China / Hong Kong Equity Explorer

Yestar International

Bloomberg: 2393 HK Equity | Reuters: 2393.HK   Refer to important disclosures at the end of this report

DBS Group Research . Equity   26 May 2014

NOT RATED HK$4.02 HSI : 22,963

Return*: 2
Risk : Moderate
Potential Tgt *: HK$4.70 (17% upside)

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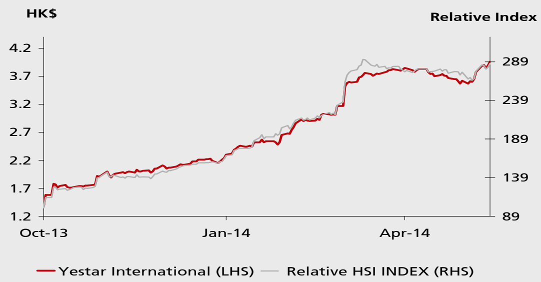
Price Relative



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$)	0.22	0.24	0.26	0.29
EPS Gth (%)	6.3	9.6	9.2	8.6
Diluted EPS (HK$)	0.22	0.24	0.26	0.29
DPS (HK$)	0.11	0.08	0.09	0.10
BV Per Share (HK$)	1.13	1.00	1.18	1.37
PE (X)	18.2	16.6	15.2	14.0
P/Cash Flow (X)	31.8	15.8	13.9	12.3
P/Free CF (X)	80.0	17.0	14.8	13.0
EV/EBITDA (X)	9.1	8.9	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
Consensus EPS (RMB)		N/A	N/A	N/A
Other Broker Recs:		B: 1	S: 0	H: 0

ICB Industry: Industrials
ICB Sector: Support Services
Principal Business: Healthcare

Source of all data: Company, DBSV, HKEX

Ready to leap

- Leader in the medical film market in China
- 18% earnings CAGR (2013-16F) on growth in demand for medical films
- We believe Yestar is in talks with potential M&A targets; successful M&As can boost earnings
- Fair value of HK$4.70 implies 17% upside

Leader in the medical film industry. Yestar is the sole producer of Fujifilm's medical films in China (the No.3 brand with 15% market share). It procures feedstock from Fujifilm and sells the medical films back to Fujifilm after processing. This segment made up c.55% of earnings in FY13. Processing & distribution of color photographic papers under the brand "Fujifilm" made up for the rest.

18% earnings CAGR (2013-16F) on increasing demand for medical films. According to Frost & Sullivan, market demand is projected to grow at 11% CAGR (2012-17), driven by: 1) the hospitals' number is projected to rise by 9% CAGR (2012-15); 2) doctors' increasing reliance on medical films to reduce chances of misdiagnosis. For Yestar, orders of new medical film products from Fujifilm will enable its sales growth to outpace the industry in 2014. We forecast its order book to surge by 30-40% y-o-y in the next four months.

Potential M&As to boost future earnings. Yestar has been searching for M&A targets since 2012. We believe it wants to acquire player(s) in the x-ray device industry with extensive sales network. Total investment size is projected to be Rmb150m-400m. With net cash of Rmb170m (Dec 13), Yestar will be able to finance the deal. We believe that Yestar is in talks with the targets. Successful M&A can: 1) Provide a new earnings source; 2) Enable Yestar to expand into the medical film distribution business via a newly acquired network (X-ray device and medical film segments share the same group of customers). Currently, Yestar's medical film business does not have its own sales network, with Fujifilm being its only customer.

Fair value of HK$4.70 implies 17% upside. The medical sector is now trading at 20x of 12-month forward PE on average. Assuming a 10% valuation discount to Yestar for its short listing history (listed in Nov 13), we derive fair value PE (12-month forward) of 18x and a fair value of HK$4.70.

At A Glance

Issued Capital (m shrs)	467
Mkt. Cap (HK$m/US$m)	1,877 / 242
Major Shareholders	
Hartono family (%)	71.1
Free Float (%)	28.9
Avg. Daily Vol.('000)	1,947

*This Equity Explorer report represents a preliminary assessment of the subject company, and does not represent initiation into DBSV's coverage universe. As such DBSV does not commit to regular updates on an ongoing basis. The rating system is distinct from stocks in our regular coverage universe and is explained further on the back page of this report.

COMPANY PROFILE

42-year relationship with Fujifilm, a leader in global imaging industry. Established in 2000 and listed in 2013, Yestar is the sole processor and distributor of Fujifilm (4901 JT) 's medical film and color photographic paper in China. Yestar's largest shareholder, the Hartono family with a 71% stake has been working with Fujifilm for 42 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. For example, it has the largest market share (in revenue terms) in the global photocopier market (we estimate: Fujifilm 24%, Ricoh 21%, Canon 18%, Konica Minolta 13%, Others 24%).

