

Yestar International Holdings Company Limited

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BB-	Stable	Affirmed 24 August 2017
Click here for full list of ratings			

Financial Summary

(CNYm)	Dec 2015	Dec 2016	Dec 2017F	Dec 2018F
Gross Revenue	2,455	3,022	3,822	4,202
Operating EBITDAR Margin (%)	14.9	18.3	18.2	19.2
FFO Margin (%)	13.1	15.7	10.0	11.9
FFO Fixed Charge Coverage (x)	9.4	9.4	3.5	4.3
FFO Adjusted Leverage (x)	1.5	3.6	3.7	3.0
Source: Fitch				

Fitch Ratings has affirmed the ratings on Yestar International Holdings Company Limited. The ratings reflect high exposure to China's rapidly growing in-vitro diagnostics (IVD) market, an established partnership with IVD industry leader Roche Diagnostics; a strong foothold in IVD distribution across important markets in eastern and southern China; and strong free cash flow (FCF) generation.

The rating headroom has shrunk after a few acquisitions that resulted in higher leverage, but Fitch expects Yestar to be able to maintain FFO adjusted leverage below 2.5x, the level at which Fitch would consider negative rating action.

Key Rating Drivers

IVD Business Drives Growth: Yestar entered the IVD market in 2014 after acquiring two IVD distributors in eastern China that had established partnerships with Roche Diagnostics. Since then, Yestar has acquired three more distributors in southern China. China's IVD market is expanding rapidly due to strong demand, and faces low cyclicalities. Fitch estimates that the IVD business will contribute around 75% of Yestar's EBITDA in 2017 and that this proportion will continue to rise.

Further Acquisitions Possible: Yestar recently announced that it was looking into potential new targets. Management has said the company is interested in expanding into new regions, such as northern China. We have not yet factored these acquisitions into our forecasts as the size and timing are uncertain. Yestar's ratings may be negatively affected if the company makes a large acquisition and funds it with cash/debt.

Leverage Rising: Yestar's leverage has risen after the acquisitions in the past few years. Yestar acquired three more distributors at the beginning of 2017, and is due to pay for the remaining 30% stake in IVD distributor Anbaida in 2018. Fitch expects FFO adjusted leverage to range between 2.0x and 2.5x, which Fitch views as acceptable, although the rating headroom at the current level is very limited. Fitch's leverage expectation assumes no further acquisitions.

Traditional Imaging Business Weak: Yestar's traditional business of distributing imaging equipment is mature and has limited growth prospects. Fitch previously expected this segment to be relatively stable, but its recent performance has been disappointing, with revenues declining by 11% in 2016 and a further 20% in 1H17.

Rating Derivation Relative to Peers

Rating Derivation versus Peers

Peer Comparison	Yestar's credit profile is comparable to that of peers with similar scale in the diversified services and diversified manufacturing sectors, such as eHi Car Services Limited (BB-/Negative) and Hilong Holding Limited (BB-/Negative). Compared with 361 Degrees International Limited (BB/Stable), Yestar has a slightly smaller operating scale and a weaker financial profile.
Parent/Subsidiary Linkage	No Parent/Subsidiary Linkage is applicable.
Country Ceiling	No Country Ceiling constraint was in effect for these ratings.
Operating Environment	No Operating Environment influence was in effect for these ratings.
Other Factors	Not applicable

Source: Fitch

Rating Sensitivities

Developments That May, Individually or Collectively, Lead to Positive Rating Action

- Significant increase in operating scale, brand partners and geographic diversification while keeping FFO adjusted net leverage below 2.5x on a sustained basis

Developments That May, Individually or Collectively, Lead to Negative Rating Action

- FFO adjusted net leverage above 2.5x on a sustained basis
- EBITDA margin below 15% on a sustained basis (2016: 17.6%)
- Sustained weakness in existing businesses

Liquidity and Debt Structure

Sufficient Liquidity: As of end-June 2017, Yestar had CNY679 million of cash and cash equivalents and more than CNY100 million in undrawn banking facilities, which was more than enough to cover its short-term debt of CNY244 million.

