

## A healthy showing

Apex Healthcare (Apex) recorded a strong set of results for 9M18, with revenue and core net profit growing by 5% yoy and 35% yoy respectively. The strong earnings growth was supported by margin improvements on a better product mix and stellar growth in share of associates' earnings. Mostly due to a lower-than-expected effective tax rate, Apex's earnings tracked ahead of our and consensus estimates. We continue to like Apex due to its solid growth prospects, supported by the impending commissioning of SPP NOVO and its established delivery network. Maintain BUY with unchanged TP of RM10.20.

### 9M18 earnings tracking ahead of estimates

Apex's 9M18 earnings came in tracking ahead of our and consensus full year forecasts, mainly due to a lower effective tax rate and better than expected EBIT margins in the wholesale and distribution segment. Notwithstanding this, 9M18 earnings came in solid, with revenue growing by 5% yoy and strong growth coming from private sector pharmaceutical and consumer healthcare products. Likewise, margins also improved due to a better product mix recorded. Share of associates' earnings growth also contributed to the earnings growth and lower effective tax rate, mainly due to growing orders seen at Straits Apex Sdn Bhd.

### Emerging catalysts

Apex's new production facility is on track for commissioning by 1Q19. It would relieve existing utilisation rate of 100% at the adjacent production facility. Meanwhile, we anticipate earnings delivery arising from management's order visibility to fully utilise the new capacity within 12-18 months of completion. Separately, we believe Apex is a generic drug manufacturer with an established delivery network across Malaysia. Among the local drug producers, it is best poised to benefit from impending changes to domestic healthcare policies.

### Maintain BUY and TP of RM10.20

In view of earnings tracking ahead of our estimates, we make slight adjustments to our effective tax rate and margins for the wholesale and distribution segment and adjust our FY18E core net profit estimates by 7.4% and marginally for FY19E. We maintain our BUY rating and TP of RM10.20, based on an unchanged 2019E PER of 20x. We like Apex for its consistent execution which supports Apex defensive, yet attractive, 2017-20E EPS CAGR of 17%. Key risks include a delay of SPP NOVO, product recall risk, and low liquidity risk.

### Earnings & Valuation Summary

FYE 31 Dec	2016A	2017A	2018E	2019E	2020E
Revenue	581.3	620.3	649.6	708.1	768.0
EBITDA	55.6	60.2	72.8	85.7	101.1
Pretax profit	46.3	56.0	67.8	80.0	95.3
Net profit	35.0	44.5	53.6	60.5	72.1
EPS(RM)	0.3	0.4	0.5	0.5	0.6
PER	27.1	21.3	17.7	15.7	13.2
Core net profit	33.7	44.4	53.6	60.5	72.1
Core EPS(RM)	0.3	0.4	0.5	0.5	0.6
Core EPS growth (%)	12.4	31.8	20.8	12.9	19.1
Core PER	28.2	21.4	17.7	15.7	13.2
Net DPS(RM)	0.1	0.1	0.2	0.2	0.2
Dividend Yield (%)	1.4	1.5	2.3	2.5	3.0
EV/EBITDA (x)	15.6	14.6	12.0	10.0	8.2
Debt to equity (x)	-	-	-	-	-
BPS (RM)	2.7	2.9	3.2	3.5	3.9
PBR (x)	3.0	2.8	2.5	2.3	2.1
Chg in EPS (%)			7.4	0.4	-
Affin/Consensus (x)			1.04	1.03	1.06

Source: Company, Bloomberg, Affin Hwang forecasts

## Results Note

Outthink. Outperform.

# Apex Healthcare

APEX MK

Listing Market: Main

Sector: Healthcare & Pharmaceuticals

RM8.10 @ 15 November 2018

KLCI: 1,694.21

BUY (maintain)

Upside: 25.9%

Price Target: RM10.20

Previous Target: RM10.20



### Price Performance

	1M	3M	12M
Absolute	-1.7%	12.5%	48.4%
Rel to KLCI	0.3%	18.6%	50.9%

### Stock Data

Issued shares (m)	117.5
Mkt cap (RMm)/(US\$m)	951.7/227.2
Avg daily vol - 3mth (m)	0.0
52-wk range (RM)	4.9-8.72
Est free float	49.1%
BV per share (RM)	3.08
P/BV (x)	2.63
Net cash/(debt) (RMm)	76.46
ROE (%) (2018E)	15%
Beta	0.01
Derivatives	Nil
Shariah Compliant	Yes

### Key Shareholders

APEX PHARMACY HOLDIN	40.5%
WASHINGTON H SOUL PA	30.2%
Fidelity	3.0%

Source: Company, Bloomberg

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Fig 1: Results Comparison

Outthink. Outperform.