Key company information

2013 earnings breakdown	c.55% - Medical film c.40% - Color photographic paper c.5% - Others
2013 sales breakdown	40% - Medical film 45% - Color photographic paper 15% - Others
Business model	Medical film: Procures feedstock from Fujifilm and processes them into medical film used for medical imaging, and then sell them back to Fujifilm Color photographic paper: 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
Production bases	Nanning (Guangxi province)

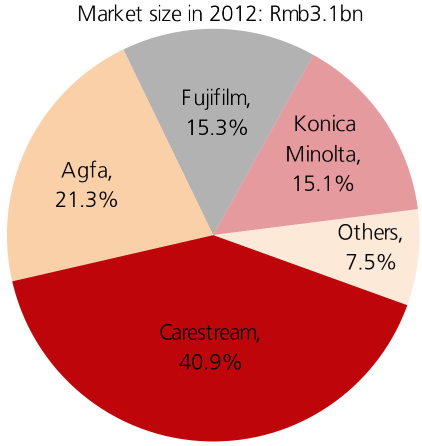
Source: company, DBS Vickers

COMPETITIVE EDGES

42- year relationship with Fujifilm. As mentioned above, the largest shareholder of Yestar has been working with Fujifilm in various regions for 42 years. The long-term relationship implies Fujifilm's trust on Yestar. We believe this will continuously generate stable orders from Fujifilm.

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

Medical film market share in China

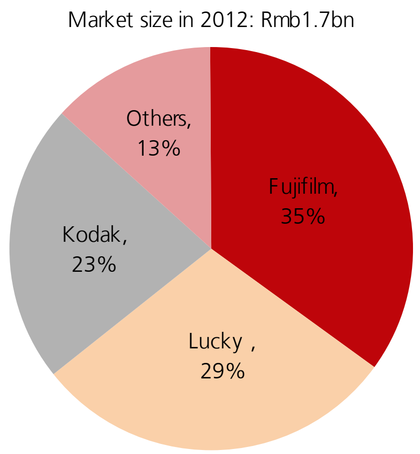


Source: Frost & Sullivan, DBS Vickers

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). The strong market share implies market recognition which would underpin stable demand going forward.

Currently, this market is already dominated by 3 brands. It is not easy for other potential players to enter into 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 its top 3.

Colour photographic paper market in China



Source: Frost & Sullivan

GROWTH DRIVERS

Revenue breakdown

(Rmb m)	2013	2014F	2015F	2016F
Revenue	1,173	1,381	1,509	1,649
Color photographic paper	531	557	591	626
Small size	236	236	236	236
Large size	295	322	355	391
Medical film	474	640	717	803
Medical	471	636	712	797
Dental	4	5	5	6
Others	168	184	201	219
Growth %				
Total		18%	9%	9%
Color photographic paper		5%	6%	6%
Small size		0%	0%	0%
Large size		9%	10%	10%
Medical film		35%	12%	12%
Medical		35%	12%	12%
Dental		35%	12%	12%
Others		9%	9%	9%

Source: DBS Vickers

The largest earnings driver: medical film. The overall demand is projected to grow at an 11.4% CAGR from 2012-17F (see the following chart), driven by:

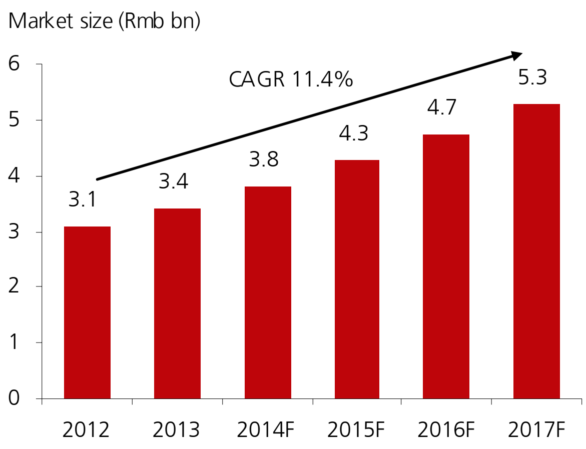
1) The increase in number of hospital is projected to rise by 9% CAGR in 2012-15. Medical films are mostly used in hospitals;

2) Physicians increasing reliance on diagnosis equipment to minimise misdiagnosis. Medical film is a major diagnosis tool;

For, Yestar, orders of new medical film products from Fujifilm will enable its sales growth to outpace the industry's. We forecast its order book to surge by 30-40% y-o-y in the next four months. Contribution from medical film to earnings is projected to increase from c.55% in 2013 to >60% in three years.