Debt Maturities and Liquidity at FYE16

Debt Maturities	(CNYm)
2017	225
2018	100
2019	-
2020	-
2021	-
After 2021	1,359
Total debt	1,684
Liquidity Analysis	(CNYm)
Unrestricted cash	1,273
Committed banking facilities	n.a.
Available undrawn portion	n.a.
Total Liquidity	1,273
Fitch Forecasted 2017 FCF (post dividend)	147
Short-term debt	225
Liquidity score [x]	6.3
Source: Fitch	

Trends and Forecasts

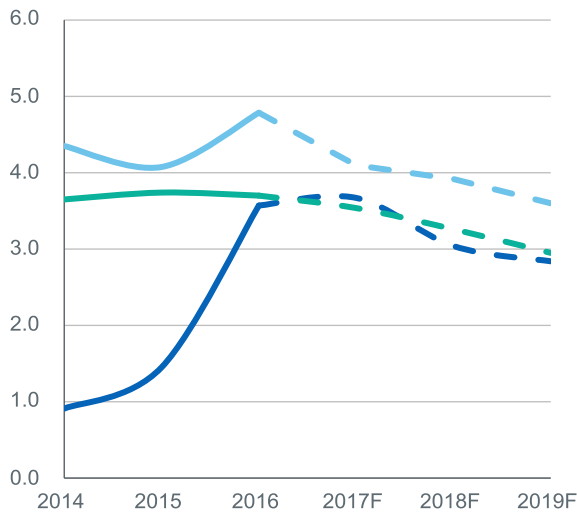
Yestar International Holdings
Company Limited

— Emerging BB Cat Median

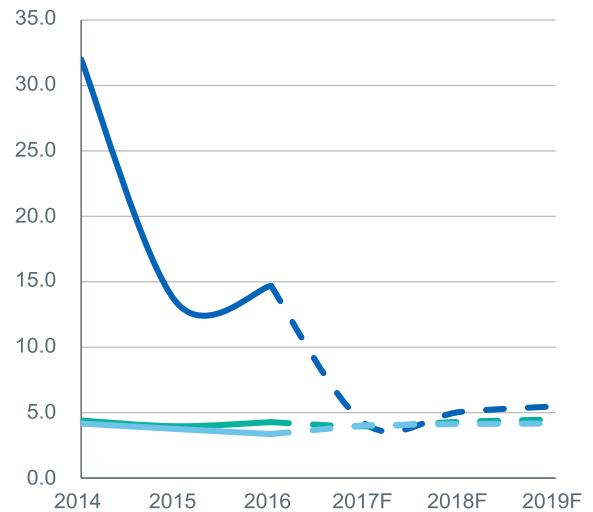
— Diversified Services Median

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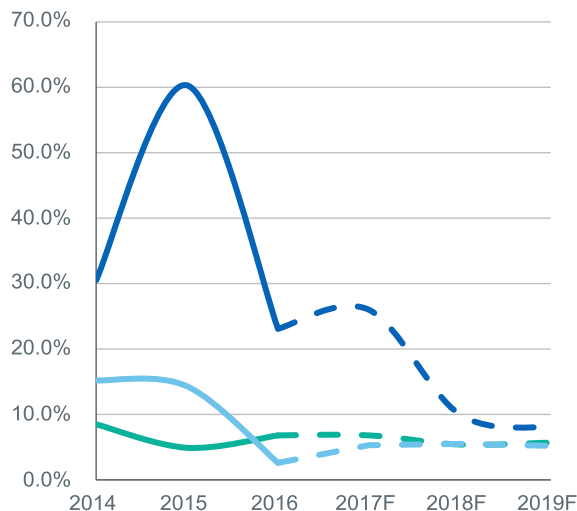
FFO Adjusted Leverage (x)



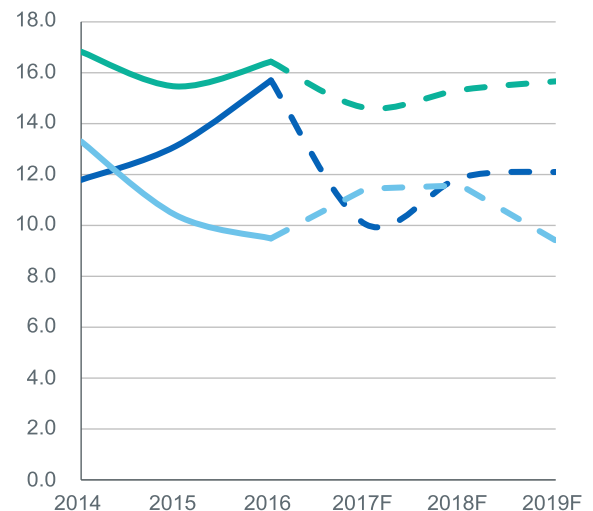
FFO Interest Cover (x)



Revenue Growth (%)



FFO Margin (%)



Note: Including Fitch expectations
Source: Fitch

Definitions

FFO Adjusted Leverage: Total Adjusted Debt with Equity Credit divided by Funds From Operations [FFO] + Gross Interest (Paid) - Interest Received + Preferred Dividends (Paid) + Operating Lease Expense for Capitalised Leased Assets.