FYE 31 Dec (RMm)	3Q17	2Q18	3Q18	QoQ % chg	YoY % chg	9M17	9M18	YoY % chg	Comment
<b>Revenue</b>	<b>157.7</b>	<b>155.9</b>	<b>165.3</b>	<b>6.0</b>	<b>4.8</b>	<b>467.7</b>	<b>489.6</b>	<b>4.7</b>	Healthy revenue growth on the back of more robust private sector sales of pharmaceutical and consumer healthcare products, supported by other segments including exports, sales to government agencies and contract manufacturing
Op costs	142.7	137.8	146.6	6.4	2.7	423.2	435.8	3.0	
EBITDA	15.0	18.1	18.6	2.9	24.0	44.5	53.8	21.0	Better product mix (higher sale of proprietary products) contributed to the margin improvements on a yoy basis.
<i>EBITDA margin (%)</i>	<i>9.5</i>	<i>11.6</i>	<i>11.3</i>	<i>(0.3ppt)</i>	<i>1.7ppt</i>	<i>9.5</i>	<i>11.0</i>	<i>1.5ppt</i>	
Depn and amort	2.5	2.2	2.3	1.0	(7.8)	7.3	6.7	(7.6)	
EBIT	12.6	15.9	16.4	3.2	30.2	37.2	47.1	26.6	Significant improvement in associates' earnings on the back of growing orders from existing and new customers.
<i>EBIT margin (%)</i>	<i>8.0</i>	<i>10.2</i>	<i>9.9</i>	<i>(0.3ppt)</i>	<i>1.9ppt</i>	<i>8.0</i>	<i>9.6</i>	<i>1.7ppt</i>	
Int expense	0.0	0.0	0.0	<i>n.m.</i>	<i>n.m.</i>	0.0	0.0	<i>n.m.</i>	
Int and other inc	0.0	0.0	0.0	<i>n.m.</i>	<i>n.m.</i>	0.0	0.0	<i>n.m.</i>	Significant improvement in associates' earnings on the back of growing orders from existing and new customers.
Associates	0.7	1.5	2.3	50.3	214.0%	2.4	5.4	>100	
EI	0.4	-0.2	(0.2)	(17.6)	(139.7)	0.5	(0.2)	<i>n.m.</i>	Lower than statutory tax rate mainly due to net-of-tax profits by associates
<b>Pretax profit</b>	<b>13.3</b>	<b>17.4</b>	<b>18.6</b>	<b>7.3</b>	<b>40.1</b>	<b>39.7</b>	<b>52.5</b>	<b>32.4</b>	
Tax	(2.0)	(3.7)	(3.7)	0.8	83.6	(8.0)	(10.7)	33.7	Lower than statutory tax rate mainly due to net-of-tax profits by associates
<i>Tax rate (%)</i>	<i>15.1</i>	<i>21.1</i>	<i>19.8</i>	<i>(1.3ppt)</i>	<i>4.7ppt</i>	<i>20.1</i>	<i>20.3</i>	<i>0.2ppt</i>	
MI	0.0	0.0	0.0	<i>n.m.</i>	<i>n.m.</i>	0.0	0.0	<i>n.m.</i>	Tracking ahead of our and consensus estimates
<b>Net profit</b>	<b>11.3</b>	<b>13.7</b>	<b>14.9</b>	<b>9.1</b>	<b>32.3</b>	<b>31.7</b>	<b>41.9</b>	<b>32.1</b>	
EPS (sen)	0.1	0.1	0.1	9.1	32.3	0.3	0.4	32.1	
<b>Core net profit</b>	<b>10.9</b>	<b>13.9</b>	<b>15.1</b>	<b>8.7</b>	<b>39.1</b>	<b>31.1</b>	<b>42.1</b>	<b>35.0</b>	Tracking ahead of our and consensus estimates

Source: Affin Hwang, Company data

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**Equity Rating Structure and Definitions**


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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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