujifilm
- 20% EPS CAGR (2013-16F) riding on Fujifilm's expansion in China
- Potential M&A to boost future earnings
- Initiate with BUY. TP is HK\$10.00

**43-year relationship with Fujifilm.** Yestar focuses on China as Fujifilm's sole producer of medical films (MF) and color photographic paper (CPP). Using feedstock procured from Fujifilm, Yestar's MF are sold back to Fujifilm for its medical imaging devices while the CPP is marketed through Yestar's network under Fujifilm's brand. The MF & CPP businesses made up c.60% & c.40% of profits in 1H14 respectively. Yestar's largest shareholder, Hartono family (71% stake) has been working with Fujifilm in Southeast Asia for 43 years.

**20% EPS CAGR (2013-16F) riding on Fujifilm's expansion in China.** Fujifilm and Yestar target their MF & CPP's market shares to reach 30% & 60% respectively in 2016 (from 18% & 43% in 1H14). We believe they will succeed. Fujifilm is promoting its medical imaging devices through aggressive pricing which drives the demand for its MF. Also, it has lowered the feedstock price of CPP charged to Yestar which allows Yestar to gain market share through attractive pricing. Fujifilm can continue the measures backed by its strong balance sheet (US\$3bn net cash as of Jun) and stable sales streams due to recognition in various fields (e.g. 2<sup>nd</sup> largest player in endoscope with 15% market share). Coupled with the expected growth of 5-11% for both industries, we project a 20% EPS CAGR (2013-16F) for Yestar.

**Potential M&A to boost future earnings.** Yestar has been looking for medical imaging device maker(s) to acquire since 2012. It wants to produce higher value-added medical imaging products other than medical film. In Aug, it started due diligence on a potential target. With net cash of Rmb130m (Jun 13) and assuming the M&A's consideration at Rmb250m-300m, we expect it can complete the deal in 2014 while maintaining decent net gearing level (est. <45%).

**Initiate with BUY. TP is HK\$10.** In view of a 20% EPS CAGR (2013-16F) and earnings estimates upgrade potential due to possible M&A, we initiate with BUY with a TP of HK\$10, pegged to average FY15F PE (31x) of medical stocks listed in HK and Mainland China.

#### At A Glance

Issued Capital (m shrs)	467
Mkt. Cap (HK\$/US\$m)	3,670 / 473
Major Shareholders	
Hartono family (%)	71.1
Free Float (%)	28.9
Avg. Daily Vol.('000)	2,590

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## SWOT Analysis

Strengths	Weakness
<ul style="list-style-type: none"><li>• Over 43-year relationship with global imaging device leader Fujifilm</li><li>• Well-established in China medical film industry with 18% market share (3<sup>rd</sup> largest player)</li><li>• Well-established in China color photographic paper industry with 43% market share (largest player)</li></ul>	<ul style="list-style-type: none"><li>• Heavy reliance on Fujifilm</li><li>• Although Yestar is now the sole processor of Fujifilm's medical films in China, Fujifilm did not sign an exclusive agreement with Yestar.</li></ul>
Opportunities	Threats
<ul style="list-style-type: none"><li>• Increasing demand for medical films, driven by increase in number of hospitals</li><li>• Gaining market share in medical film with the help of Fujifilm</li><li>• Steady demand growth for color photographic paper, driven by wedding photography</li><li>• Gaining market share in color photographic paper while the major competitor Kodak is still restructuring its business</li><li>• Acquisition of medical device manufacturer</li><li>• Co-development of new product with Fujifilm</li></ul>	<ul style="list-style-type: none"><li>• Impact from digitisation on small-sized color photographic paper (accounted for 13% of total revenue in 1H14)</li><li>• Higher debt burden and interest expense after the potential acquisition of medical device manufacturer</li></ul>

Source: DBS Vickers

## Company Focus

### Yestar International

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#### Investment summary

**43-year relationship with Fujifilm.** Established in 2000 and listed in 2013, Yestar is the sole processor and distributor of Fujifilm's (4901 JT) medical films and color photographic paper in China. Yestar's largest shareholder, the Hartono family with a 71% stake, has been working with Fujifilm for 43 years, as its distributor and processor of imaging products in Indonesia, Vietnam, India, Cambodia and China. Fujifilm is a leader in the global imaging industry with strong market presence in China. For example, it is the 2<sup>nd</sup> largest player in endoscope and digital printing equipment industries with 14-15% market shares.

**Leader of medical film and color photographic paper industry in China.** Medical films and color photographic papers are estimated to contribute c.60% and c.40% earnings of Yestar in 1H14. Both products are sold to end users under the "Fujifilm" brand. Fujifilm's market shares in both markets have been rapidly increasing recently. In the medical film and color photographic paper industries, its market share increased from 12.8% & 35% respectively in 2012 to 18% & 43% in 1H14. It is now China's 3<sup>rd</sup> largest player in medical film & the largest in color photographic paper.

**Medical films: Expect 27% sales CAGR (2013-16F).** The drivers include:

1. Overall market demand growth of 11% in the period, according to Frost & Sullivan's estimates. This was mainly driven by an increasing number of hospitals (9% CAGR in 2012-15) and physicians' increasing reliance on diagnosis equipment to minimise misdiagnosis;
2. Market share gain (from 18% in 1H14 to 30% in 2016). Yestar's processed medical films are mainly used in Fujifilm's medical imaging devices. Demand growth for medical imaging devices has accelerated since the medical reform in 2009. The average life of a medical imaging device is 3-5 years. In 2013 and 2014, some medical imaging devices had reached retirement age and Fujifilm grasped this opportunity to aggressively promote its medical imaging devices by launching new products at attractive prices. Relative to peers, Fujifilm's sales network in China is more extensive and its financial status is much stronger (it had net cash of US\$3.1bn as at Jun 14 while its competitors were all in net debt positions). Also, Fujifilm has stable sales streams in China due to recognition in various fields (e.g. endoscope and digital printing equipment). We believe Fujifilm is able to continue its aggressive pricing to gain market share which will drive the demand for medical films produced by Yestar.

**Color photographic paper: Expect 11% sales CAGR (2013-16F).** The drivers include:

1. Overall market demand growth of 5% in the period, mainly driven by demand from wedding photography;
2. Market share gain (from 43% in 1H14 to 60% in 2016) driven by: a) Fujifilm is now providing feedstock to Yestar. It has lowered the feedstock cost by c.10% y-o-y in 1H14 which has allowed Yestar to gain market share through aggressive pricing. We believe the price advantage is still present and will help expansion; b) major competitor Kodak is in trouble (estimated market share in 1H14: 20%).

