



APEX HEALTHCARE BERHAD

Underperform

DESCRIPTION

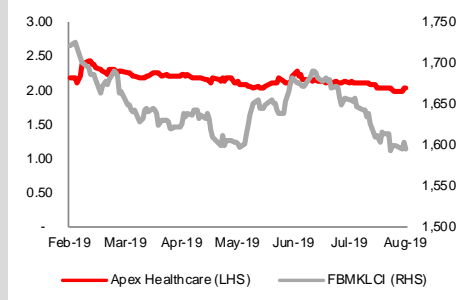
An investment holding company involved in the development, manufacturing, marketing and distribution of pharmaceuticals, diagnostics, consumer healthcare products and orthopaedic devices.

KLCI	1,594.59
12-Month Target Price	RM1.75
Current Price	RM2.03

Expected Share Price Return (%)	-13.8%
Expected Dividend Return (%)	1.5%
Expected Total Return (%)	-12.3%

Market	Main
Sector	Consumer
Bursa Code	7090
Bloomberg Ticker	APEX MK
Shariah-Compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	1.85 – 2.46
3-Month Average Vol ('000)	108.3

SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	-4.2	-6.3	12.2
Relative Returns	-0.9	-4.3	23.4

KEY STOCK DATA

Market Capitalisation (RMm)	956.4
No. of Shares (m)	471.1
Estimated Free Float (%)	19.3
Beta (x)	0.3

MAJOR SHAREHOLDERS

	%
Apex Pharmacy Holdings Sdn Bhd	40.4
Washington H Soul Pattinson	30.1
Fidelity Management & Research Co	2.3

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Largely Within Expectations

Apex Healthcare's (ApexH) 6MFY19 net profit reported at RM24.6m, came in within both our and street estimates, at 46% and 47% respectively. 6MFY19 earnings fell 8% YoY, due to higher start-up expense following the commissioning of its new manufacturing facility. We expect to see some improvement in 2HFY19 due to higher revenue contribution from SPP Novo. Our forecasts remain unchanged. We maintain our **Underperform** call with an unchanged TP of RM1.75, based on 15x FY20F EPS. Separately, ApexH has declared an interim dividend of 1.7 sen per share.

§ **Taking the hit from higher start-up cost.** ApexH's 2QFY19 revenue grew 2.1% YoY to RM159.3m, on the back of consistent sales of the Group's own branded products to the private sector as well as distribution of pharmaceuticals. Despite the growth in revenue, net profit for the quarter declined 3.5% YoY to RM13.2m. Weakness in earnings was a result of higher start-up expenses from its new manufacturing facility, SPP Novo. The higher start-up cost has entirely offset the stronger contribution from its associate company, Straits Apex, where the contribution spiked 121% YoY to RM3.3m, attributed to better sales. Note that the YoY weaker earnings was also impacted by finance cost amounting to RM374k, following ApexH's decision to use borrowings to fund SPP Novo in 4Q18. Prior to this in 2QFY18, the finance cost was nil.

§ **Segmental results.** EBIT contribution from the manufacturing and marketing (MM) segment declined by 33% YoY to RM7.9m. We believe the decrease was caused by the increase in start-up cost as well as depreciation cost. The Group's depreciation and amortization cost increased by 66.4% YoY to RM3.7m. Albeit the falling EBIT from the manufacturing and marketing segment, it remained as the main contributor to ApexH's EBIT. On a YoY basis, the wholesale and distribution division's EBIT improved by 24% to RM6.7m.

§ **Temporary setback.** To recap, SPP Novo, commenced its operations in late December 2019 and targets to breakeven by the end of FY20F. Upon commencement of operations, the Group was negatively impacted by higher depreciation and operating cost, resulting in lower earnings. Earlier in May, the SPP Novo plant has obtained relevant regulatory approval from authorities for commercial production. This signifies that the Group would possibly be able to start selling and distributing the products produced by the SPP Novo plant in near future. We expect to see stronger revenue in 2HFY19.

KEY FORECAST TABLE

FYE Dec (RM m)	2017A	2018A	2019F	2020F	2021F	3-year CAGR
Revenue	620.3	652.7	746.2	802.9	873.8	10.2%
Pre-tax Profit	56.0	69.3	69.3	70.2	77.4	3.8%
Net Profit	44.5	58.6	53.2	53.9	59.5	0.5%
EPS (Sen)	9.4	12.4	11.3	11.4	12.6	0.5%
P/E (x)	21.6	16.4	18.1	17.8	16.1	
Dividend Yield (%)	1.5	1.6	1.5	1.5	1.5	
Debt to Equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	
ROA (%)	9.7	10.8	9.0	8.5	8.7	
ROE (%)	12.9	15.2	12.5	11.6	11.7	
NTA/ Share (RM)	0.7	0.8	0.9	1.0	1.1	
Price to NTA (x)	2.8	2.5	2.3	2.1	1.9	

