

Yestar International Holdings Company Limited (2393.HK)

Superior Medical Information Service Company in Transformation

Bloomberg | Reuters | POEMS

2393.HK | 2393.HK | 2393.HK

Sector:



Phillip Securities

Phillip Securities Research

31 Mar, 2014

Strategic Analysis

Rating : Buy Closing Price : 3.74 TP : 5.20

Company profile

Yestar International Holdings Company Limited is one of the leading providers of color photographic paper, and also the provider of medical and industrial imaging products in China. The company transforms color photographic paper into customized products through large shaft cutting, processing and package, to make photographic paper become color photographic paper, printing film for multiple imaging and medical imaging film. The company is the most important business partner of Fujifilm Group in China, while assisting to deal with fabrication and marketing of Fujifilm brand, it has sold private imaging products of Yes!Star brand since 2011. Currently, main products of Yestar International Holdings Company Limited can be divided into three categories: Traditional digital photographic paper, medical imaging product and industrial film.

Investment summary

Yestar International Holdings Company Limited was listed in Hong Kong Stock Exchange on October 11, 2013, whose IPO financial data indicated that the sales revenue increased to 956 million from 513 million during 2010 to 2012, with the annual compound growth rate of 36.5%, while the net profit increased to 56.52 million from 19.29 million during this period, with the annual compound growth rate of 71.1%.

Color photographic paper and medical imaging product are two core businesses of Yestar International Holdings Company Limited, the income proportion of which accounted for 62.7% and 30.8% respectively in 2012. These two core businesses mainly process and sell Fuji brand products, occupying the first and fourth market shares in Chinese market respectively. The rate of margin of these two businesses reached 19.4% and 13.5% respectively, accounting for 69.4% and 23.7% in the gross profit.

In 2013, the income of Yestar International increased to 1173 million by 22.8%, the gross profit increased to 209 million by 25%, and the profit after tax reached 65.3 million, with the growth of 12.6%. The listed expense of 16 million for the company led to relatively low growth. If this part of nonrecurring expense is excluded, then the growth of actual profit after tax will reach 37.5%. The rate of margin reached 17.8%, increasing 0.3% on year-on-year basis slightly.

Yestar International

Rating	1.00	Buy
- Previous Rating	n.a.	Not Rated
Target Price (HKD)	5.20	
- Previous Target Price (HKD)	n.a.	
Closing Price (HKD)	3.74	
Expected Capital Gains (%)	39.0%	
Expected Dividend Yield (%)	1.7%	
Expected Total Return (%)	40.7%	
Raw Beta (Past 2yrs w weekly data)	0.16	
Market Cap. (HKD mn)	1,746	
Enterprise Value (HKD mn)	1,353	
52 w week range (HKD)	3.78-1.38	
Closing Price in 52 w week range		



Key Financial Summary

FYE	FY11	FY12	FY13	FY14E
Revenue (RMB mn)	977	956	1,173	1,361
Net Profit, adj. (RMB mn)	47	56	65	88
EPS, adj. (RMB)	n.a.	0.17	0.18	0.19
P/E (X),adj.	n.a.	n.a.	9.72	21.76
BVPS (RMB)	n.a.	n.a.	0.73	0.99
P/B (X)	n.a.	n.a.	2.40	4.15
DPS (RMB)	n.a.	n.a.	0.07	0.07
Div. Yield (%)	n.a.	n.a.	4.00%	1.71%

Source: Bloomberg, Yestar

*All multiples & yields based on current market price

Valuation Method

P/E

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In 2013, the income of medical imaging business of Yestar International greatly increased to 474 million by 61%, whose income proportion reached 40.4%, experiencing a significant rise compared with the income proportion from 2010 to 2012. According to the current growth, the income proportion of medical imaging business of the company will surpass the color photographic paper business to become the first source of income for Yestar in 2014.

To purchase a medical device company is emphasized in the IPO data and 2013 financial report as an important operating measure in 2014. The successful acquisition will directly promote the income growth of medical films, and the rate of margin will also increase significantly. What's more optimistic, Yestar International Holdings Company Limited will expand its private brand of medical films, thus to completely get rid of the current marking as the processing enterprise for Fujifilm, and start to transform into a top-ranking medical instrument company in the country. Although the subject matter and timing of acquisition have uncertainty, it is an event of large probability to purchase a medical imaging equipment company with mature network. Therefore, we hold an optimistic attitude to the acquisition by Yestar International in 2014, and making an acquisition will become the important driving force to the share price of Yestar International Holdings Company Limited.