Kodak transferred its color photographic paper business to U.K. Kodak Pension Plan (the Plan) in 2013 to clear its pension obligations. It is still uncertain if the Plan is able to turn around the difficult business. Also, we expect there to be massive restructuring after the business transfer. Hence, Kodak may not have time to develop its color photographic paper business in China. This would be the best time for Fujifilm/Yestar to grasp market share from it.

On the back of the growth of both businesses, we expect a 20% EPS CAGR from 2013-16F.

**Potential M&A to boost future earnings.** Yestar has been searching for M&A targets since 2012. It wants to move up the value chain to produce higher value-added products. Profitability and financial position are major criteria for Yestar's M&A candidates. Successful M&A can provide a new earnings source. Yestar has already started formal due diligence on one target in Aug. We expect Yestar to be able to complete one deal with a total consideration between Rmb250m to 300m in 2014. With net cash of Rmb130m, we believe Yestar has sufficient financial resources to complete the deal.

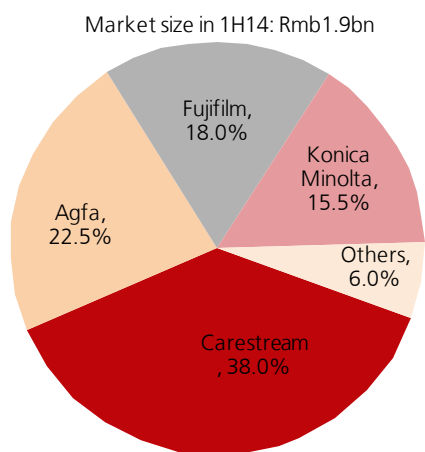
**Initiate with BUY. TP of HK\$10 implies >30% upside.** C.60% of Yestar's earnings come from medical products. The portion will increase going forward. Thus, we would view it as a China medical stock. Its valuation should be benchmarked against the valuations of medical stocks listed in Mainland China & Hong Kong. According to Bloomberg, there are around 150 medical stocks listed in both markets with consensus estimates. They are trading at 31x of FY15F PE on average. We believe Yestar should be trading at least on par with them given: 1) its ROE in 2014F-16F are higher (>27% vs sector average of 15-17%); 2) unique position to leverage on Fujifilm's strong growth in China given their close working relationship; 3) possible significant upside to our estimated earnings CAGR of 20% (2013-16F) given peer's average projected earnings growth (2015 & 16) of c.26% respectively. Pegging to 31x of FY15F PE, we derive a TP of HK\$10 for Yestar.

**Competitive edges**

**43-year relationship with Fujifilm.** Yestar’s largest shareholder, the Hartono family (71% stake), has been working with Fujifilm for 43 years. The long-term relationship is testament to Fujifilm’s trust on Yestar. We believe this will not only continuously generate stable orders from Fujifilm but also yield new opportunities. For example, Yestar will start producing dental films for Fujifilm in Q4 this year. This product, which is totally new for Fujifilm, will help both companies to expand their revenue streams.

**Leader in China’s medical film market.** The top 4 players account for >90% market share (see the following graph “Medical film market share in China”). Fujifilm is ranked no.3. This demonstrates market recognition for Fujifilm and Yestar, which will help to sustain demand.

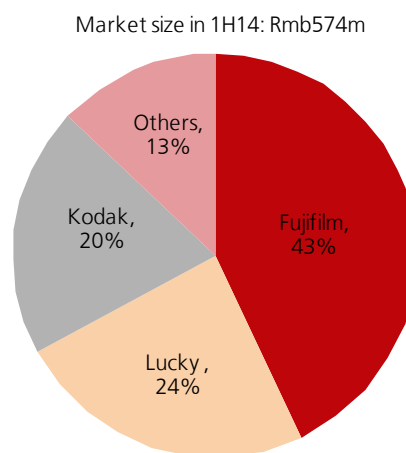
**Medical film market share in China**



Source: Company, DBS Vickers

**Largest market share in color photographic paper in China.** In China, Yestar is the sole processor and distributor of Fujifilm’s color photographic paper, which commands the largest market share (see the following graph “Color photographic paper market in China”). The strong market share implies market recognition which would underpin stable demand going forward.

**Color photographic paper market in China**



Source: Company, DBS Vickers

Currently, this market is already dominated by three brands. It will not be easy for other potential players to enter this market due to the following: 1) In terms of economies of scale, the newcomer, if any, would be much weaker than the top 3; 2) There are technological entry barriers. The coatings on the product are made up of special chemicals produced by the brand owners. Not many manufacturers can produce this chemical. As such, revenue from this market should continue to be dominated by the top 3 players.

## Company Focus

### Yestar International

#### Growth drivers

#### Revenue breakdown and growth

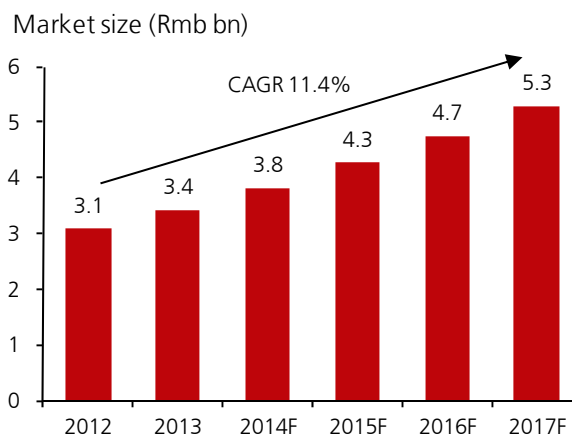
(Rmb m)	2013	2014F	2015F	2016F
<b>Revenue</b>	1,173	1,523	1,768	2,057
Color photographic paper	531	604	665	731
Small size	236	236	236	236
Large size	295	369	429	496
Medical film	474	674	811	979
Medical	471	669	802	963
Dental	4	5	9	16
Others	168	245	292	347
<b>Growth %</b>				
<b>Total</b>		30%	16%	16%
Color photographic paper		14%	10%	10%
Small size		0%	0%	0%
Large size		25%	16%	16%
Medical film		42%	20%	21%
Medical		42%	20%	20%
Dental		42%	80%	80%
Others		46%	19%	19%

Source: Company, DBS Vickers

**The largest earnings driver: Medical films.** The sales growth (y-o-y) of this segment in 1H14 was 55%. We expect 31% growth in 2H14 and at least 20% growth each in 2015 and 2016. The driving forces behind this include:

- 1) The overall market demand is projected to grow at an 11.4% CAGR in 2012-17F (see the following chart "Medical film market in China"), driven by a) The increase in number of hospitals is projected to rise by a 9% CAGR in 2012-15. Medical films are mostly used in hospitals; b) Physicians' increasing reliance on diagnosis equipment to minimise misdiagnosis. Medical films are a major diagnosis tool;

