

China / Hong Kong Company Focus

Yestar International

Bloomberg: 2393 HK Equity | Reuters: 2393.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

18 June 2014

NOT RATED HK\$4.02 HSI : 23,204

Price Target : n.a.

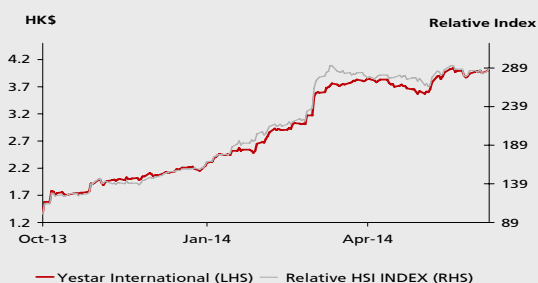
Reason for Report : NDR takeaways

Potential Catalyst: successful acquisition of medical imaging device makers

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Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2013A	2014F	2015F	2016F
Turnover	1,173	1,381	1,509	1,649
EBITDA	112	148	158	169
Pre-tax Profit	94	131	143	156
Net Profit	65	91	99	108
Net Pft (Pre Ex)	65	91	99	108
EPS (RMB)	0.18	0.20	0.21	0.23
EPS (HK\$)	0.22	0.24	0.27	0.29
EPS Gth (%)	6.3	9.6	9.2	8.6
Diluted EPS (HK\$)	0.22	0.24	0.27	0.29
DPS (HK\$)	0.11	0.09	0.09	0.10
BV Per Share (HK\$)	1.13	1.00	1.18	1.37
PE (X)	18.1	16.5	15.1	13.9
P/Cash Flow (X)	31.7	15.8	13.9	12.3
P/Free CF (X)	79.8	17.0	14.7	13.0
EV/EBITDA (X)	9.1	8.8	7.9	6.9
Net Div Yield (%)	2.8	2.1	2.3	2.5
P/Book Value (X)	3.5	4.0	3.4	2.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	27.5	25.7	24.4	22.6

ICB Industry: Industrials

ICB Sector: Support Services

Principal Business: Healthcare

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

Potential M&As can significantly accelerate earnings growth

- Investors expressed strong interest on Yestar's potential M&As during its recent NDR
- Potential M&As should help expand customer base and hence accelerate earnings growth
- Yestar has enough financial resources to undertake M&As

Potential M&As in 2H14 should accelerate earnings growth significantly. During the NDR for Yestar on Monday, investors were mainly interested in potential M&As. We believe that Yestar will acquire 2-3 medical imaging device makers with a customer base requiring medical films. These potential acquisitions would allow Yestar to: 1) sell Fujifilm's devices and medical films to these new customers. Fujifilm's medical films are solely processed by Yestar in China. The medical film processing for Fujifilm contributed c.55% of Yestar's earnings in 2013. As such, these acquisitions would drive up Yestar's profit; 2) launch medical films under Yestar's own brand to them, which should generate higher gross margins, and accordingly drive up gross margins of its medical film segment. As Yestar is targeting the mid-low end market (Fujifilm: mid-high end), medical films under its own brand would not directly compete with Fujifilm's product. Currently, we expect earnings CAGR (2013-16F) to be 18%. There is upside to our estimates if the M&As materialise in 2H14.

Yestar has enough financial resources to complete M&As. The acquisition(s) is estimated to cost Rmb150m-400m in total. Taking into account Yestar's net cash of Rmb170m (as at end-Dec 13) and expected operating cash inflow of Rmb93m in FY14F, we believe it has enough financial resources for M&A. Even assuming cost of Rmb400m, we estimate its net debt to equity ratio would maintain at acceptable level of c.36%.

Current valuation still looks attractive. Trading at 16x 1-yr rolling forward PE, the stock is trading at a 20% discount to the medical sector average. Current valuation is attractive given that there is potential for earnings estimates to be raised from M&A.