Yestar International Holdings Company Limited has health cash flow, especially the continuous and abundant operating cash flow. The book cash of Yestar International Holdings Company Limited increased to 283 million at the end of 2013 from 69 million at the end of 2010, showing the feature of continuous and rapid growth, which was resulted from the continuous net cash flow and IPO fund raising. From the perspective of interest-bearing debt, Yestar International Holdings Company Limited seldom relies on financing to keep operation, and it has always lied in the level of net cash flow. At the end of 2013, the net cash of the company reached 169 million. In other words, the financial standing of Yestar International Holdings Company Limited has relatively high margin of safety.

The performance growth of the company will come from three business segments in the future: Medical film business, professional photographic paper business and industrial imaging product, while the rapid growth of Yes!Star in dentistry and industry inspection is an important aspect as well. In 2014, the medical imaging business of Yestar International Holdings Company Limited will surpass color photographic paper to become the first business segment for the first time, and the income proportion will exceed 45%. It is expected to exceed 50% of gross earnings in the future.

From the perspective of valuation of Yestar International Holdings Company Limited, we will regard it as a superior comprehensive imaging service company, which is striving for the swift growth of profit and rise of market share in the field of medical information service section with high growth. Important driving factor to share price: Purchasing an imaging equipment company will promote the growth of overall performance and rate of margin significantly. We weight the appraisalment of the segments of businesses of Yestar International Holdings Company Limited, and predict

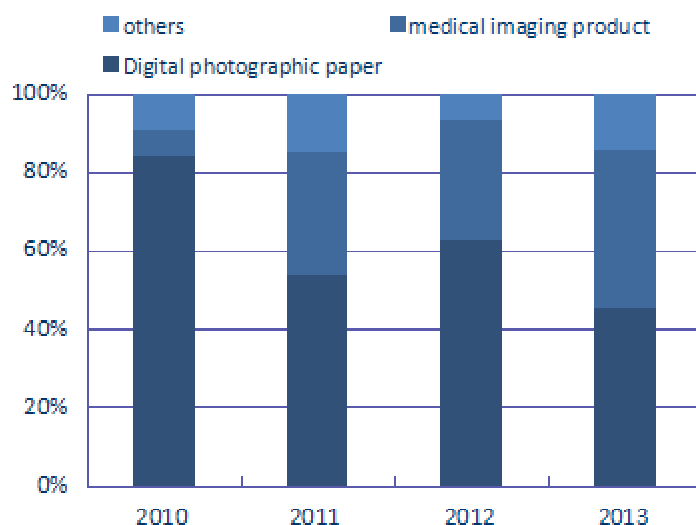
and estimate that the reasonable market value will reach 2.3 billion HKD according to its performance in 2014. We give Yestar International the initial rating of "Buy", with 12m TP at 5.2 HKD,exceeding 39% of the current price.

The performance has been increasing rapidly since 2010

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Color photographic paper and medical imaging product are two core businesses of Yestar International Holdings Company Limited, the income proportion of which accounted for 62.7% and 30.8% respectively in 2012. These two core businesses mainly process and sell Fuji brand products, occupying the first and fourth market shares in Chinese market respectively. The rate of margin of these two businesses reached 19.4% and 13.5% respectively, accounting for 69.4% and 23.7% in the gross profit.