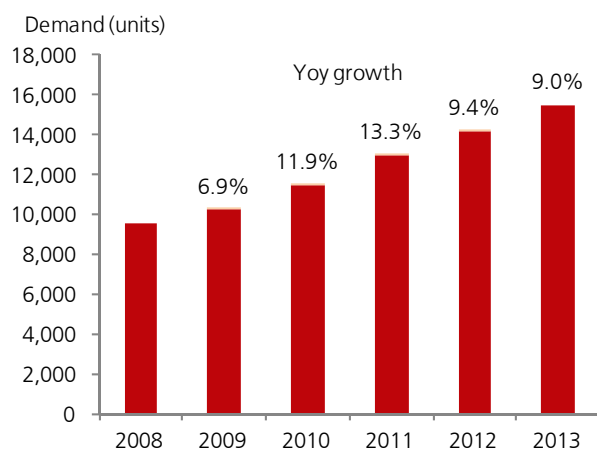
#### Medical film market in China (Rmb bn)



Source: Frost & Sullivan

- 2) Fujifilm's market share gain. Its market share has already increased from 12.8% in 2012 to 18% in 1H14. It targets to reach 30% in 2016. We believe this is achievable. The medical films are mainly used in Fujifilm's medical imaging devices. Demand growth for medical imaging devices has accelerated since the medical reform in 2009. X-ray device is a good example (see the following charts "X-ray device demand in China"). The average lifespan of a medical imaging device is 3-5 years. In 2013 and 2014, some medical imaging devices had reached their retirement age and Fujifilm grasped this opportunity to aggressively promote its medical imaging devices by launching new products at attractive prices. We believe it is able to continue the strategy.

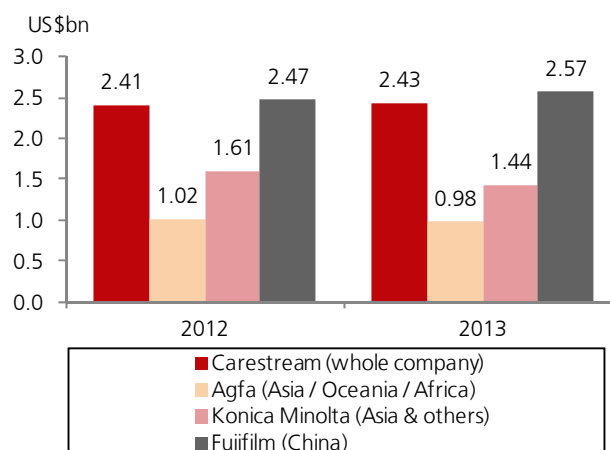
### X-ray device demand in China



Source: Frost & Sullivan

In terms of the total revenue size in China (including many other products), Fujifilm is bigger than its competitors (see the following table "Peers comparison – revenue size in China"). Thus, we believe its sales network is more extensive. In terms of financial status, it is much stronger too (see the following table "Peers comparison – net debt to equity"). Also, Fujifilm is well recognized in various fields in China (e.g. it is the 2<sup>nd</sup> largest player in endoscope and digital printing equipment industries with 14-15% market shares.) This generates stable revenue for the company (c.Rmb12bn in FY3/13 and c.Rmb15bn in FY3/14). Therefore, supported by an extensive sales network, a much stronger financial status and stable revenue streams, we believe Fujifilm will be able to continuously gain market share through aggressive pricing. As the sole processor of Fujifilm's medical films in China, Yestar will definitely benefit from this.

### Peers comparison – revenue size in China



Source: Companies, DBS Vickers

\*Year end for Konica Minolta and Fujifilm are Mar 13 and Mar 14.

### Peers comparison – net debt to equity

#### Net debt to equity

Onex (parent co of Carestream)	Jun-14	314.5%
Agfa	Mar-14	52.0%
Konica Minolta	Jun-14	4.6%
Fujifilm	Jun-14	Net cash of US\$3.1bn

Source: Bloomberg Finance L.P.

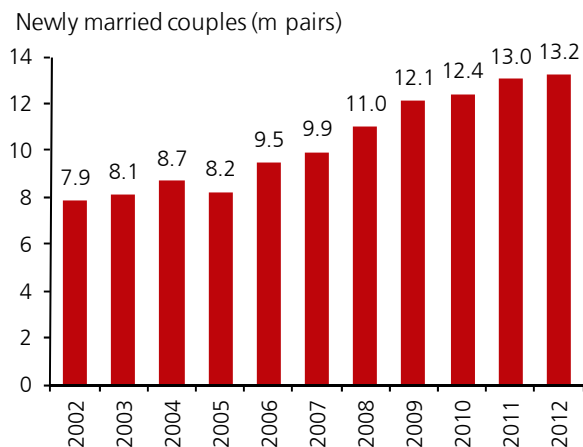
**Steady growth in color photographic paper.** The sales growth (y-o-y) of this segment in 1H14 was 11%. We expect a 16% growth in 2H14 and at least a 10% growth each in 2015 and 2016. The driving forces behind this include:

- 1) Color photographic paper has two segments, namely small-sized and large-sized, where the latter will drive this division. We estimate >50% of demand for large-sized paper will come from wedding photography. The number of newly married couples in China has been increasing at a 5.3% CAGR from 2002-12 (see the following chart "Newly married couples in China"). There have been at least >10m of couples getting married in recent years annually. The unmarried population aged above 18 in China is now >249m and are potential customers for this product.

## Company Focus

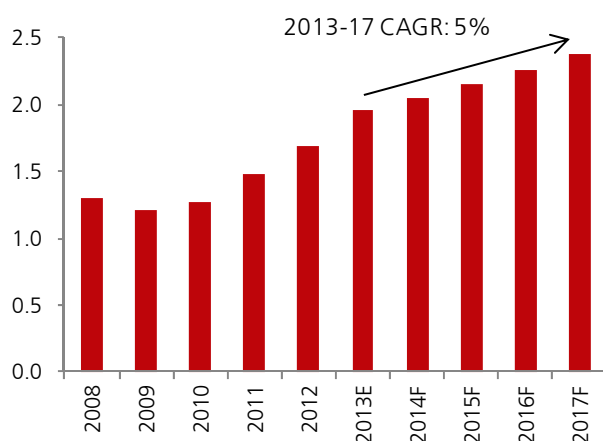
### Yestar International

#### Newly married couples in China (m pairs)



Source: China Statistical Yearbook

#### Color photographic paper market in China (Rmb bn)



Source: Frost & Sullivan, DBS Vickers

2) Market share gain. Thanks to better after-sales service resulting from extensive sales network and aggressive pricing, Fujifilm / Yestar's market share has increased from 35% in 2012 to 43% in 1H14. It targets to reach 60% in 2016. We believe this is achievable in two ways:

a) Fujifilm is now providing feedstock to Yestar. It has lowered the feedstock cost by c.10% y-o-y in 1H14 which has allowed Yestar to gain market share through aggressive pricing. We believe the price advantage is still present and will help expansion;

b) Major competitor Kodak is in trouble (estimated market share in 1H14: 20%). Kodak filed for bankruptcy in 2012.

