



## APEX HEALTHCARE BERHAD

Neutral

## DESCRIPTION

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

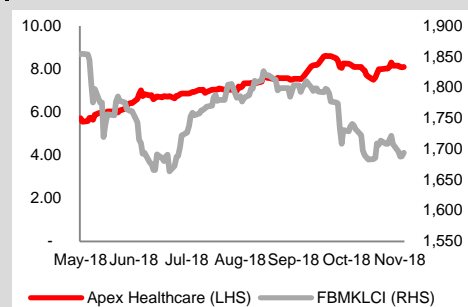
KLCI 1,706.4

12-Month Target Price RM7.58  
Current Price RM8.53

Expected Share Price Return (%) -11.1%  
Expected Dividend Return (%) 1.4%  
Expected Total Return (%) -9.7%

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

## SHARE PRICE CHART



52 Week Range (RM) 4.90 – 8.72  
3-Month Average Vol ('000) 21.3

## SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	-1.7	13.5	51.3
Relative Returns	5.6	22.5	56.2

## KEY STOCK DATA

Market Capitalisation (RMm)	1,002.2
No. of Shares (m)	117.5
Estimated Free Float (%)	49.1
Beta (x)	0.3

## MAJOR SHAREHOLDERS

	%
Apex Pharmacy Holdings Sdn Bhd	40.5
Washington H Soul Pattinson	30.2
Fidelity Management & Research Co	3.0

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## Consistently Growing

We attended Apex Healthcare Berhad (ApexH)'s results briefing and key highlights are i) 3QFY18 margin improvements driven by own-branded products, ii) SPP NOVO on track to commence in 2019 and iii) positive industry prospects from Budget 2019. We keep our earnings estimates and maintain our **Neutral** rating with an unchanged TP of RM7.58 (premised on 15x multiple to FY19 EPS) as we believe its share price has already priced in the positive growth prospect.

§ **Own-branded products continue to improve margins in 3QFY18**, as ApexH remains committed in developing its in-house products. Of the 9MFY18 revenue, ApexH's own-branded products made up 30.2%, resulting in a higher 9MFY18 GP margin of 24.5%. In comparison, only 26.1% of revenue came from its own-branded products in 9MFY17, yielding 21.8% GP margin. We expect the margin improvements to provide some cushioning effect when SPP NOVO begins operating next year.

§ **SPP NOVO is on track to commence in 2019**, with CPC already issued on 31<sup>st</sup> October 2018. Next would be CCC as well as inspection and approval of NPRA, which are still expected to be by 4Q18 and 1Q19 respectively. Built with ample capacity to support organic growth for 7 years, we estimate SPP NOVO's initial production will involve a few production lines with low utilisation of c.10-20%. We understand that it will take c.18 months for the new plant to reach optimal operating capacity, thus the initial operating costs is expected to weigh on ApexH's earnings in the near term. As at 30<sup>th</sup> September 2018, capex paid amounted to RM68.7m out of total estimation of RM80m. No other major capex is planned in near term as ApexH will be occupied with ramping up of new plant.

§ **Commenting on Budget 2019**, ApexH is positive over the higher allocation given towards the healthcare industry as well as other healthcare goodies including medical insurance scheme and health screening programmes as it reflects government's commitment and support towards the industry. While declining to comment too much given minimal available details at this juncture, ApexH did not dismiss any potential business opportunities or positive spillovers. YTD, MOH tenders account for c.9% of revenue, which has increased slightly from c.2.8% of revenue in 1HFY18. Though this implies a higher upside chances as opposed to downside risks, we believe ApexH will likely remain primarily driven by the private sector, contributed by its strong presence in pharmacy (38% of FY17 revenue) and clinics (36% of FY17 revenue). On minimum wage raise, ApexH's employees are mostly Malaysians (c.99%) so wages are higher than the minimum level set. The incremental impact however, after assessment, would be an additional c.RM1m per year.

