

Outthink. Outperform.

1Q19: Weaker earnings as expected

Despite recording higher revenue, Apex Healthcare's core net profit declined 13.8% yoy in 1Q19, mainly due to higher start-up expenses from its new Oral Solid dosage plant, SPP NOVO, as well as lower contributions from its associate. The weak performance was within expectations. We maintain our HOLD rating on Apex with a lower TP of RM8.42 as a result of a cut in our target PER in view of the near-term earnings weakness due to the start-up expenses from SPP NOVO.

Impacted by start-up expenses from SPP NOVO

1Q19 revenue grew 5.8% yoy to RM178.2m, making up 22% and 21% of our and consensus estimates respectively. The higher revenue was driven by the stronger contributions from: i) private-sector sales of Group-branded pharmaceuticals in Malaysia, ii) contract manufacturing, and iii) distribution to pharmaceutical and consumer healthcare agencies. Core net profit, however, fell 13.8% yoy to RM11.4m in 1Q19, mainly due to: i) higher operating expenses arising from the start-up of SPP NOVO, and ii) a lower contribution from its 40%-owned associate, Straits Apex Sdn Bhd, which halved yoy to RM0.8m, due to lower sales. On a positive note, Apex indicated that the associate's secured orders in hand for fulfilment over the next 2 quarters stand at good levels.

Received regulatory approval for SPP NOVO

The Group has received regulatory approval from the National Pharmaceutical Regulatory Agency (NPRA) on 16 May and should be able to start selling products manufactured by SPP NOVO. While the commencement of sales should help to partly mitigate the start-up expenses, we expect the new plant to be in a gestation period for at least 1-2 years, which will adversely impact the Group's earnings in 2019E.

Maintain HOLD with a lower TP of RM8.42

Given the weak near-term earnings due to the start-up costs, we lower our PER target to 17x (from 20x), in line with regional pharmaceutical peers' average PER of 17x (Fig 2). Despite rolling forward our valuation horizon to 2020E, we lower our TP to RM8.42 (from RM8.81) as a result of our lower target PER. We maintain our EPS forecasts and HOLD rating on Apex. The proposed 3-for-1 bonus issue has been approved by its shareholders and Bursa Malaysia. Upside risks: lower-than-expected start-up expenses and shorter-than expected gestation period for SPP NOVO. Downside risks: higher-than-expected start-up expenses and product recall risk.

Earnings & Valuation Summary

FYE 31 Dec	2017	2018	2019E	2020E	2021E
Revenue	620.3	652.7	699.2	759.3	802.8
EBITDA	60.2	71.0	76.0	84.8	93.0
Pretax profit	56.0	69.3	69.2	77.8	86.0
Net profit	44.5	58.6	51.8	58.3	64.4
EPS(sen)	38.0	49.9	44.0	49.6	54.8
PER	22.7	17.2	19.5	17.4	15.7
Core net profit	45.0	60.2	51.8	58.3	64.4
Core EPS(sen)	38.4	51.3	44.0	49.6	54.8
Core EPS growth (%)	12.8	33.9	(14.0)	12.6	10.5
Core PER	22.4	16.8	19.5	17.4	15.7
Net DPS(sen)	12.0	13.5	14.1	15.9	17.5
Dividend Yield (%)	1.4	1.6	1.6	1.8	2.0
EV/EBITDA (x)	15.4	13.5	12.8	11.2	9.9
Debt to equity (x)	0.0	0.1	0.1	0.0	0.0
BPS (RM)	2.9	3.3	3.6	3.9	4.3
PBR (x)	2.9	2.6	2.4	2.2	2.0
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

Apex Healthcare

APEX MK

Listing Market: Main

Sector: Healthcare & Pharmaceuticals

RM8.60 @ 23 May 2019

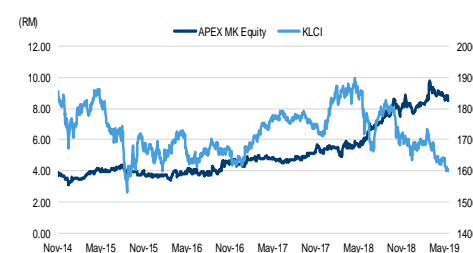
KLCI: 1,601.87

HOLD (maintain)