After a series of restructuring, Kodak ended 20 months of chapter 11 bankruptcy protection in 2013. According to The Wall Street Journal, Kodak transferred its personalised imaging business (including color photographic paper and document imaging businesses) to U.K. Kodak Pension Plan (the Plan) in 2013 because Kodak owed the Plan US\$2.8bn of pension obligation. It is still uncertain if the Plan will be able to turn around the difficult business. Also, we expect there to be massive restructuring after the business transfer. Kodak is unlikely to have time to develop its color photographic paper business in China. Hence, this would be the best time for Fujifilm / Yestar to grasp market share from Kodak.

**Potential M&A to boost future earnings.** In order to move up the value chain, Yestar has been searching for M&A targets since 2012. Profitability and light debts are major criteria for Yestar's M&A candidates. Successful M&A can provide a new earnings source for the company. Yestar has already started due diligence on one target in Aug. We estimate that Yestar may be able to complete one deal this year, with a total consideration of between Rmb250m and Rmb300m.

Assuming the total consideration is Rmb280m, Yestar has sufficient financial resources to complete the deal. As at Jun 14, Yestar had net cash of c.Rmb130m. Assuming that Yestar utilises its entire net cash and raises extra debt of c.Rmb150m (net debt-to-equity will then be c.43%), it will then have adequate capital for the acquisition. Even at that level, its gearing will still be acceptable, in our view. We project Yestar's operating cash inflow in 2014 to be c.Rmb95m. If Yestar raises an extra debt of Rmb150m (they will all be net debt), the net debt / operating cash inflow ratio would be around 1.6x, implying that Yestar would have enough cash flow to repay the debt within two years. Thus, we think this is a comfortable debt level for Yestar.

**Co-operating with Fujifilm on new products.** China is a major growth driver for Fujifilm. China's sales contribution to Fujifilm has been increasing consistently (see the following chart "Increasing sales contribution from China to Fujifilm"). It is the only foreign country market separately listed in Fujifilm's geographical revenue breakdown (see the following table "China is an important market for Fujifilm"). In the last 13 years, Yestar had been helping Fujifilm to develop new products in the China market. In 2005, Yestar started to process color photographic paper for Fujifilm. The former helped to expand Fujifilm's market share from <10% to 43% in 1H14. In 2010, Yestar started to process medical films for Fujifilm in China and the latter's market share has increased from <10% to 18% in 1H14. Going forward, we believe both companies will continue to co-operate on new products. For example, Yestar will start producing dental films for Fujifilm in Q4 this year. This product, which is totally new for Fujifilm, will be a potential growth driver going forward.

China is an important market for Fujifilm

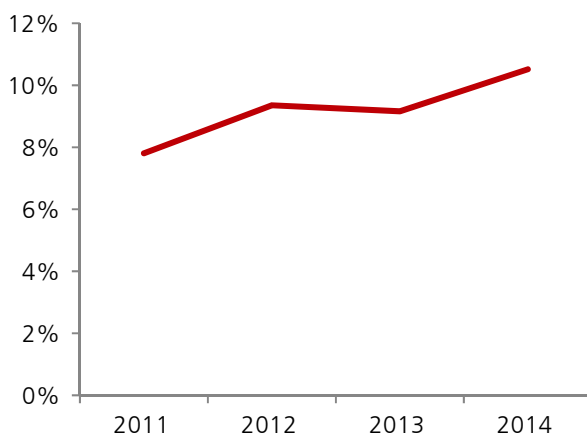
FY2014/3 Appendix **FUJIFILM**  
**Revenue from Domestic and Overseas**

(Billions of yen)

	FY2013/3		FY2014/3		Change
	Ratio (%)		Ratio (%)		
Domestic	45.3%	1,002.4	42.5%	1,036.9	34.5 (+3.4%)
The Americas	17.7%	393.3	17.9%	436.7	43.4 (+11.0%)
Europe	11.3%	250.4	12.0%	292.8	42.4 (+16.9%)
China	9.2%	203.8	10.6%	257.2	53.4 (+26.2%)
Asia and others	25.7%	568.6	27.6%	673.6	105.0 (+18.5%)
Overseas	54.7%	1,212.3	57.5%	1,403.1	190.8 (+15.7%)
Consolidated total	100.0%	2,214.7	100.0%	2,440.0	225.3 (+10.2%)

Source: company

Increasing sales contribution from China to Fujifilm



Source: Company

## Company Focus

### Yestar International

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#### Risks & concerns

**Heavy reliance on Fujifilm.** Currently, >80% of Yestar's total purchases and >40% of total revenue comes from Fujifilm. Any adverse changes in the relationship with Fujifilm could materially impact Yestar's purchase cost and revenue going forward. Also, products under the "Fujifilm" brand account for >90% of Yestar's revenue. Any damage to Fujifilm's brand image could adversely impact Yestar's revenues and earnings.

**Potential impact from digitisation.** Some investors are concerned that digitisation may reduce the usage of medical films going forward, as it allows users to store photos in a digitised form in a computer, thus reducing the need to print them on medical films. In our view, this concern should not be over-emphasized. In China, particularly in tiers 2-3 cities, very few hospitals have adequate computer systems to store medical images, nor a shared system to transfer medical images among hospitals. Thus, the printing of images is still necessary for many patients. However, digitisation may have a larger impact on small-sized color photographic paper (e.g. 3-4R photos), which accounted for 13% of Yestar's revenue in 1H14. We assume no revenue growth for this segment in 2015-16.