## KEY FORECAST TABLE

FYE Dec (RM m)	2016A	2017A	2018F	2019F	2020F	3-year
Revenue	581.3	620.3	685.2	743.2	799.9	8.8%
Pre-tax Profit	46.3	56.0	70.4	77.0	82.5	13.8%
Net Profit	35.0	44.5	54.2	59.2	63.5	12.6%
EPS (Sen)	29.8	38.0	46.2	50.6	54.2	12.6%
P/E (x)	28.6	22.5	18.4	16.9	15.7	
Dividend Yield (%)	1.3	1.4	1.4	1.4	1.5	
Debt to Equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	
ROA (%)	8.4	9.7	10.7	10.5	10.2	
ROE (%)	11.2	12.9	14.1	13.8	13.3	
NTA/ Share (RM)	2.6	2.9	3.3	3.6	4.1	
Price to NTA (x)	3.2	2.9	2.6	2.3	2.1	

Source: Company, PublicInvest Research estimates

## KEY FINANCIAL DATA

### INCOME STATEMENT

FYE Dec (RM m)	2016A	2017A	2018F	2019F	2020F
Revenue	581.3	620.3	685.2	743.2	799.9
Operating Profit	46.5	50.7	63.5	69.5	74.5
Other Gains/(Losses)	-0.2	5.4	6.9	7.4	8.0
Finance Costs	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	46.3	56.0	70.4	77.0	82.5
Income Tax	-11.3	-11.6	-16.2	-17.7	-19.0
Effective Tax Rate (%)	-24.4	-20.6	-23.0	-23.0	-23.0
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>35.0</b>	<b>44.5</b>	<b>54.2</b>	<b>59.2</b>	<b>63.5</b>
<b>Growth</b>					
Revenue (%)	10.3	6.7	10.5	8.5	7.6
Operating Profit (%)	-2.4	8.9	25.4	9.4	7.2
Net Profit (%)	2.1	27.2	21.8	9.3	7.2

Source: Company, PublicInvest Research estimates

### BALANCE SHEET

FYE Dec (RM m)	2016A	2017A	2018F	2019F	2020F
Property, Plant & Equipment	100.8	125.0	123.6	121.6	118.8
Cash and Cash Equivalents	34.2	51.9	80.0	116.8	158.2
Receivables	138.8	139.3	153.9	166.9	179.7
Other Assets	144.6	140.7	149.2	156.3	163.5
<b>Total Assets</b>	<b>418.4</b>	<b>456.9</b>	<b>506.8</b>	<b>561.7</b>	<b>620.2</b>
Payables	99.9	106.7	116.4	126.2	135.8
Borrowings	0.0	0.0	0.0	0.0	0.0
Deferred Tax	6.1	6.6	6.6	6.6	6.6
Other Liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>106.0</b>	<b>113.2</b>	<b>123.0</b>	<b>132.7</b>	<b>142.4</b>
Total Equity	312.4	343.7	383.8	428.9	477.8
<b>Total Equity and Liabilities</b>	<b>418.4</b>	<b>456.9</b>	<b>506.8</b>	<b>561.7</b>	<b>620.2</b>

Source: Company, PublicInvest Research estimates

### CASH FLOW

FYE Dec (RM m)	2016A	2017A	2018F	2019F	2020F
Depreciation and Amortisation	9.5	11.4	11.4	12.0	12.8
<b>Operating Cash Flow</b>	<b>33.8</b>	<b>46.3</b>	<b>52.2</b>	<b>60.8</b>	<b>66.1</b>
Capital Expenditure	-10.7	-37.1	-10.0	-10.0	-10.0
Free Cash Flow	23.1	9.3	42.2	50.8	56.1
<b>Investing Cash Flow</b>	<b>-6.2</b>	<b>-29.6</b>	<b>-10.0</b>	<b>-10.0</b>	<b>-10.0</b>
<b>Financing Cash Flow</b>	<b>-13.5</b>	<b>13.5</b>	<b>-14.1</b>	<b>-14.1</b>	<b>-14.6</b>
<b>Net Cash Flow</b>	<b>14.1</b>	<b>3.2</b>	<b>28.1</b>	<b>36.8</b>	<b>41.4</b>

Source: Company, PublicInvest Research estimates

## RATING CLASSIFICATION

### STOCKS

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### SECTOR

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

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