FFO Interest Cover: FFO + Gross Interest paid minus interest received + Preferred Dividends paid divided by Gross Interest Paid + Preferred Dividends Paid.

Revenue Growth: Percentage growth in revenues since previous reporting period.

FFO Margin: FFO divided by Revenues.

Key Assumptions

Fitch's key assumptions within our rating case for the issuer include:

- Mid-teen revenue growth for IVD business and 20% EBITDA margin in 2018-2019
- Revenue for the traditional imaging business to decline 0%-5% in 2018-2019
- Company to acquire remaining 30% interest in IVD distributor Anbaida in 2018
- No further M&A assumed

Financial Data

(CNYm)	Historical			Forecast		
	Dec 2014	Dec 2015	Dec 2016	Dec 2017F	Dec 2018F	Dec 2019F
SUMMARY INCOME STATEMENT						
Gross Revenue	1,531	2,455	3,022	3,822	4,202	4,536
Revenue Growth (%)	30.5	60.3	23.1	26.0	10.0	8.0
Operating EBITDA (Before Income From Associates)	166	352	531	669	776	843
Operating EBITDA Margin (%)	10.8	14.4	17.6	17.5	18.5	18.6
Operating EBITDAR	174	365	553	697	807	876
Operating EBITDAR Margin (%)	11.4	14.9	18.3	18.2	19.2	19.3
Operating EBIT	148	294	439	580	651	707
Operating EBIT Margin (%)	9.7	12.0	14.5	15.2	15.5	15.6
Gross Interest Expense	-6	-26	-63	-124	-123	-123
Pretax Income (Including Associate Income/Loss)	147	280	384	456	528	584
SUMMARY BALANCE SHEET						
Readily Available Cash and Equivalents	195	506	1,273	704	331	648
Total Debt With Equity Credit	106	420	1,715	1,740	1,740	1,740
Total Adjusted Debt with Equity Credit	174	521	1,890	1,961	1,983	2,003
Net Debt	-89	-86	443	1,036	1,409	1,092
SUMMARY CASH FLOW STATEMENT						
Operating EBITDA	166	352	531	669	776	843
Cash Interest Paid	-6	-26	-35	-124	-123	-123
Cash Tax	-29	-60	-117	-114	-132	-146
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	0	0	-9	-48	-22	-25
Other Items Before FFO	47	54	103	0	0	0
Funds Flow From Operations	181	322	474	384	499	549
Change in Working Capital	-70	-181	-220	-169	-80	-71
Cash Flow From Operations (Fitch Defined)	111	141	254	214	419	478
Total Non-Operating/Non-Recurring Cash Flow	0	0	0			
Capital Expenditure	-11	-19	-12			
Capital Intensity (Capex/Revenue)	0.7	0.8	0.4			
Common Dividends	-36	-50	-73			

Net Acquisitions and Divestitures	-141	-791	-641			
Other Investing and Financing Cash Flow Items	0	2	-25	0	0	0
Net Debt Proceeds	-11	314	1,263	25	0	0
Net Equity Proceeds	0	714	0	0	0	0
Total Change in Cash	-88	311	767	-568	-374	317
DETAIL CASH FLOW STATEMENT						
FFO Margin (%)	11.8	13.1	15.7	10.0	11.9	12.1
Calculations for Forecast Publication						
Capex, Dividends, Acquisitions and Other Items Before FCF	-188	-860	-726	-808	-792	-161
Free Cash Flow After Acquisitions and Divestitures	-78	-719	-472	-593	-374	317
Free Cash Flow Margin (After Net Acquisitions) (%)	-5.1	-29.3	-15.6	-15.5	-8.9	7.0
COVERAGE RATIOS						
FFO Interest Coverage (x)	32.0	13.5	14.7	4.1	5.1	5.5
FFO Fixed Charge Coverage (x)	13.5	9.4	9.4	3.5	4.3	4.5
Operating EBITDAR/Interest Paid + Rents (x)	12.3	9.5	9.6	4.3	5.1	5.5
Operating EBITDA/Interest Paid (x)	29.0	13.7	15.1	5.0	6.1	6.7
LEVERAGES RATIOS						
Total Adjusted Debt/Operating EBITDAR (x)	1.0	1.4	3.5	3.0	2.5	2.4
Total Adjusted Net Debt/Operating EBITDAR (x)	-0.1	0.0	1.1	1.9	2.1	1.6
Total Debt with Equity Credit/Operating EBITDA (x)	0.6	1.2	3.3	2.8	2.3	2.1
FFO Adjusted Leverage (x)	0.9	1.5	3.6	3.7	3.0	2.8
FFO Adjusted Net Leverage (x)	-0.1	0.0	1.2	2.4	2.5	1.9