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 overemphasised. In China, particularly in 2-3 tiers cities, very few hospitals have adequate computer systems for the storage of medical images, nor a shared system to transfer medical images among hospitals. Thus, the printing of images is still necessary for many patients, thus supporting the demand of medical films.

Medical film market in China

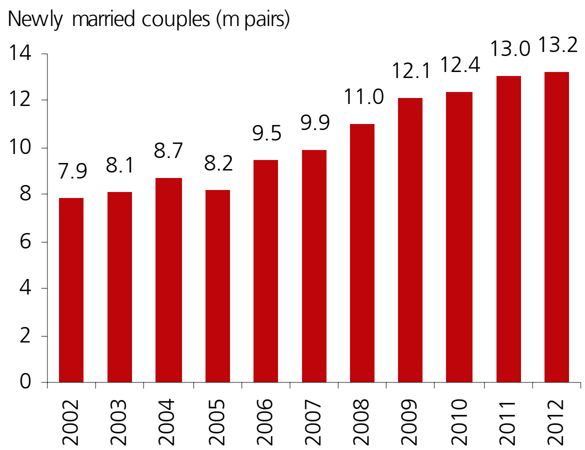


Source: Frost & Sullivan

Modest growth in color photographic paper driven by wedding photography. Colour photographic paper has two segments, namely small size and large size. The "large size" will be the driver of this division. We estimate >50% of demand for "large size" will come from wedding photography. The number of newly married couples in China has been increasing at 5.3% CAGR in 2002-13. The unmarried population aged above 18 in China is now >249m and are potential clients for the product.

Potential M&As to boost future earnings. Yestar has been searching for M&A targets since 2012. We believe it wants to acquire player(s) in the x-ray device industry with extensive sales network. Total investment size is projected to be Rmb150m-400m. With net cash of Rmb170m (Dec 13), Yestar will be able to finance the deal. We believe that Yestar is in talks with the targets. Successful M&A can: 1) Provide a new earnings source; and 2) Enable Yestar to expand into the medical film business via a newly acquired network. Currently, Yestar's medical film business does not have its own sales network, with Fujifilm being its only customer. Meanwhile, its X-ray device and medical film segments share the same group of customers.

Newly married couples in China



Source: China Statistical Yearbook

RISK & CONCERNS

Risk Assessment: Moderate

Category	Risk Rating 1 (Low) - 3 (High)	Wgt	Wgtd Score
Earnings	2	40%	0.8
Financials	2	30%	0.6
Shareholdings	2	30%	0.6
Overall			2.0

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

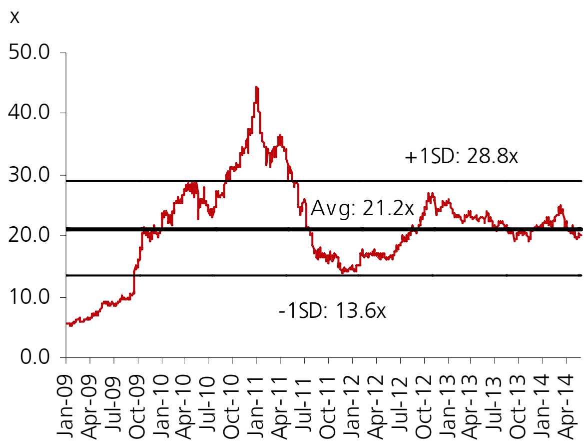
Impact from digitisation. Digitisation allows users to store photos in a digitised form in a computer, thus reducing the need to use colour photographic paper. This trend has been particular obvious for mini colour photographic papers (e.g. 3-4R photos). The product accounted for 20% of Yestar's revenue in 2013. We assume no revenue growth for this segment in 2014-16.

Potential future M&As may increase gearing. We believe the company is in talks with M&A targets related to the medical imaging business, with potential investment size of Rmb150m to Rmb400m. Assuming M&As takes place in 2014 with total consideration of Rmb400m, we estimate Yestar will move from net cash position (Rmb170m as of Dec 13) to record close to 50% net debt to equity. As such, financial burden and interest cost will increase.

FAIR VALUE: HK$4.70 (potential upside: 17%)

The medical sector is now trading at 20x of 12-month forward PE. Assuming a 10% valuation discount to Yestar for its short listing history (listed in Nov 13), we derive a fair value PE (12-month forward) of 18x and a fair value of HK$4.70.