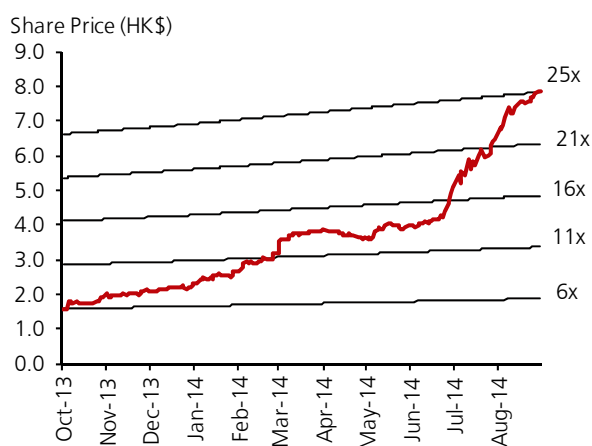
**Potential future M&A may increase gearing.** We believe the company is in talks with M&A targets related to the medical imaging business, with a potential investment size of Rmb250m to Rmb300m. Assuming M&A take place in 2014, we estimate that Yestar will move from being in a net cash position (Rmb130m as at Jun 14) to end up with about 50% net debt to equity. As such, Yestar's financial burden and interest cost will increase.

**Valuation**

**Initiate with BUY. TP of HK\$10 implies >30% upside.** C.60% of Yestar's earnings come from medical products. The portion will increase going forward. Thus, we would view it as a China medical stock. Its valuation should be benchmarked against the valuations of medical stocks listed in Mainland China & Hong Kong. According to Bloomberg, there are around 150 medical stocks listed in both markets with consensus

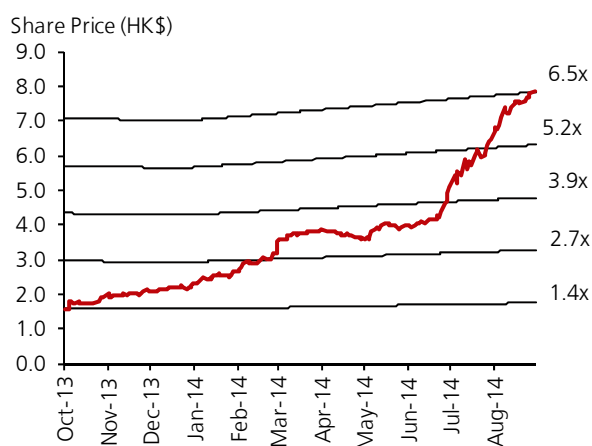
estimates. They are trading at 31x of FY15F PE on average. We believe Yestar should be trading at least on par with them given: 1) its ROE in 2014F-16F are higher (>27% vs sector average of 15-17%); 2) unique position to leverage on Fujifilm's strong growth in China given their close working relationship; 3) possible significant upside to our estimated earnings CAGR of 20% (2013-16F) given peer's average projected earnings growth (2015 & 16) of c.26% respectively. Pegging to 31x of FY15F PE, we derive a TP of HK\$10 for Yestar.

**PE band chart**



Source: Thomson Reuters, DBS Vickers

**PB band chart**



Source: Thomson Reuters, DBS Vickers

## Company Focus

### Yestar International

#### Peers valuation

Company Name	Currency Code	Price Local\$	Mkt Cap US\$m	PE 14F x	PE 15F x	Yield 14F %	Yield 15F %	P/Bk 14F x	P/Bk 15F x	EV/EBITDA 14F x	EV/EBITDA 15F x	ROE 14F %	ROE 15F %
<b>Medical imaging</b>													
Yestar Int'l*	2393 HK	HKD 7.86	473	29.1	24.2	1.7	2.1	7.3	6.2	16.7	14.1	27.3	27.6
Mindray Med.Intl	MR US	USD 30.93	3,660	17.2	15.3	1.5	1.7	2.1	1.9	10.6	9.6	13.8	13.7
CR Wandong Medical 'A'	600055 CH	CNY 13.35	471	49.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Edan Instruments 'A'	300206 CH	CNY 21.97	698	67.2	50.9	0.3	0.4	3.6	3.4	n.a.	n.a.	4.3	6.1
Wuhan Guide Infrared 'A'	002414 CH	CNY 23.15	2,263	127.9	84.2	n.a.	n.a.	5.6	5.2	n.a.	n.a.	4.8	9.3
<b>Medical Devices</b>													
Andon Health 'A'	002432 CH	CNY 20.98	1,272	n.a.	1049	n.a.	n.a.	n.a.	6.8	n.a.	n.a.	n.a.	n.a.
GD Biolight Meditech 'A'	300246 CH	CNY 25.9	617	82.5	66.4	0.2	0.3	9.1	8.4	n.a.	n.a.	9.0	10.0
CR Wandong Medical 'A'	600055 CH	CNY 13.35	471	49.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Edan Instruments 'A'	300206 CH	CNY 21.97	698	67.2	50.9	0.3	0.4	3.6	3.4	n.a.	n.a.	4.3	6.1
Shenzhen Glory Med.'A'	002551 CH	CNY 26.08	1,529	73.3	56.8	n.a.	n.a.	7.0	6.3	n.a.	n.a.	8.9	13.5
Beijing Bohui Innovation 'A'	300318 CH	CNY 21.32	569	49.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
JS Yuyue Mdeqt.& Supp.'A'	002223 CH	CNY 29.09	2,520	44.1	35.6	0.4	0.6	8.7	7.2	35.3	28.1	19.1	20.8
Zhuhai Hokai Med.Insts. 'A'	300273 CH	CNY 23.68	2,207	49.6	33.9	1.0	1.4	10.6	8.5	39.6	26.4	22.6	26.8
Truking Technology 'A'	300358 CH	CNY 45.28	862	34.8	29.0	n.a.	n.a.	9.3	7.6	n.a.	n.a.	26.9	25.4
Shinva Med.Instm. 'A'	600587 CH	CNY 35.14	2,276	40.7	29.1	0.4	0.4	4.9	4.2	24.5	17.6	12.7	15.5
Sinocare 'A'	300298 CH	CNY 41.94	1,363	36.7	31.4	0.8	1.0	6.7	6.3	n.a.	n.a.	18.8	20.1
Shanghai Tofflon Sctc. 'A'	300171 CH	CNY 25.2	1,303	24.5	19.9	1.4	1.8	3.0	2.6	18.0	13.0	12.5	13.8
Pw Medtech Group	1358 HK	HKD 4.28	926	28.2	16.9	0.0	0.0	2.6	2.3	n.a.	n.a.	10.3	14.6
Microport Scientific*	853 HK	HKD 4.02	737	n.a.	26.0	0.0	0.0	1.9	1.7	36.7	16.1	(0.2)	6.9
Shandong Weigao*	1066 HK	HKD 8.01	4,626	26.9	23.1	1.1	1.3	2.9	2.7	18.7	15.9	11.2	12.0
Lifetech Scientific	1302 HK	HKD 11.78	760	n.a.	46.7	0.0	0.0	17.0	10.4	n.a.	n.a.	(5.0)	38.9