Source: Company, PublicInvest Research estimates

**Table 1: Results Summary**

<u>FYE Dec (RM m)</u>	<u>2Q19</u>	<u>2Q18</u>	<u>1Q19</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>YTD FY19</u>	<u>YTD FY18</u>	<u>YTD YoY chg (%)</u>	<u>Comments</u>
Revenue	159.3	155.9	178.2	2.1	-10.6	337.5	324.3	4.1	Due to consistent sales of its own brand products to the private sector and distribution of pharmaceuticals.
Cost of Sales	-122.7	-116.4	-138.7	5.4	-11.5	-261.5	-244.7	6.9	
Gross Profit	36.5	39.5	39.5	-7.6	-7.5	76.0	79.6	-4.6	
Other operating income/ (expenses)	1.7	0.9	1.1	99.2	52.8	2.8	1.9	51.8	
Operating profit/ (loss)	13.2	15.9	14.1	-16.6	-5.9	27.3	30.8	-11.2	
Finance income/ (costs)	-0.4	0.0	-0.3	N/A	15.8	-0.7	0.0	N/A	
Other income/ (expenses)	3.3	1.5	0.8	120.7	314.9	4.1	3.1	31.2	On the back of stronger sales from Straits Apex
Profit/ (Loss) before tax	16.2	17.4	14.5	-6.8	11.3	30.7	33.9	-9.3	
Taxation	-3.0	-3.7	-3.1	-19.5	-5.6	-6.1	-7.0	-12.8	
Net Profit	13.2	13.7	11.4	-3.4	15.9	24.6	26.9	-8.5	
Non-controlling interests	0.0	0.0	0.0	N/A	N/A	0.0	0.0	N/A	
PATAMI	13.2	13.7	11.4	-3.5	16.0	24.6	26.9	-8.4	
Core PATAMI	13.2	13.7	11.4	-3.5	16.0	24.6	26.9	-8.4	
Operating Margin (%)	8.3	10.2	7.9	-18.3	5.3	8.1	9.5	-14.7	
Pre-tax Margin (%)	10.2	11.1	8.2	-8.8	24.5	9.1	10.4	-12.9	
Net Margin (%)	8.3	8.8	6.4	-5.5	29.8	7.3	8.3	-12.0	
Segment Revenue									
Manufacturing and Marketing	11.7	11.5	11.8	1.6	-1.4	23.5	23.2	1.1	
Wholesale and Distribution	145.6	142.5	164.2	2.2	-11.3	309.8	296.9	4.3	
Corporate	2.0	2.0	2.2	1.5	-8.2	4.2	4.2	0.0	
Segment EBIT									
Manufacturing and Marketing	7.9	11.7	9.2	-32.8	-14.4	17.0	24.3	-29.9	
Wholesale and Distribution	6.7	5.4	7.3	24.0	-8.8	14.1	10.9	29.1	
Corporate	2.6	1.3	-1.2	98.0	-307.3	1.3	0.2	769.1	

Source: Company

KEY FINANCIAL DATA
INCOME STATEMENT

FYE Dec (RM m)	2017A	2018A	2019F	2020F	2021F
Revenue	620.3	652.7	746.2	802.9	873.8
Operating Profit	50.7	61.6	65.4	66.0	71.5
Other Gains/(Losses)	5.4	7.8	5.2	5.5	6.0
Finance Costs	0.0	-0.1	-1.3	-1.3	0.0
Pre-tax Profit	56.0	69.3	69.3	70.2	77.4
Income Tax	-11.6	-10.6	-15.9	-16.1	-17.8
Effective Tax Rate (%)	-20.6	-15.3	-23.0	-23.0	-23.0
Minorities	0.0	-0.1	-0.1	-0.1	-0.1
Net Profit	44.5	58.6	53.2	53.9	59.5
Growth					
Revenue (%)	6.7	5.2	14.3	7.6	8.8
Operating Profit (%)	8.9	21.5	6.1	0.9	8.3
Net Profit (%)	27.2	31.8	-9.1	1.3	10.4

Source: Company, PublicInvest Research estimates

BALANCE SHEET

FYE Dec (RM m)	2017A	2018A	2019F	2020F	2021F
Property, Plant & Equipment	125.0	177.2	168.2	157.8	148.9
Cash and Cash Equivalents	51.9	56.0	73.3	102.9	138.6
Receivables	139.3	160.4	183.4	197.4	214.8
Other Assets	140.7	146.3	166.2	173.1	182.3
Total Assets	456.9	540.0	591.2	631.2	684.6
Payables	106.7	117.7	135.5	146.7	159.7
Borrowings	0.0	29.9	24.0	13.6	9.1
Deferred Tax	6.6	6.0	6.0	6.0	6.0
Other Liabilities	0.0	0.0	0.0	0.0	0.0
Total Liabilities	113.2	153.5	165.5	166.3	174.8
Total Equity	343.7	386.5	425.6	464.9	509.8
Total Equity and Liabilities	456.9	540.0	591.2	631.2	684.6

Source: Company, PublicInvest Research estimates

CASH FLOW

FYE Dec (RM m)	2017A	2018A	2019F	2020F	2021F
Depreciation and Amortisation	9.4	19.0	19.0	20.4	18.9
Operating Cash Flow	46.3	40.5	47.2	64.6	64.9
Capital Expenditure	-37.1	-62.6	-10.0	-10.0	-10.0
Free Cash Flow	9.3	-22.1	37.2	54.6	54.9
Investing Cash Flow	-29.6	-65.8	-10.0	-10.0	-10.0
Financing Cash Flow	13.5	15.9	-19.9	-25.0	-19.2
Net Cash Flow	3.2	-9.5	17.3	29.6	35.7

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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Published and printed by:

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