1-year forward PE of medical sector (HK stock market)



*Source: Thomson Reuters, *DBS Vickers*

Income Statement (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Turnover	1,173	1,381	1,509	1,649
Cost of Goods Sold	(964)	(1,135)	(1,241)	(1,357)
Gross Profit	209	246	268	292
Other Opng (Exp)/Inc	(111)	(113)	(123)	(135)
Operating Profit	98	134	145	156
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	(5)	(3)	(1)	(1)
Dividend Income	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	94	131	143	156
Tax	(28)	(39)	(43)	(47)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	65	91	99	108
Net Profit before Except.	65	91	99	108
EBITDA	112	148	158	169
Sales Gth (%)	22.8	17.7	9.2	9.3
EBITDA Gth (%)	22.7	32.7	6.8	7.0
Opg Profit Gth (%)	21.4	36.1	8.2	8.2
Net Profit Gth (%)	15.1	40.0	9.2	8.6
Effective Tax Rate (%)	30.2	30.0	30.2	30.2

Balance Sheet (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Net Fixed Assets	104	97	91	79
Invts in Assocs & JVs	0	0	0	0
Other LT Assets	26	26	25	24
Cash & ST Invts	287	291	361	442
Inventory	273	318	347	379
Debtors	17	20	22	24
Other Current Assets	28	28	28	28
Total Assets	736	780	874	977
ST Debt	117	72	77	81
Creditors	215	249	272	297
Other Current Liab	48	48	48	48
LT Debt	0	13	14	14
Other LT Liabilities	13	13	13	13
Shareholder's Equity	333	375	442	513
Minority Interests	9	10	10	10
Total Cap. & Liab.	736	780	874	977
Non-Cash Wkg. Cap	55	70	78	87
Net Cash/(Debt)	170	206	271	347

Cash Flow Statement (RMB m)

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

Rates & Ratio

FY Dec	2013A	2014F	2015F	2016F
Gross Margins (%)	17.8	17.8	17.8	17.7
Opg Profit Margin (%)	8.4	9.7	9.6	9.5
Net Profit Margin (%)	5.5	6.6	6.6	6.6
ROAE (%)	27.5	25.7	24.4	22.6
ROA (%)	9.8	12.0	12.0	11.7
ROCE (%)	20.2	19.6	19.4	18.4
Div Payout Ratio (%)	50.2	35.0	35.0	35.0
Net Interest Cover (x)	21.8	44.2	105.2	170.1
Asset Turnover (x)	1.8	1.8	1.8	1.8
Debtors Turn (avg days)	18.3	4.9	5.1	5.1
Creditors Turn (avg days)	88.2	75.6	77.4	77.1
Inventory Turn (avg days)	86.5	96.1	98.8	98.6
Current Ratio (x)	1.6	1.8	1.9	2.1
Quick Ratio (x)	0.8	0.8	1.0	1.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	19.1	7.6	7.2	6.8
Z-Score (X)	N/A	N/A	N/A	N/A
N.Cash/(Debt)PS (RMB)	0.58	0.55	0.72	0.92
Opg CFPS (RMB)	0.20	0.24	0.25	0.28
Free CFPS (RMB)	0.04	0.19	0.22	0.25

Interim Income Statement (RMB m)

FY Dec	1H2012	2H2012	1H2013	2H2013
Turnover	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
Sales 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)
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: DBS Vickers

Segmental Breakdown (RMB m) / Key Assumptions

FY Dec	2013A	2014F	2015F	2016F
Revenues (RMB m)				
Color photographic paper	531	557	591	626
Medical imaging products	474	640	717	803
Industrial imaging products	168	184	201	219
Total	1,173	1,381	1,509	1,649
Gross margin (RMB m)				
Color photographic paper	119	128	136	145
Medical imaging products	65	91	102	114
Industrial imaging products	25	28	30	33
Total	209	246	268	292
Gross margin Margins (%)				
Color photographic paper	22.5	23.0	23.0	23.1
Medical imaging products	13.7	14.2	14.2	14.2
Industrial imaging products	15.0	15.0	15.0	15.1
Total	17.8	17.8	17.8	17.7
Key Assumptions (%)				
Color photographic paper - revenue growth	-11%	5%	6%	6%
Medical imaging products - revenue growth	61%	35%	12%	12%
SG&A % in total sales	10%	9%	9%	9%

DBSV Equity Explorer return ratings reflect return expectations based on an assumed earnings profile and valuation parameters:		
	1	(>20% potential returns over the next 12 months)
	2	(0 - 20% potential returns over the next 12 months)
	3	(negative potential return over the next 12 months)
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** Share price appreciation + dividends*

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