# FY14: FY15; FY15: FY16

Source: Thomson Reuters, \*DBS Vickers

**Key company information**

**Key company information**

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1H14 earnings breakdown	c.60% - Medical film c.40% - Color photographic paper
1H14 sales breakdown	49% - Medical film 36% - Color photographic paper 15% - Others
Business model	<u>Medical film:</u> Procures feedstock from Fujifilm and processes them into medical film used for medical imaging, and then sell them back to Fujifilm  <u>Color photographic paper:</u> Procures feedstock from Fujifilm, processes it into colour photographic paper, and then sell them to photo studios and professional photo processing labs under the brand "Fujifilm"
Suppliers	>80% of total purchase from Fujifilm
COGS structure	c.90% - Master rolls (raw materials) c.5% - Packaging materials c.5% - Processing overhead
Major shareholders	71% - Hartono family
No of staffs	719 (Dec 2013)
Production bases	Nanning (Guangxi province)

*Source: Company, DBS Vickers*

## Company Focus

### Yestar International

#### Management profile

Manager	Age	Current appointment	Previous experience	Ownership
Mr. HARTONO James	38	Chairman & CEO & Executive Director	Established Yestar in 2000 Over 12 years of experience in the distribution of image printing products. Graduated from Portland State University in Oregon, USA in BS in marketing & finance (1997)	14.21%
Ms. WANG Ying	53	Executive Director  (Formulating the sales strategies and product development)	Joined Yestar in 2010 Over 29 years of experience in image industry Chief engineer and head of processing plant for Processing Group (1984-2010) Obtained BS in Fine CHEMICAL engineering from East China University of Science and Technology (1984) Obtained a CEO Associate certificate from British Federal Committee A committee member of Chinese Society for Imaging Science and Technology since 2001 A member of National Technical Committee on Light Industrial Machinery of Standardization Administration (2004-2009)	
Mr. CHAN To Keung	54	Executive Director  (Overseeing the group's production activities)	Joined Yestar in 2006 Over 32 years of experience in production of image printing products Worked in Fuji Photo Products (a subsidiary of China-Hongkong Photo Products (1123 HK) in 1977-2003) Obtained a business administration certificate in 2006 from the Open University of Hong Kong	
Ms. WANG Hong	38	CFO & Executive Director	Joined Yestar in 2007 Over 10 years of experience in financial accounting & auditing	
Ms. ZHANG Qi	43	Executive Director  (Overseeing operation and logistics of the group)	Joined Yestar in 2007 Finance staff in Shanghai Super Star (engaged in sales & manufacturing of photofinishing equipment, digital camera and provision of after-sales services)	
Ms. HENG Yinmei	48	Executive Director  (Human resources management and business administration)	Joined Yestar in 2007 Over 17 years of experience in human resources management Human resources supervisor at Shanghai Ke Bao-81 Precision Machinery Co., Ltd (1995-2000) & Shanghai Super Star (2003-2007)	

Source: Company, DBS Vickers

**Management profile (continued)**

Manager	Age	Current appointment	Previous experience
Dr. HU Yiming	49	Independent Non-executive Director & Chairman of audit committee	<p>Joined Yestar in 2013</p> <p>More than 20 years of experience in accounting</p> <p>Professor of accounting at the accounting department and Supervisor of the Company Financial Research Centre of Antai College of Economics &amp; Management at Shanghai Jiao Tong University since 2005</p> <p>A member of the Professional (Finance and Accounting) Committee of the Chinese Accounting Society since 2008 &amp; the Accounting Committee of the Asia Pacific Management Accounting Association</p> <p>A supervisor of Ph.D. students of the School of Accountancy at Shanghai University of Finance and Economics (2001-2005)</p> <p>An associate professor of the MBA Centre of the School of Management at Xiamen University (1997-1999)</p> <p>Obtained BS in Chemistry (1985) &amp; Ph.D. in Management/Accounting (1998) from Xiamen University</p> <p>Independent non-executive director of International Mining Machinery Holdings Limited (2010-2012)</p>
Mr. KARSONO Tirtamarta (KWEE Yoe Chiang)	65	Independent Non-executive Director & Chairman of remuneration committee	<p>Joined Yestar in 2013</p> <p>Over 25 years of experience in automobile distributorship industry</p> <p>Awarded as Rotary-ASME Entrepreneur (2006)</p> <p>Founder &amp; Executive chairman of the Eurokars Group, a private-held automobile distributorship which manages the distributionship of well-known marques in Singapore and Indonesia</p>
Mr. SUTIKNO Liky	39	Independent Non-executive Director & chairman of nomination committee	<p>Joined Yestar in 2013</p> <p>Over 9 years of experience in management and global supply chain services</p> <p>Chief operating officer of International Sources, Inc (USA), primarily in Asia since 2004</p> <p>Chairman &amp; Legal representative at International Sources (Shanghai) Co., Ltd.</p> <p>Obtained in Industrial Systems Engineering &amp; Information Systems &amp; Finance from Ohio State University in USA (1997)</p>

Source: Company, DBS Vickers

## Company Focus

### Yestar International

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#### Corporate milestones

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Year	Event
2000	Yestar Shanghai was established to engage in the imaging business.
2001	Yestar began to purchase color photographic paper and color film from Fujifilm Group.
2004	Yestar Technology was established to engage in, amongst others, the production of color photographic paper and color film.
2005	Yestar's first production line for color photographic paper and color film commenced operation in Gaoxin Processing Plant.
2007	Fujifilm Group has recognized that since May 2007, Yestar has been the largest authorized distributor of Fujifilm color photographic paper and Fujifilm color films in the PRC and nearly all the Fujifilm color photographic paper and all the Fujifilm color films sold in ready-to-use form in the PRC have been distributed by Yestar.  Since 2007, Fujifilm Group's after-sales service hotline and repair services for photofinishing equipment in China has been operated by Yestar.
2010	Yestar commenced processing and sales of Fujifilm medical dry films to Fujifilm Group in the PRC.
2013	Yestar was appointed by Fujifilm China Investment as the sole and exclusive distributor of Fujifilm color photographic paper in the PRC.

Source: Company, DBS Vickers

**Key Assumptions**

FY Dec	2011A	2012A	2013A	2014F	2015F	2016F
Color photographic paper - revenue growth %	20.1	13.8	(11.5)	13.9	10.0	10.0
Medical imaging products - revenue growth %	712.7	(2.8)	60.9	42.0	20.4	20.7
SG&A % in total sales	10.4	9.6	8.7	8.3	8.0	8.0

**Sensitivity Analysis**

	2015F
Medical film gross margin +/- 1ppt	Net Profit +/- 4.8%
Color photographic paper gross margin +/- 1ppt	Net Profit +/- 4%

In 2011, sales growth of medical film was >700% as purchases from Fujifilm increased substantially but their inventory levels were abnormally high. In 2012, Fujifilm wanted to reduce their inventories, thus purchases decreased resulting in sales decline.