How to Interpret the Forecast Presented

The forecast presented is based on the agency's internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch's rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch's forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch's own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch's own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch's own internal deliberations, where Fitch, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch may update the forecast in future reports but assumes no responsibility to do so.

Rating Navigator

Yestar International Holdings Company Limited

Corporates Ratings Navigator
Div. Industrials & Cap. Goods

Factor Levels	Sector Risk Profile	Operating Environment	Management and Corporate Governance	Business Profile				Financial Profile			Issuer Default Rating
				Technology Leadership	Market Position and Size	Diversification	Business Stability	Profitability	Financial Structure	Financial Flexibility	
aaa											AAA
aa+											AA+
aa											AA
aa-											AA-
a+											A+
a											A
a-											A-
bbb+											BBB+
bbb											BBB
bbb-											BBB-
bb+											BB+
bb											BB
bb-											BB-
b+											B+
b											B
b-											B-
ccc											CCC
cc											CC
c											C
d or rd											D or RD

Operating Environment

aa-	Economic Environment	a	Strong combination of countries where economic value is created and where assets are located.
a+	Financial Access	a	Strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	a	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'a'.
b-			
ccc			

Technology Leadership

bb+	Technology Content	bb	Low technology content in products and services.
bb	Barriers to Entry	bbb	Moderate entry barriers.
bb-	Innovation	b	No meaningful R&D.
b+			
b			

Diversification

bbb-	Product Range	bb	Limited range of products.
bb+	Geographic Diversification	bb	Concentration in one region or less than five countries.
bb	Mix of End-Markets	bb	Exposure to a narrow range of end-users.
bb-			
b+			

Profitability

aa-	FFO Margin	a	above 8%
a+	EBIT Margin	a	above 8%
a	FCF Margin	a	above 4%
a-			
bbb+			

Financial Flexibility

bbb	Financial Discipline	bb	Financial policies in place but flexibility in applying it could lead to temporary exceeding downgrade guidelines.
bbb-	Liquidity	bbb	One year liquidity ratio above 1.25x. Well-spread maturity schedule of debt but funding may be less diversified.
bb+	FFO Fixed Charge Cover	bbb	4.0x
bb	FX Exposure	a	Profitability potentially exposed to FX but efficient hedging in place. Debt and cash flows well matched.
bb-			

Management and Corporate Governance

bbb	Management Strategy	bb	Strategy generally coherent but some evidence of weak implementation.
bbb-	Governance Structure	bb	Board effectiveness questionable with few independent directors. "Key man" risk from dominant CEO or shareholder.
bb+	Group Structure	bbb	Some group complexity leading to somewhat less transparent accounting statements. No significant related-party transactions.
bb	Financial Transparency		
bb-			

Market Position and Size

bbb-	Market Position	bb	Second-tier player in broad range of markets, top-five player in few markets or top-three player in niche markets.
bb+	Growth	bbb	Modest exposure to markets with long-term structural growth.
bb	Customers and Suppliers	b	Reliant on one or two key customers and suppliers.
bb-			
b+			

Business Stability

bbb	Cyclicalilty	bbb	Moderate exposure to cyclical end-markets, but aided by diversification.
bbb-	Operating Leverage	bbb	Medium fixed cost structure and ability to cut costs relatively quickly.
bb+	Services and Aftermarket Revenue	b	Services and aftermarket revenue < 10%.
bb			
bb-			

