

**CMBI Credit Commentary****Yestar – can it avert a default?****YESTHEA 6.9 Sep'21 45/55**

Despite management's expectation of a recovering operation in 2H2020 (Guidance of 2H20's double-digit revenue growth vs. -30% yoy in 1H2020), We think Yestar's distressed exchange is a highly likely scenario. This is in view of Yestar's lackluster operating cash flow generation. The company expects RMB 200m operating cash inflow in 2H2020, compared to RMB 264 million achieved in 1H2020 as per Debtwire.

As a result, Yestar's weak liquidity will remain, in our view. The company only had a cash balance of RMB 709m, as of Jun, 2020; against RMB 1,415m of USD bond maturing on 15 Sep 2021. Prior to that, Yestar also faces mounting acquisition consideration payments (RMB 236m due by 31 Mar 2021, and another RMB 236m by 31 Aug 2021).

There are several sizable payments required before its USD bond comes due on 15 Sep 2020. We hence **initiate an UW, and see its FV at 39, equal to its recovery value.**

**Our recovery value analysis shows FV of Yestar at 39, providing a floor value to its USD bond which has subsidiaries guarantee of two offshore companies** – Yestar Asia Company Ltd and Yestar International (HK) Company Ltd – that own onshore operating subsidiaries of Yestar.

According to its Offering Circular, in an event of bankruptcy, liquidation or reorganization of Yestar's Non-Guarantor Subsidiaries, **the Non-Guarantor Subsidiaries will pay holders of their debt and their trade creditors before they will distribute any assets to the company.**

**Hence we assess onshore bank loans, trade payables and wage payables as priority liabilities.**

Given Yestar is an asset-light medical consumable distributor, bulk of its asset value rests in trade receivables from hospitals and inventories. We ascribe 30% discount rate(haircut) assumptions on trade receivables and inventories, because we deem part of the revenue is derived from repair and maintenance services after IVD distribution, we thus expect some degree of haircut on these current assets when Yestar is no longer a going-concern.

**Polly Ng 吴宝玲**

(852) 3657 6234

pollyng@cmbi.com.hk

**Wilson Lu 路伟同**

(852) 3761 8918

wilsonlu@cmbi.com.hk

**CMBI Fixed Income**

fis@cmbi.com.hk

<b>Recovery Value on Senior Unsecured Debt (RMB'million)</b>			
<i>('1H2020 financial statement)</i>			
<b>Assets</b>	<b>Book Value</b>	<b>Haircut Assumption</b>	<b>Realized Value</b>
Cash (including Restricted Cash)	780	0%	780
Trade Receivables	1,292	30%	905
Inventories	807	30%	565
Property, plant and equipment	143	40%	86
Right-of-use assets	244	40%	146
Goodwill	420	100%	-
Other Intangible assets	1,075	100%	-
Others	239	100%	-
<b>Total Assets</b>	<b>4,999</b>		<b>2,481 - (A)</b>
<b>Priority Liabilities</b>			
Trade and bills payables	607	0%	607
Tax and wage payables	454	0%	454
Secured debt/Bank loans at operating subsidiaries	293	0%	293
<b>Total Priority Liabilities</b>	<b>1,354</b>		<b>1,354 - (B)</b>
<b>Residual Realized Value</b>			<b>1,127 - (C=A-B)</b>
Other payables to non-controlling interests (acquisition related)*	1,158	0%	1,158
Interest payable	25	0%	25
Lease Liabilities and Contract Liabilities	217	0%	217
Other payables	118	50%	59
<b>Other Non-Debt Liabilities</b>	<b>1,518</b>		<b>1,459 - (D)</b>
<b>Senior Unsecured Debt</b>	<b>1,414</b>		<b>1,414 - (E)</b>
Recovery Value on Senior Unsecured Debt & Non-Debt Liabilities (= C/ E+D)			<b>39%</b>

Note\* In Liquidation Scenario, we assume other acquisition related payables to minority shareholders will rank pari passu with existing USD bond due to the latest ruling of Shanghai Arbitration Court that honor the contractual obligations of the earn-outs to minority shareholders.

### Recent development:

- Yestar issued a clarification citing connected person – Samadikun Hartono, father of the 3 shareholders of Yestar, does not hold any interest in the company.
  - o On 25 Dec 2020, Chinese media reported Samadikun Hartono, convicted for embezzlement of Indonesian government bail-out fund in 2003 and fled to China, was a key person in building business relationship for Yestar in China.
- COO resignation on 2 Nov 2020

CMB International Securities Limited

Fixed Income Department

Tel: 852 3761 8867/ 852 3657 6291

[fis@cmbi.com.hk](mailto:fis@cmbi.com.hk)

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