At A Glance

Issued Capital (m shrs)	467
Mkt. Cap (HK\$m/US\$m)	1,875 / 242
Major Shareholders	
Hartono family (%)	71.1
Free Float (%)	28.9
Avg. Daily Vol.('000)	2,040

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Company Focus

Yestar International

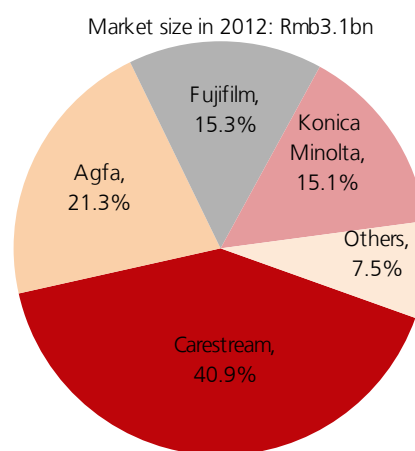
We hosted an NDR for Yestar on Monday. During the NDR, investors expressed one major concern. Fujifilm is the largest supplier and customer of Yestar (contributing c.80% of total purchases and c.40% of total revenue). It is also a major player in medical film industry (15.3% market share in 2012). If the potential M&As take place and Yestar launches medical films under its own brand, will this product compete directly with Fujifilm? Is Fujifilm ok with this?

In our view, Fujifilm should not have issues as:

- 1) Yestar and Fujifilm are targeting different market segments. Yestar is targeting mid-low end while Fujifilm is targeting mid-high end. Direct competition should be minimal;
- 2) Master rolls purchased from Fujifilm is the major feedstock of Yestar. Increasing sales of Yestar medical films will also drive the revenue of master rolls for Fujifilm which would be positive for Fujifilm;
- 3) As estimated above, Yestar may acquire 2-3 medical imaging device makers with their own customer base. Fujifilm's medical imaging devices and medical devices could be sold to them. Yestar is actually using its own capital to help Fujifilm to penetrate into new markets. In our view, allowing Yestar to develop its own brand is a compensation for Yestar which encourages it to accelerate the market penetration of Fujifilm's products. Fujifilm is now the no.3 player in the medical film industry (see the following chart). We believe it wants to expand its market share at a faster pace.

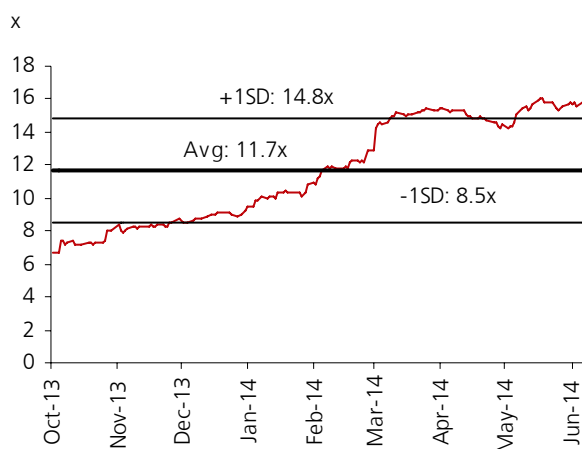
Yestar's major shareholder, the Hartono family, has co-operated with Fujifilm for over 42 years in Indonesia, Vietnam, Cambodia, India and China. Fujifilm is now an important supplier and customer. We believe the Hartono family would have discussed important issues with Fujifilm before proceeding with major moves related to Fujifilm as mentioned in above. Hence, we do not think the business relationship between Fujifilm and Yestar will be affected.

Medical film market share in China



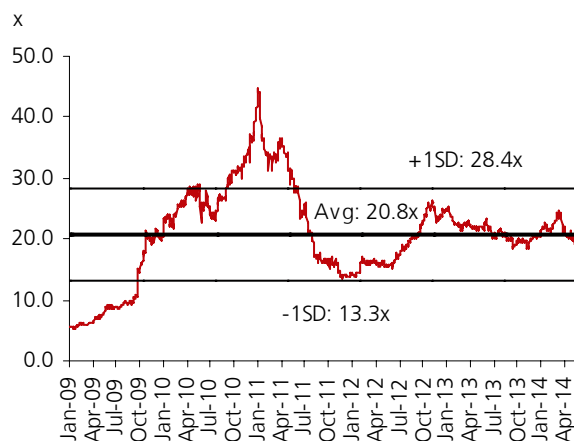
Source: Frost & Sullivan, DBS Vickers

Yestar's 1 year forward PE chart



Source: Thomson Reuters, DBS Vickers

Medical sector 1 year forward PE chart



Source: Thomson Reuters, DBS Vickers

Key Assumptions

FY Dec	2012A	2013A	2014F	2015F	2016F
Color photographic paper - revenue growth	0.1	(0.1)	0.1	0.1	0.1
Medical imaging products - revenue growth	0.0	0.6	0.4	0.1	0.1
SG&A % in total sales	0.1	0.1	0.1	0.1	0.1