Figure1, The changes on revenue of main business



Source, Company Report

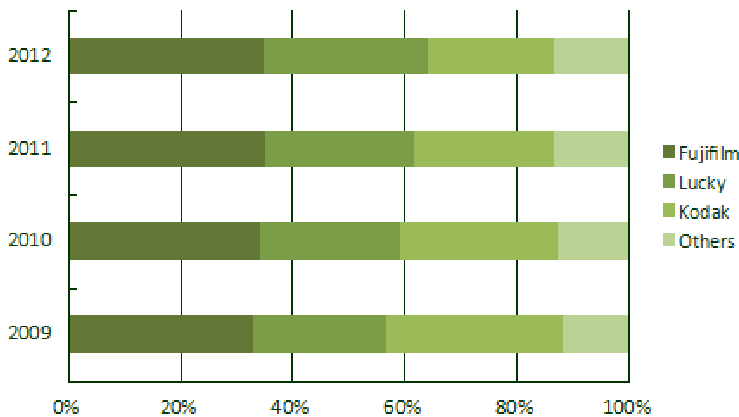
Fuji Group is a main partner for Yestar International Holdings Company Limited. Yestar International Holdings Company Limited is the exclusive distributor of color photographic paper of Fujifilm in China, and also the largest processor of medical dry film of Fujifilm Group in China. Above all, the company also distributes industrial imaging products and other imaging products produced by Fujifilm Group in China. From 2010 to 2012, the purchases from Fuji Group accounted for 84%, 89% and 97% in the total purchases of the company respectively. The business of Yestar International Holdings Company Limited highly relies on Fuji Group.

Professional color photographic paper is the source of growth for traditional photographic paper

The market of color photographic paper can be subdivided into two markets: The color photographic paper market for quick developing stores (smaller than 12 inches) and professional color photographic paper market (larger than 12 inches). The income proportion of these two markets accounted for 20% and 24% in the company income respectively. However, from 2008 to 2012, professional color photographic paper enjoyed higher annual compound growth rate of income, about 14%, while the color photographic paper market for quick developing stores only occupied 2.4%. In the following several years, it is expected that the growth rate of professional color photographic paper will increase gradually.

On the whole, the demand of portrait photography and wedding photography promotes the demand of professional photographic paper to grow rapidly, while the business of quick developing stores increases slowly due to the popularization of digital imaging products. Professional color photographic paper will become the main source of growth for the color photographic paper business of Yestar International Holdings Company Limited.

Figure2, View of main players of China photographic paper



Source, Company Report

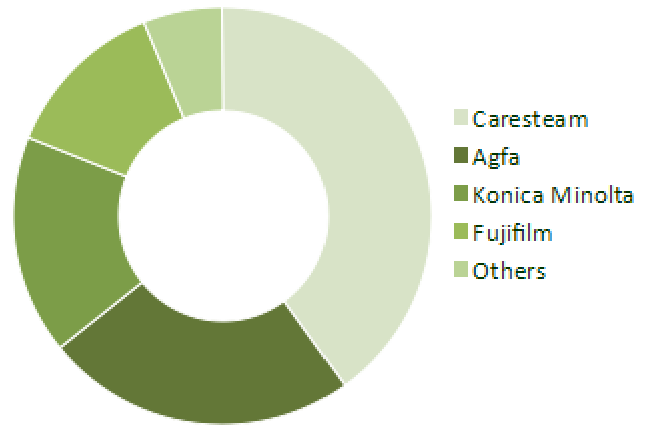
Yestar International Holdings Company Limited makes profit through processing and distributing color photographic paper of Fuji brand, which is in direct correlation with the market performance and company performance of Fujifilm. The market share of Fujifilm in Chinese color photographic paper market reaches 35%, and it is the largest brand of color photographic paper. Luckyfilm and Kodak are main competitors for Fujifilm, which own 29% and 22% of market share respectively. It is noteworthy that, Luckyfilm's professional photographic paper accounts for 34% of market share, higher than 31% of Fujifilm, which will become an important competitor for Fujifilm in the professional color photographic paper market.

Dry film leads the performance growth of medical film

The medical imaging business of Yestar International Holdings Company Limited is mainly to process medical films for Fujifilm Group, and make profit through selling them to membership corporations of Fuji Group specially. Medical films can be used to X-ray diagnosis and other imaging

diagnosis, and divided into medical dry film and medical wet film. Due to the convenience and environmental protection features of dry film, it has progressively replaced wet film to become the main body of medical films. Dry film will witness the compound growth rate of 13% in the following five years, while the growth of wet film will be expected to be lower than 5% by 2017.

Figure2, View of main players of China dry medical film



Source, Company Report

Chinese medical dry film market is highly concentrated, which is mainly led by four international giants, including Carestream, AGFA, Konica Minolta and Fujifilm, they occupy over 92% of market share in Chinese market. Due to the favorable installation base of its imager, Carestream has obvious competitive edge in the medical dry film market, while Fujifilm ranks the fourth with the market share of 12.8%. Due to the relatively high requirement to processing technical and high threshold of international brand authorization, Yestar International Holdings Company Limited is one of the few enterprises with the ability of processing import medical dry films. Yestar International Holdings Company Limited is the largest authorized processor of ready-to-use dry film by Fujifilm Group in China.