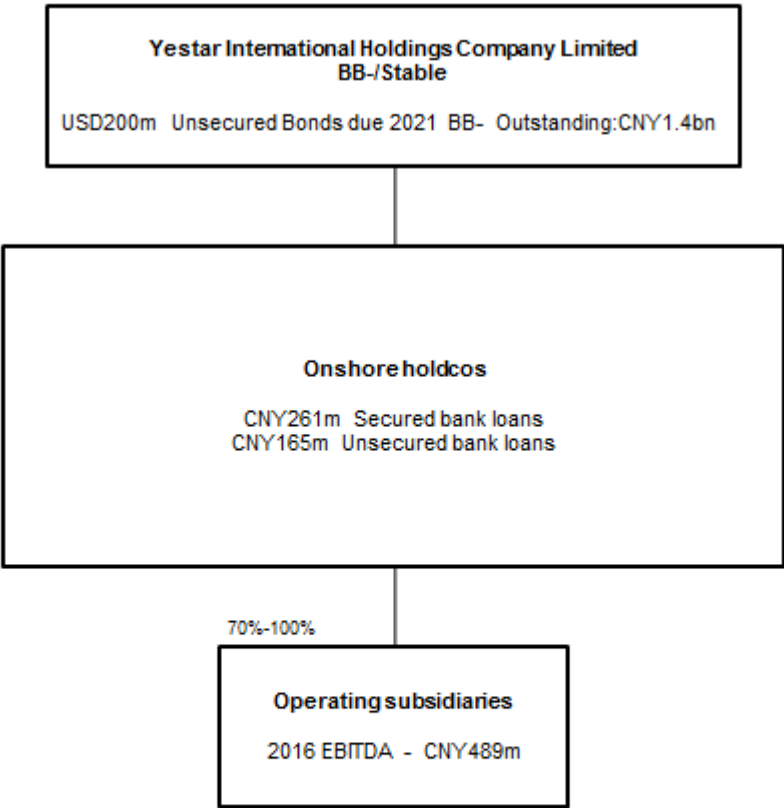
Financial Structure

bbb+	FFO Adjusted Leverage	bb	4.5x
bbb	FFO Adjusted Net Leverage	bbb	2.5x
bbb-	Net Debt/(CFO - Capex)	bbb	2.5x
bb+	Lease Adjusted Gross Debt/EBITDAR	bbb	2.5x
bb	FCF/Total Adjusted Debt	bbb	20%

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Navigator Version: RN 1.39.48.0

Simplified Group Structure Diagram



Source: Fitch, Company. As at 31 December 2016

Peer Financial Summary

Company	Date	Rating	Gross Revenue (CNYm)	Operating EBITDA (Before Income From Associates) (CNYm)	FFO Margin (%)	FFO Fixed Charge Coverage (x)	FFO Adjusted Net Leverage (x)
Yestar International Holdings Co Ltd	2018F		4,202	776	11.9	4.3	2.5
	2017F		3,822	669	10.0	3.5	2.4
	2016	BB-	3,022	531	15.7	9.4	1.2
	2015		2,455	352	13.1	9.4	0.0
361 Degrees International Limited	2018F		5,835	1,097	13.2	4.3	-3.4
	2017F		5,434	1,004	12.9	3.9	-3.4
	2016	BB	5,023	957	13.6	4.0	-3.3
	2015		4,459	799	15.7	5.8	-3.2
eHi Car Services Limited	2018F		3,224	1,503	38.3	4.6	3.1
	2017F		2,882	1,302	36.6	4.3	2.5
	2016	BB-	2,109	937	35.3	3.8	3.4
	2015	BB-	1,451	569	25.3	3.2	0.8
Hilong Holding Limited	2018F		2,843	700	17.8	4.1	3.3
	2017F		2,441	606	17.6	3.6	3.7
	2016		1,929	472	17.3	3.0	4.8
	2015	BB-	2,484	545	16.4	3.7	3.8
China Grand Automotive Services Co., Ltd	2018F		142,698	6,421	2.7	2.3	4.7
	2017F		136,692	6,151	2.6	2.2	4.9
	2016	BB-	133,585	6,211	2.7	2.4	6.2
	2015		91,749	3,939	2.4	2.3	3.4