Sensitivity Analysis

	2014
Medical film sales growth +/- 1%	Net Profit +/- 0.5%
Color photographic paper sales growth +/- 1%	Net Profit +/- 0.6%

Segmental Breakdown (RMB m)

FY Dec	2012A	2013A	2014F	2015F	2016F
Revenues (RMB m)					
Color photographic paper	599	531	557	591	626
Medical imaging products	295	474	640	717	803
Industrial imaging products	62	168	184	201	219
Total	956	1,173	1,381	1,509	1,649
Gross margin (RMB m)					
Color photographic paper	116	119	128	136	145
Medical imaging products	40	65	91	102	114
Industrial imaging products	12	25	28	30	33
Total	167	209	246	268	292
Gross margin Margins (%)					
Color photographic paper	19.4	22.5	23.0	23.0	23.1
Medical imaging products	13.4	13.7	14.2	14.2	14.2
Industrial imaging products	18.7	15.0	15.0	15.0	15.1
Total	17.5	17.8	17.8	17.8	17.7

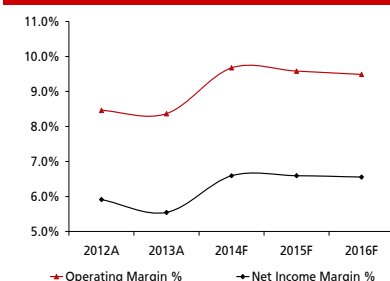
Source: Company, DBS Vickers

Income Statement (RMB m)

FY Dec	2012A	2013A	2014F	2015F	2016F
Revenue	956	1,173	1,381	1,509	1,649
Cost of Goods Sold	(789)	(964)	(1,135)	(1,241)	(1,357)
Gross Profit	167	209	246	268	292
Other Opng (Exp)/Inc	(86)	(111)	(113)	(123)	(135)
Operating Profit	81	98	134	145	156
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	1	(5)	(3)	(1)	(1)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	82	94	131	143	156
Tax	(24)	(28)	(39)	(43)	(47)
Minority Interest	(2)	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	57	65	91	99	108
Net Profit before Except.	57	65	91	99	108
EBITDA	91	112	148	158	169
Growth					
Revenue Gth (%)	(2.2)	22.8	17.7	9.2	9.3
EBITDA Gth (%)	10.1	22.7	32.7	6.8	7.0
Opg Profit Gth (%)	11.4	21.4	36.1	8.2	8.2
Net Profit Gth (%)	19.5	15.1	40.0	9.2	8.6
Margins & Ratio					
Gross Margins (%)	17.5	17.8	17.8	17.8	17.7
Opg Profit Margin (%)	8.5	8.4	9.7	9.6	9.5
Net Profit Margin (%)	5.9	5.5	6.6	6.6	6.6
ROAE (%)	37.9	27.5	25.7	24.4	22.6
ROA (%)	10.6	9.8	12.0	12.0	11.7
ROCE (%)	26.6	20.2	19.6	19.4	18.4
Div Payout Ratio (%)	142.6	50.2	35.0	35.0	35.0
Net Interest Cover (x)	NM	21.8	44.2	105.2	170.1

Source: Company, DBS Vickers

Margins Trend



Company Focus

Yestar International

Interim Income Statement (RMB m)

FY Dec	1H2012	2H2012	1H2013	2H2013
Revenue	41	594	46	638
Cost of Goods Sold	(18)	(444)	(20)	(497)
Gross Profit	23	151	26	141
Other Oper. (Exp)/Inc	(17)	(70)	(18)	(93)
Operating Profit	7	81	8	48
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	1	(1)	0	0
Net Interest (Exp)/Inc	0	1	0	(4)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	7	81	8	44
Tax	(1)	(22)	(2)	(27)
Minority Interest	0	(2)	0	0
Net Profit	6	57	6	17
Net profit bef Except.	6	57	6	17