The competitor Kodak filed for bankruptcy in 2012. Customers feared a shortage in supply and hence stocked up. However, the supply level remained normal in 2013 and thus, those customers needed to clear their inventory and reduced their purchases in 2013, resulting in the sales decline.

**Segmental Breakdown (RMB m)**

FY Dec	2012A	2013A	2014F	2015F	2016F
<b>Revenues (RMB m)</b>					
Color photographic paper	599	531	604	665	731
Medical imaging products	295	474	674	811	979
Industrial imaging	36	154	231	277	333
Others	25	14	14	14	14
<b>Total</b>	<b>956</b>	<b>1,173</b>	<b>1,523</b>	<b>1,768</b>	<b>2,057</b>
<b>Gross margin (RMB m)</b>					
Color photographic paper	116	119	139	154	171
Medical imaging products	40	65	88	108	136
Industrial imaging	7	23	37	45	54
Others	5	2	2	2	2
<b>Total</b>	<b>167</b>	<b>209</b>	<b>267</b>	<b>309</b>	<b>362</b>
<b>Gross margin Margins (%)</b>					
Color photographic paper	19.4	22.5	23.1	23.2	23.3
Medical imaging products	13.4	13.7	13.1	13.4	13.9
Industrial imaging	19.0	15.2	16.2	16.2	16.2
Others	18.3	12.8	13.0	13.0	14.0
<b>Total</b>	<b>17.5</b>	<b>17.8</b>	<b>17.5</b>	<b>17.5</b>	<b>17.6</b>

In 1H14, the operating cost (SG&A) % of sales was 8.6%. From 2011 to 1H14, the operating cost % of sales has been trending down, thanks to better economies of scale. As the revenue grows bigger, we believe this trend will continue.

The increase was due to ASP rise and better economies of scale.

Introduction of printed wiring board film products dragged down the segment's gross margin but increased its gross profit.

Source: Company, DBS Vickers

## Company Focus

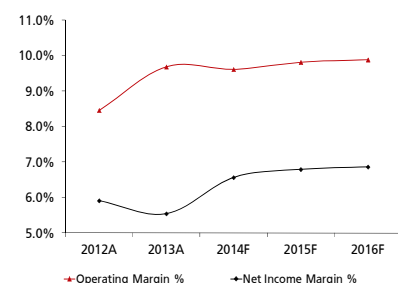
### Yestar International

#### Income Statement (RMB m)

FY Dec	2011A	2012A	2013A	2014F	2015F	2016F
Revenue	977	956	1,173	1,523	1,768	2,057
Cost of Goods Sold	(814)	(789)	(964)	(1,257)	(1,458)	(1,695)
<b>Gross Profit</b>	<b>163</b>	<b>167</b>	<b>209</b>	<b>267</b>	<b>309</b>	<b>362</b>
Other Opng (Exp)/Inc	(91)	(86)	(96)	(120)	(136)	(159)
<b>Operating Profit</b>	<b>73</b>	<b>81</b>	<b>114</b>	<b>146</b>	<b>173</b>	<b>203</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0	0
Net Interest (Exp)/Inc	(3)	1	(5)	(3)	(1)	(1)
Dividend Income	0	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	(16)	0	0	0
<b>Pre-tax Profit</b>	<b>69</b>	<b>82</b>	<b>94</b>	<b>143</b>	<b>172</b>	<b>203</b>
Tax	(21)	(24)	(28)	(43)	(52)	(61)
Minority Interest	(1)	(2)	0	0	0	(1)
Preference Dividend	0	0	0	0	0	0
<b>Net Profit</b>	<b>47</b>	<b>57</b>	<b>65</b>	<b>100</b>	<b>120</b>	<b>141</b>
Net Profit before Except.	47	57	81	100	120	141
EBITDA	83	91	127	161	187	216
<b>Growth</b>						
Revenue Gth (%)	86.8	(2.2)	22.8	29.8	16.0	16.4
EBITDA Gth (%)	111.1	10.1	39.7	26.6	16.2	15.6
Opg Profit Gth (%)	144.1	11.4	40.5	28.9	18.4	17.2
Net Profit Gth (%)	145.2	19.5	15.1	53.7	20.1	17.6
<b>Margins &amp; Ratio</b>						
Gross Margins (%)	16.7	17.5	17.8	17.5	17.5	17.6
Opg Profit Margin (%)	7.4	8.5	9.7	9.6	9.8	9.9
Net Profit Margin (%)	4.8	5.9	5.5	6.6	6.8	6.9
ROAE (%)	35.1	37.9	27.5	27.3	27.6	27.6
ROA (%)	11.6	10.6	9.8	12.8	13.5	13.9
ROCE (%)	25.3	26.6	23.4	20.9	22.2	22.7
Div Payout Ratio (%)	0.0	142.6	50.2	50.0	50.0	50.0
Net Interest Cover (x)	22.0	NM	25.2	48.5	142.6	255.0

Source: Company, DBS Vickers

#### Margins Trend



Listing expense for IPO

Net profit growth is expected to be larger than revenue due to 1) lower operating cost (SG&A) % of sales; 2) decrease of net interest expense.

## Company Focus

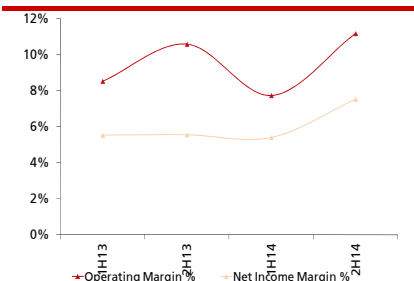
### Yestar International

The y-o-y sales was mainly driven by 1) 55% growth in sales of medical films (accounting for 49% of total sales); 2) 11% growth in sales of color photographic paper (accounting for 36% of total sales).