The operating plan "VISION80" of Fujifilm Group proposes to intensively put operating resources into important business areas of Fujifilm with obvious technical advantages and extremely large development potential, including healthcare, high-performance materials, document processing, etc., meanwhile, promote globalization focusing on emerging countries. Currently, Fujifilm has been promoting the expansion of sales volume and market share positively. In our opinion, Chinese medical market with giant potential can serve as the emphasis of expansion for Fuji Group, and Yestar International Holdings Company Limited is expected to directly benefit from the business development of Fujifilm Group in emerging markets.

2013 Performance analysis

Table1, View of main performance in 2010-2013

RMB Mn	2010	2011	2012	2013
Revenue	523	977	955	1173
Growth	/	86.81%	-2.25%	22.83%
Gross Profit	85	163	167	209
Growth	/	91.76%	2.45%	25.15%
Net Profit	21.6	48.3	58	65
Growth	/	123.61%	20.08%	12.07%

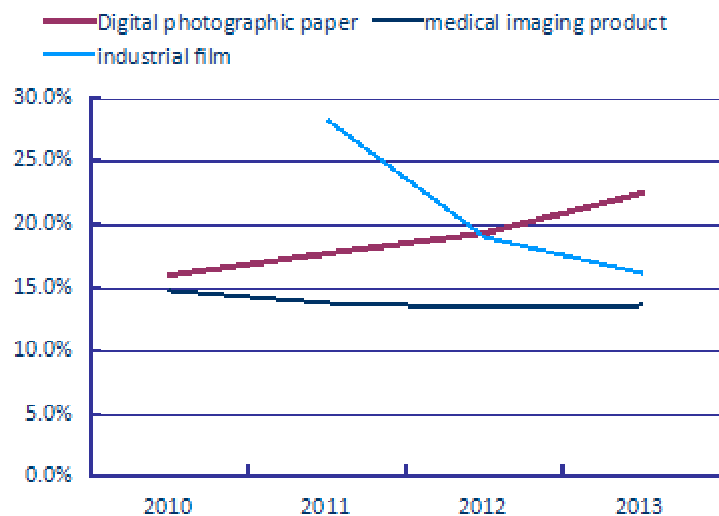
Source, Company Report

In 2013, the income of Yestar International Holdings Company Limited increased to 1173 million by 22.8%, the gross profit increased to 209 million by 25%, and the profit after tax reached 65.3 million, with the growth of 12.6%. The listed expense of 16 million for the company led to relatively low growth. If this part of nonrecurring expense is excluded, then the growth of actual profit after tax will reach 37.5%. The rate of margin reached 17.8%, increasing 0.3% on year-on-year basis slightly.

During this period, the income of color photographic paper business decreased to 530 million RMB by 11.5%, accounting for 42.5% in the total income. Therein, the income of photographic paper for quick developing stores declined to 236 million RMB by 28.4%, while the income of professional photographic paper increased to 295 million RMB by 9.2%. Frankly speaking, the business of color photographic paper was weaker than expectation, and the income decline of photographic paper for quick developing stores outstripped our expectation, while the growth of professional photographic paper was also lower than our judgment slightly.

The good news is that the income of professional photographic paper exceeded that of photographic paper for quick developing stores, indicating that the income structure was changing. Moreover, the rate of margin performed well. The rate of margin of professional photographic paper increased to 24.1% by 2.5%, while the rate of margin of quick developing stores increased to 20.5% by 2.9%. During this period, the price increase of Fuji color photographic paper had a positive effect on the increase of rate of margin, promoting the overall rate of margin of color photographic paper to increase to 22.5% by 3.1%.

Figure3, Movement of gross profit margin of the three businesses



Source, Company Report

In 2013, the income of medical imaging business of Yestar International Holdings Company Limited greatly increased to 474 million by 61%, whose income proportion reached 40.4%, experiencing a significant rise compared with the income proportion from 2010 to 2012. According to the current growth, the income proportion of medical imaging business of the company will surpass the color photographic paper business to become the first source of income for Yestar in 2014.