Growth

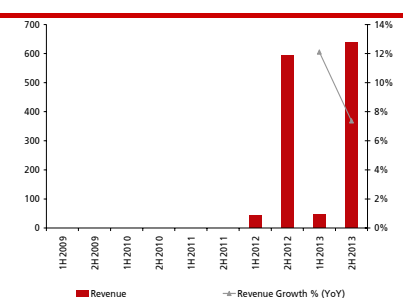
Revenue Gth (%)	N/A	N/A	12.1	7.4
Opg Profit Gth (%)	N/A	N/A	17.1	(40.1)
Net Profit Gth (%)	N/A	N/A	2.8	(70.3)

Margins

Gross Margins (%)	56.6	25.3	56.9	22.1
Opg Profit Margins (%)	16.7	13.6	17.4	7.6
Net Profit Margins (%)	15.0	9.6	13.7	2.7

Source: Company, DBS Vickers

Revenue Trend

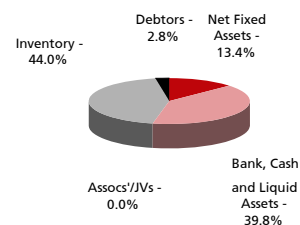


Balance Sheet (RMB m)

FY Dec	2012A	2013A	2014F	2015F	2016F
Net Fixed Assets	96	104	97	91	79
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	24	26	26	25	24
Cash & ST Invt	163	287	291	361	442
Inventory	178	273	318	347	379
Debtors	101	17	20	22	24
Other Current Assets	26	28	28	28	28
Total Assets	587	736	780	874	977
ST Debt	25	117	72	77	81
Creditors	244	215	249	272	297
Other Current Liab	139	48	48	48	48
LT Debt	20	0	13	14	14
Other LT Liabilities	10	13	13	13	13
Shareholder's Equity	140	333	375	442	513
Minority Interests	9	9	10	10	10
Total Cap. & Liab.	587	736	780	874	977
Non-Cash Wkg. Capital	(78)	55	70	78	87
Net Cash/(Debt)	118	170	206	271	347
Debtors Turn (avg days)	26.3	18.3	4.9	5.1	5.1
Creditors Turn (avg days)	100.4	88.2	75.6	77.4	77.1
Inventory Turn (avg days)	72.8	86.5	96.1	98.8	98.6
Asset Turnover (x)	1.8	1.8	1.8	1.8	1.8
Current Ratio (x)	1.1	1.6	1.8	1.9	2.1
Quick Ratio (x)	0.6	0.8	0.8	1.0	1.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	115.3	19.1	7.6	7.2	6.8
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS Vickers

Asset Breakdown

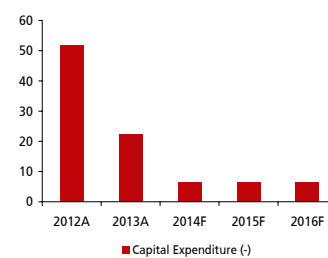


Cash Flow Statement (RMB m)

FY Dec	2012A	2013A	2014F	2015F	2016F
Pre-Tax Profit	82	94	131	143	156
Dep. & Amort.	10	14	16	16	16
Tax Paid	(21)	(43)	(39)	(43)	(47)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(73)	(34)	(15)	(8)	(9)
Other Operating CF	47	6	2	1	7
Net Operating CF	45	37	95	109	123
Capital Exp.(net)	(52)	(22)	(7)	(7)	(7)
Other Invts.(net)	0	0	0	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	30	1	4	3	4
Net Investing CF	(22)	(21)	(3)	(4)	(3)
Div Paid	0	(81)	(49)	(33)	(36)
Chg in Gross Debt	(2)	72	(32)	5	5
Capital Issues	0	129	0	0	0
Other Financing CF	(3)	(6)	(6)	(4)	(5)
Net Financing CF	(4)	114	(87)	(33)	(36)
Currency Adjustments	0	0	0	0	0
Chg in Cash	18	131	6	72	84
Opg CFPS (RMB)	0.35	0.20	0.24	0.25	0.28
Free CFPS (RMB)	(0.02)	0.04	0.19	0.22	0.25

Source: Company, DBS Vickers

Capital Expenditure



Company Focus

Yestar International

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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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