#### Interim Income Statement (RMB m)

FY Dec	1H2013	2H2013	1H2014	2H2014F
Revenue	515	658	694	829
Cost of Goods Sold	(426)	(538)	(585)	(672)
<b>Gross Profit</b>	<b>89</b>	<b>120</b>	<b>109</b>	<b>158</b>
Other Oper. (Exp)/Inc	(45)	(50)	(55)	(65)
<b>Operating Profit</b>	<b>44</b>	<b>70</b>	<b>54</b>	<b>93</b>
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	(2)	(3)	0	(3)
Exceptional Gain/(Loss)	0	0	0	0
<b>Pre-tax Profit</b>	<b>42</b>	<b>67</b>	<b>53</b>	<b>90</b>
Tax	(13)	(15)	(16)	(27)
Minority Interest	0	0	0	0
<b>Net Profit</b>	<b>29</b>	<b>37</b>	<b>38</b>	<b>63</b>
Net profit bef Except.	29	52	38	63

#### Margins Trend



Decline of gross margin was due to: 1) drop in gross margin of medical films from 13.6% in 1H13 to 12.2% in 1H14. This was because of trial productions of new products which affected operating efficiency. We expect the operations to be back to normal in 2H14 and gross margin is expected to rebound to 13.9% in 2H14 (average in 2010-2013: 14%); 2) gross margin of color photographic paper decreased from 22.1% in 1H13 to 21.3% in 1H14 due to price cut of c.13%. The company plans to increase price in 2H14, and coupled with a larger revenue size and better economies of scale, we expect its gross margin to rebound to 24% in 2H14.

#### Growth

Revenue Gth (%)	n.a.	n.a.	34.7	26.0
Opg Profit Gth (%)	n.a.	n.a.	22.2	33.0
Net Profit Gth (%)	n.a.	n.a.	31.6	70.9

#### Margins

Gross Margins (%)	17.3	18.3	15.7	19.0
Opg Profit Margins (%)	8.5	10.6	7.7	11.2
Net Profit Margins (%)	5.5	5.6	5.4	7.5

Source: Company, DBS Vickers

## Company Focus

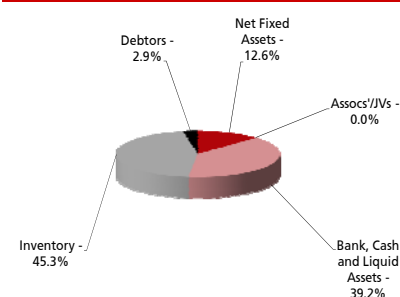
### Yestar International

#### Balance Sheet (RMB m)

FY Dec	2011A	2012A	2013A	2014F	2015F	2016F
Net Fixed Assets	53	96	104	97	91	79
Invt in Associates & JVs	0	0	0	0	0	0
Other LT Assets	21	24	26	26	25	24
Cash & ST Invt	147	163	287	307	374	454
Inventory	133	178	273	350	407	473
Debtors	37	101	17	22	26	30
Other Current Assets	85	26	28	28	28	28
<b>Total Assets</b>	<b>476</b>	<b>587</b>	<b>736</b>	<b>830</b>	<b>950</b>	<b>1,089</b>
ST Debt	47	25	117	72	77	81
Creditors	184	244	215	274	318	370
Other Current Liab	59	139	48	48	48	48
LT Debt	0	20	0	13	14	14
Other LT Liabilities	0	10	13	13	13	13
Shareholder's Equity	158	140	333	400	470	552
Minority Interests	23	9	9	10	10	11
<b>Total Cap. &amp; Liab.</b>	<b>471</b>	<b>587</b>	<b>736</b>	<b>830</b>	<b>950</b>	<b>1,089</b>
Non-Cash Wkg. Capital	12	(78)	55	79	95	113
Net Cash/(Debt)	100	118	170	222	284	359
Debtors Turn (avg days)	9.1	26.3	18.3	4.7	4.9	4.9
Creditors Turn (avg days)	64.9	100.4	88.2	71.9	74.8	74.7
Inventory Turn (avg days)	62.7	72.8	86.5	91.5	95.6	95.4
Asset Turnover (x)	2.4	1.8	1.8	1.9	2.0	2.0
Current Ratio (x)	1.4	1.1	1.6	1.8	1.9	2.0
Quick Ratio (x)	0.6	0.6	0.8	0.8	0.9	1.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	14.8	115.3	19.1	7.6	7.2	6.8
Z-Score (X)	NA	NA	NA	NA	NA	NA

Source: Company, DBS Vickers

#### Asset Breakdown



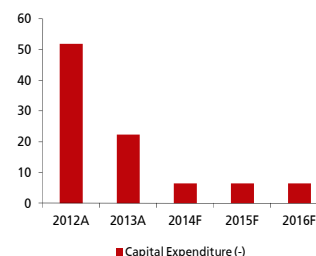
Sales of medical films increased by >700% in 2011. Inventory levels of major customer Fujifilm were very high in 2011 and 2012. Fujifilm focused on clearing inventory in 2012 and hence AR payback period was lengthened, resulting in higher AR (+Rmb64m) while AP also increased by a similar level. Thus, cash flow remained stable.

Increase of net cash was due to net proceeds of HK\$108m raised in the IPO in Q4 last year.

Cash Flow Statement (RMB m)

FY Dec	2011A	2012A	2013A	2014F	2015F	2016F
Pre-Tax Profit	69	82	94	143	172	203
Dep. & Amort.	10	10	14	16	16	16
Tax Paid	(10)	(21)	(43)	(43)	(52)	(61)
Assoc. & JV Inc/(loss)	0	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0	0
Chg in Wkg.Cap.	23	(73)	(34)	(24)	(16)	(19)
Other Operating CF	7	47	6	2	1	7
<b>Net Operating CF</b>	<b>100</b>	<b>45</b>	<b>37</b>	<b>95</b>	<b>122</b>	<b>146</b>
Capital Exp.(net)	(7)	(52)	(22)	(7)	(7)	(7)
Other Invts.(net)	0	0	0	0	0	0
Invts in Assoc. & JV	0	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0	0
Other Investing CF	(26)	30	1	4	3	4
<b>Net Investing CF</b>	<b>(33)</b>	<b>(22)</b>	<b>(21)</b>	<b>(3)</b>	<b>(3)</b>	<b>(3)</b>
Div Paid	0	0	(81)	(33)	(50)	(60)
Chg in Gross Debt	10	(2)	72	(32)	5	5
Capital Issues	0	0	129	0	0	0
Other Financing CF	(4)	(3)	(6)	(6)	(4)	(5)
<b>Net Financing CF</b>	<b>6</b>	<b>(4)</b>	<b>114</b>	<b>(71)</b>	<b>(49)</b>	<b>(60)</b>
Currency Adjustments	0	0	0	0	0	0
Chg in Cash	74	18	131	21	69	84
Opg CFPS (RMB)	0.23	0.35	0.20	0.26	0.29	0.35
Free CFPS (RMB)	0.28	(0.02)	0.04	0.19	0.25	0.30

Capital Expenditure



The increase is mainly for preparation of possible M&A in 2014.

Source: Company, DBS Vickers

## Company Focus

### Yestar International

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DBSV recommendations are based on Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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