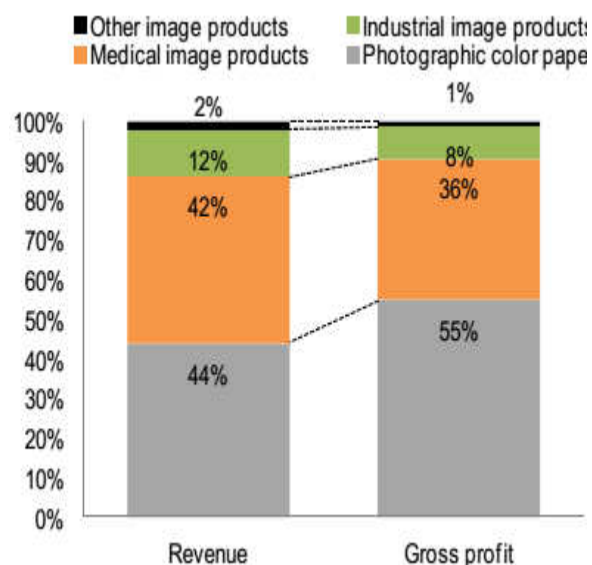
During this period, medical film and dentistry film increased to 470 million and 3.5 million by 60.6% and 127.7% respectively, and medical film served as the main source of income for medical imaging business, accounting for 99.3% of the total income of medical imaging business. The rate of margin improved slightly. The rate of margin of medical film increased to 13.5% by 0.2% slightly, while the rate of margin of dentistry film decreased to 35% by 3.5%. The large difference between the rate of margin of two segments of businesses lies in that the dentistry film mainly processes and sells private Yes!Star brand, whose sales terminal orients domestic dentistry market rather than Fuji Group, thus the rate of margin is with significant advantage. But the income of this segment of business occupies a small proportion, which is unable to promote the growth of medical imaging business substantially.

In our opinion, the growth of this segment of business still relies on the processing and marketing of medical dry film for Fuji Group. Due to the relatively fixed rate of margin, the income growth of medical film relies on the resource scale of Fujifilm Group putting into Chinese medical market.

As for the overall performance in 2013, we think that medical film and professional photographic paper has promoted the rapid growth of Yestar vigorously. If the listed expense is excluded, then the growth data will be more ideal. The optimum income structure is worth mentioning: The income of professional photographic paper exceeds that of photographic paper for quick developing stores, while the income of medical imaging business exceeds that of color

photographic paper business. The business with high growth becomes the principal component of income, while the income proportion of weak business decreases significantly, enhancing the visibility of income growth in the future. As for the profitability, we think that the company has kept stable profitability, and with the income proportion of medical film increasing, it may affect the overall rate of margin to some extent.

Figure4, View of revenue and gross profit in different businesses



Source, Company Report

Industrial imaging product provides new driving force for growth

Nondestructive examination X-ray film and printed-circuit board film are two main businesses of industrial imaging products for Yestar International Holdings Company Limited. Processing and marketing relevant products of Fujifilm is the main source of income for this business, moreover, the nondestructive examination film of private "Yes!Star" brand is another business development for private brand of the company besides dentistry film. Currently, due to relatively small income base, it cannot exert a significant effect on total business revenue.

In 2013, the printed circuit board film and nondestructive examination X-ray film accounted for 72.6% and 27.4% in the subdivision of industrial imaging respectively. In 2013, the income of industrial imaging subdivision soared to 154 million RMB by 323%, with an outstanding performance. On the whole, the income proportion of industrial imaging products increased to 13% rapidly, and kept a high-speed growth, providing powerful driving force for growth besides two business segments: Color photographic film and medical film.

To purchase a medical device company will become an important driving force for price share in 2014

To purchase a medical device company is an important operating action in 2014 proposed in IPO data and 2013 financial report. Since the installation base of Yes!Star medical dry laser imager is of great importance to the

marketing of dry film, Yestar International Holdings Company Limited will obtain a nationwide marketing channel of dry film through purchasing a brand imager company with considerable installation base, which will enhance the marketing potential of dry film for Yestar extremely.