Downside: 2%

Price Target: RM8.42

Previous Target: RM8.81



Price Performance

	1M	3M	12M
Absolute	5.1%	20.1%	61.4%
Rel to KLCI	8.6%	20.4%	81.8%

Stock Data

Issued shares (m)	117.8
Mkt cap (RMm)/(US\$m)	1012.9/241.6
Avg daily vol - 3mth (m)	0.0
52-wk range (RM)	5.72-9.83
Est free float	49.4%
BV per share (RM)	3.25
P/BV (x)	2.65
Net cash/(debt) (RMm)	51.26
ROE (%) (2019E)	13%
Beta	0.31
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Apex Pharmacy Holdings	40.4%
Washington H Soul Pattison	30.1%
Fidelity Management	2.2%

Source: Company, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	1Q18	4Q18	1Q19	QoQ % chg	YoY % chg	Comment
Revenue	168.4	163.1	178.2	9.3	5.8	Driven by stronger contributions from: i) private-sector sales of the Group-branded pharmaceutical products in Malaysia, ii) contract manufacturing services, and iii) distribution to pharmaceutical and consumer healthcare agencies
Op costs	151.3	145.9	160.7	10.1	6.2	
EBITDA	17.1	17.2	17.6	2.2	2.7	
<i>EBITDA margin (%)</i>	<i>10.1</i>	<i>10.5</i>	<i>9.8</i>	<i>-0.7ppt</i>	<i>-0.3ppt</i>	
Depn and amort	2.2	2.7	3.5	28.8	58.6	
EBIT	14.9	14.5	14.1	(2.8)	(5.5)	
<i>EBIT margin (%)</i>	<i>8.8</i>	<i>8.9</i>	<i>7.9</i>	<i>-1ppt</i>	<i>-1ppt</i>	
Int expense	0.0	(0.1)	(0.3)	>100	nm	
Int and other inc	0.0	0.0	0.0	nm	nm	
Associates	1.6	2.4	0.8	(66.2)	(51.1)	Lower contribution from associate due to lower sales.
EI	0.0	0.9	(0.0)	-102.5	-209.5	
Pretax profit	16.5	16.7	14.5	-13.1	-12.0	
Tax	(3.3)	0.1	(3.1)	nm	(5.3)	
<i>Tax rate (%)</i>	<i>20.0</i>	<i>-0.4</i>	<i>21.5</i>	<i>21.9ppt</i>	<i>1.5ppt</i>	
MI	0.0	0.0	0.0			
Net profit	13.2	16.8	11.4	-32.2	-13.5	
EPS (sen)	11.3	14.3	9.7	-32.3	-13.7	
Core net profit	13.2	17.7	11.4	-35.8	-13.8	Within expectations, making up 22 and 21% of our and consensus full-year estimates respectively.

Source: Company, Affin Hwang

Fig 2: Peer Comparison

	Rating	Shr Pr LC	TP LC	Mkt Cap (USD m)	P/E		EPS Growth		EV/EBITDA		P/B		ROE	Div. Yield
					(x)	(x)	(%)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
					CY19E	CY20E	CY19E	CY20E	CY19E	CY20E	CY19E	CY20E	CY19E	CY19E
Local pharmaceutical players														
Apex Healthcare*	HOLD	8.60	8.42	241.5	19.5	17.4	(14.0)	12.6	12.8	11.2	2.4	2.2	12.8	1.6
YSP Southeast Asia*	BUY	2.48	3.85	82.2	9.0	8.0	17.4	14.8	7.2	6.5	1.0	1.0	12.0	4.4
Pharmaniaga	N/R	2.50	N/R	155.2	11.7	11.2	31.9	3.7	7.4	6.8	1.2	1.2	10.6	6.0
Duopharma Biotech	N/R	1.33	N/R	209.8	16.0	14.9	15.1	7.1	10.0	8.5	1.6	1.5	11.3	4.2
Average					14.0	12.9	12.6	9.6	9.3	8.2	1.6	1.5	11.7	4.1
Regional comparable pharmaceutical players														
Taiko Pharma.	N/R	1,820.00	N/R	237.3	19.8	20.0	7.3	(0.9)	8.2	8.1	1.5	1.4	7.5	1.7
Daito Pharma.	N/R	3,480.00	N/R	395.9	12.1	11.1	14.9	9.6	6.2	5.8	1.3	1.2	10.9	1.1
Neuland Laboratories	N/R	607.60	N/R	151.3	26.4	15.7	155.4	67.8	12.7	9.4	1.1	1.0	5.5	0.3
Humedix	N/R	26,500.00	N/R	221.7	23.5	20.2	21.5	16.5	13.0	11.5	2.2	2.1	10.1	2.3
Average					20.3	16.9	37.0	21.1	10.6	9.2	1.7	1.6	9.4	1.4

Source: Bloomberg, Affin Hwang estimates*

Note: Based on closing prices on 23 May 2019

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	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.

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