Source: Fitch

Reconciliation of Key Financial Metrics

(CNY Millions, As reported)	31 Dec 2016
Income Statement Summary	
Operating EBITDA	531
+ Recurring Dividends Paid to Non-controlling Interest	(9)
+ Recurring Dividends Received from Associates	0
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	522
+ Operating Lease Expense Treated as Capitalised (h)	22
= Operating EBITDAR after Associates and Minorities (j)	544
Debt & Cash Summary	
Total Debt with Equity Credit (l)	1,715
+ Lease-Equivalent Debt	175
+ Other Off-Balance-Sheet Debt	0
= Total Adjusted Debt with Equity Credit (a)	1,890
Readily Available Cash [Fitch-Defined]	1,273
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	1,273
Total Adjusted Net Debt (b)	618
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	0
Interest Received	1
+ Interest (Paid) (d)	(35)
= Net Finance Charge (e)	(33)
Funds From Operations [FFO] (c)	474
+ Change in Working Capital [Fitch-Defined]	(220)
= Cash Flow from Operations [CFO] (n)	254
Capital Expenditures (m)	(12)
Multiple applied to Capitalised Leases	8.0
Gross Leverage	
Total Adjusted Debt / Op. EBITDAR* [x] (a/j)	3.5
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	3.6
<i>Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)	3.3
Net Leverage	
Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)	1.1
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	1.2
<i>Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))	1.8
Coverage	
Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)	9.6
Op. EBITDA / Interest Paid* [x] (k/(-d))	15.1
FFO Fixed Charge Cover [x] ((c-e+f)/(-d+h-f))	9.4
<i>(FFO - Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)</i>	
FFO Gross Interest Coverage [x] ((c-e-f)/(-d-f))	14.7
<i>(FFO - Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)</i>	
* EBITDA/R after Dividends to Associates and Minorities	
Source: Fitch based on company reports	

Fitch Adjustment Reconciliation

(CNY Millions, As reported)	Reported Values 31 Dec 16	Sum of Fitch Adjustments	Preferred Dividends, Associates and Minorities Cash Adjustments	Lease Adjustment	Other Adjustment	Adjusted Values
Income Statement Summary						
Revenue	3,022	0				3,022
Operating EBITDAR	531	22		22	0	553
Operating EBITDAR after Associates and Minorities	531	13	(9)	22	0	544
Operating Lease Expense	0	22		22		22
Operating EBITDA	531	0				531
Operating EBITDA after Associates and Minorities	531	(9)	(9)			522
Operating EBIT	439	0				439
Debt & Cash Summary						
Total Debt With Equity Credit	1,684	31			31	1,715
Total Adjusted Debt With Equity Credit	1,684	206		175	31	1,890
Lease-Equivalent Debt	0	175		175		175
Other Off-Balance Sheet Debt	0	0				0
Readily Available Cash & Equivalents	1,273	0				1,273
Not Readily Available Cash & Equivalents	0	0				0
Cash-Flow Summary						
Preferred Dividends (Paid)	0	0				0
Interest Received	1	0				1
Interest (Paid)	(35)	0				(35)
Funds From Operations [FFO]	483	(9)	(9)			474
Change in Working Capital [Fitch-Defined]	(220)	0				(220)
Cash Flow from Operations [CFO]	263	(9)	(9)		(0)	254
Non-Operating/Non-Recurring Cash Flow	0	0				0
Capital (Expenditures)	(12)	0				(12)
Common Dividends (Paid)	(73)	0				(73)
Free Cash Flow [FCF]	178	(9)	(9)			169
Gross Leverage						
Total Adjusted Debt / Op. EBITDAR* [x]	3.2					3.5
FFO Adjusted Leverage [x]	3.3					3.6
Total Debt With Equity Credit / Op. EBITDA* [x]	3.2					3.3
Net Leverage						
Total Adjusted Net Debt / Op. EBITDAR* [x]	0.8					1.1
FFO Adjusted Net Leverage [x]	0.8					1.2
Total Net Debt / (CFO - Capex) [x]	1.6					1.8
Coverage						
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	15.4					9.6
Op. EBITDA / Interest Paid* [x]	15.4					15.1
FFO Fixed Charge Coverage [x]	15.0					9.4
FFO Interest Coverage [x]	15.0					14.7

*EBITDA/R after Dividends to Associates and Minorities

(CNY Millions, As reported)	Reported Values 31 Dec 16	Sum of Fitch Adjustments	Lease Adjustment	Other Adjustment	Adjusted Values
Debt Structure Details					
+ Secured First-Lien Term Loans	261	0			261
+ Total Secured Debt	261	0			261
+ Senior Unsecured Term Loans	65	0			65
+ Senior Unsecured Notes	1,359	31		31	1,390
+ Total Unsecured Debt	1,423	31		31	1,455
Total Debt With Equity Credit	1,684	31		31	1,715
Lease-Equivalent Debt	0	175	175		175
Total Adjusted Debt With Equity Credit	1,684	206	175	31	1,890

Source: Fitch based on company reports

Full List of Ratings

	Rating	Outlook	Last Rating Action
Yestar International Holdings Company Limited			
Long Term IDR	BB-	Stable	Affirmed 24 August 2017
USD200 million 6.9% senior unsecured notes due 2021	BB-	-	Affirmed 24 August 2017

Related Research & Criteria

[Corporate Rating Criteria \(August 2017\)](#)

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