To build a new marketing channel of medical film through takeover means that the medical film business of Yestar International Holdings Company Limited not only aims at subsidiaries of Fuji Group, but also orients vast marketing terminals. It will promote the income growth of medical film directly, and the rate of margin will witness a significant improvement. What's more optimistic, Yestar International Holdings Company Limited will expand its private brand of medical films, thus to completely get rid of the current marking as the processing enterprise for Fujifilm, and start to transform into a top-ranking medical instrument company in the country.

Although the subject matter and timing of acquisition have uncertainty, it is an event of large probability to purchase a medical imaging equipment company with mature network. Therefore, we hold an optimistic attitude to the acquisition by Yestar International Holdings Company Limited in 2014, making a takeover will become the important driving force to the share price of Yestar International Holdings Company Limited.

Stable Balance Sheet

Yestar International Holdings Company Limited has health cash flow, especially the continuous and abundant operating cash flow. Through observing the cash flow statement of Yestar International Holdings Company Limited, from 2010 to 2012, the net operating cash of the company remain at a relatively high positive value, while the annual net investment failed to exceed the 50% of annual net operating cash, thus the amount of net financing cash was extremely limited. It can explain several specific issues: The business of Yestar International Holdings Company Limited generates constant and stable cash flow, with relatively less capital expenditure and lower dependence on financing cash. Yestar International Holdings Company Limited is equipped with the foundation of creating value for shareholders continuously.

The book cash of Yestar International Holdings Company Limited increased to 283 million at the end of 2013 from 69 million at the end of 2010, showing the feature of continuous and rapid growth, which was resulted from the continuous net cash flow and IPO fund raising. From the perspective of interest-bearing debt, Yestar International Holdings Company Limited seldom relies on financing to keep operation, and it has always lied in the level of net cash flow. At the end of 2013, the net cash of the company reached 169 million. In other words, the financial standing of Yestar International Holdings Company Limited has relatively high margin of safety.

Analysis on several interested questions

1. Will digital imaging equipments exert a giant impact on the company business?

Analysis: Firstly, digital imaging equipments will affect and have affected the business of traditional color photographic paper, especially the photographic paper business for quick developing stores. While digital imaging equipments exert little impact on professional photographic paper, it is expected that the demand of professional photographic paper will keep a double-digit growth before 2017; Secondly, due to cost, usage habit and other reasons, the market of medical digital imaging equipments just looks well, but the actual utilization ratio is not high. Doctors still rely on dry films for diagnosis, and we expect that such situation will not be changed within a short term. Moreover, the basic medical level in Chinese mainland is still backward, while the increment for medical imaging market still comes from cheap and fine medical dry films rather than high-end digital imaging equipments.

Therefore, our comprehensive judgment is that digital imaging equipments have little influence on the core market of company, namely professional imaging market (professional photographic paper and medical imaging).

2. The cooperation between the company and Fujifilm Group lacks the restriction from long-term contract, will it lack enough cooperation stability?

Analysis: Due to the high dependence of Yestar International Holdings Company Limited on Fuji brand film products, lacking the binding contract is a hidden trouble during the process of company development, which may trigger the uncertainty of many aspects like raw material supply, and is indeed an important potential risk for the company. However, seeing that the cooperation between founder family and Fuji Group in Southeast Asia and East Asia has been over 40 years, we have some confidence in the business relationships between two parties. Yestar International Holdings Company Limited should still pay attention to developing private brands and more partners, so as to reduce risks.

3. Which is the main direction of IPO fund raising investment?

Analysis: Under the relatively low level of financial leverage, the return on equity of Yestar International Holdings Company Limited ranges from 20% to 25%. The high growth and return, abundant funds and low financial leverage of Yestar International Holdings Company Limited make investors doubt the availability factor of IPO fund raising.

Yestar International Holdings Company Limited raised funds of 130 million HKD from IPO in 2013, 35% of which had been invested to the all printing house in several first-tier cities, 30% of which had been used to purchase medical device company, while the remaining 35% of which planned to be invest to the current company operation. Through the above information, we think that if Yestar International Holdings Company Limited focuses on constructing a sales channel for medical film in the future, it is an important method to purchase a medical device company with mature marketing network and market share. Moreover, through all printing house business, the company can extend the business of color photographic paper, in order to enlarge

product marketing channels and terminal service business. Above all, medical and digital imaging products and service are main development directions for the company, and also an effective method of realizing the upgrading of growth pattern.

Risks

- Relation tension between China and Japan;
- Anti-dumping measure of import film;
- High dependence of the business on Fuji;
- No long-term binding contract for the cooperation with Fuji;
- The impact of digital imaging technology on the demand of medical film;
- Fluctuation risk of raw materials;
- And the takeover of medical device company is not smooth as expectation.

Valuation

Yestar International Holdings Company Limited gradually grows along with the business development of Fujifilm Group in China, and also the most powerful partner of Fujifilm Group in China. With the business of traditional digital photographic paper getting weaker and weaker, Fujifilm Group will invest more resources into medical service and industry, especially that the medical service segment is the priority among priorities of future development. This strategy will bring large development opportunities for Yestar International Holdings Company Limited, and also provide the main driving force for the performance growth in the future. While Yestar International Holdings Company Limited will also develop the business of its private brand Yes!Star in dentistry and industrial inspection on this basis.

The performance growth of the company will come from three business segments in the future: Medical film business, professional photographic paper business and industrial imaging product, while the rapid growth of Yes!Star in dentistry and industry inspection is an important aspect as well. In 2014, the medical imaging business of Yestar International Holdings Company Limited will surpass color photographic paper to become the first business segment for the first time, and the income proportion will exceed 45%. It is expected to exceed 50% of gross earnings in the future.

From the perspective of valuation of Yestar International Holdings Company Limited, we will regard it as a superior comprehensive imaging service company, which is striving for the swift growth of profit and rise of market share in the field of medical information service section with high growth. Important driving factor to share price: Purchasing an imaging equipment company will promote the growth of overall performance and rate of margin significantly. We weight the appraisalment of the segments of businesses of Yestar International Holdings Company Limited, and predict and estimate that the reasonable market value will reach 2.3 billion HKD according to its performance in 2014. We give Yestar International the initial rating of "Buy", with 12m TP at 5.2 HKD,exceeding 39% of the current price.

FYE	FY10	FY11	FY12	FY13	FY14F
Valuation Ratios					
P/E (X), adj.	n.a.	n.a.	n.a.	9.72	21.76
P/B (X)	n.a.	n.a.	n.a.	2.40	4.15
EV/EBITDA (X), adj.	n.a.	n.a.	n.a.	10.90	10.70
Dividend Yield (%)	n.a.	n.a.	n.a.	4.00%	1.71%
Per share data (RMB)					
EPS, reported	n.a.	n.a.	0.17	0.18	0.19
EPS, adj.	n.a.	n.a.	0.17	0.18	0.19
DPS	n.a.	n.a.	n.a.	0.07	0.07
BVPS	n.a.	n.a.	n.a.	0.73	0.99
Growth & Margins (%)					
Growth					
Revenue	n.a.	86.81%	-2.15%	22.70%	16.03%
Operating profit	n.a.	143.33%	15.07%	17.86%	32.32%
EBT	n.a.	155.56%	18.84%	14.63%	34.04%
Net Income, adj.	n.a.	147.37%	19.15%	16.07%	35.38%
Margins					
Gross profit margin	16.25%	16.68%	17.47%	17.82%	17.30%
Operating margin	5.74%	7.47%	8.79%	8.44%	9.63%
Net profit margin	3.63%	4.81%	5.86%	5.54%	6.47%
Key Ratios					
ROE (%)	17.37%	29.86%	40.33%	19.54%	19.25%
ROA (%)	5.69%	9.94%	9.62%	8.84%	8.52%
Net Debt/(Cash)	net cash	net cash	net cash	net cash	net cash
Net Gearing (X)	net cash	net cash	net cash	net cash	net cash
Income Statement (RMB mn)					
	FY10	FY11	FY12	FY13	FY14F
Revenue	523	977	956	1,173	1,361
Cost of sales	(438)	(814)	(789)	(964)	(1,126)
Gross profit	85	163	167	209	235
Operating profit	30	73	84	99	131
EBT	27	69	82	94	126
Tax	(6)	(21)	(24)	(28)	(37)
Tax rate	22.22%	30.43%	29.27%	29.79%	29.50%
Profit for the year	22	48	58	65	88
Minority interests	2	1	2	0	0
Net profit	19	47	56	65	88

Source: BLOOMBERG, Yestar and Phillip Securities

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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