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# Apex Healthcare goes big into e-commerce

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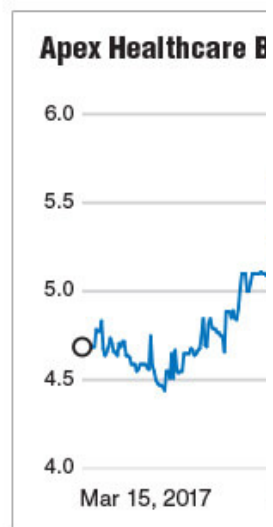


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## Apex Healthcare peer comparison

COMPANY	MARKET CAP (RM MIL)	CLOSING PRICE (RM)	P/E (TTM)	ROE (%)
Apex Healthcare Bhd	637.27	5.44	14.33	13.55
YSP Southeast Asia Holding Bhd	344.67	2.52	16.75	7.23
Kotra Industries Bhd	248.50	1.86	18.96	9.05
CCM Duopharma Biotech Bhd	806.19	2.89	19.14	9.02
Pharmaniaga Bhd	1,091.24	4.20	20.28	10.15
Hovid Bhd	287.31	0.35	N/A	-2.75

As of March 16, 2018 Source: Bloomberg



KUALA LUMPUR: Disruptive change is inevitable. To stay competitive, most companies are seeking to enter into the digital space and Apex Healthcare Bhd is making sure that it won't be left behind.

Recognising the importance of e-commerce, the healthcare group is investing in its infrastructure in Malaysia to accommodate for the future growth of online purchasing.

“Even though online sales have been minimal for the group, it's important for us to be in the e-commerce space,” Apex chairman and chief executive officer Dr Kee Kirk Chin told The Edge Financial Daily in an interview.

Apex currently has a web presence for its customers in Malaysia, but this is not sufficient. The group is planning to roll out a new online platform on its website by the end of this year, which will allow doctors and pharmacists in Malaysia to place their orders for Apex's pharmaceutical products.

Apex is already offering the ability in Singapore, which is Apex's biggest international market. It launched its online platform about two-and-a-half years ago.

The 56-year-old Kee, who is also a substantial shareholder of Apex, with a direct and indirect stake of 42.6% as at March 1, 2018, said online sales contribute less than 10% of its revenue in Singapore.

For the financial year ended Dec 31, 2017 (FY17), Apex saw its net profit rose 27.2% to RM44.46 million from RM34.96 million in the previous year, driven by better performance across its key business units. Revenue also grew 6.7% to RM620.26 million from RM581.27 million in FY16.

Breaking down into segments, the manufacturing of pharmaceuticals products contributes about 33% of its total revenue, while 25% comes from distribution services of other brands, 24% from pharmaceutical wholesaling and the remaining is derived from consumer healthcare products (16%) and retail (2%).

On the group's growth outlook for FY18, Kee said Apex will “always aim to do better each year”, noting that demand for its pharmaceuticals and consumer healthcare products has been “growing fairly constant and steady”.

He also pointed to the country's initiative to become a medical tourism hub for Asia, which has helped boost sales.

Citing a Malaysia Competition Commission (MyCC) report on the pharmaceutical sector, Kee said there has been an increasing use of generic drugs, which bodes well for generic drug makers like Apex. In 2016, sales of patented drugs versus generic drugs were 45:55, compared with 67:33 in 2006.

This year, Apex will also be focusing on the completion of its SPP Novo plant for its pharmaceutical manufacturing operations at Cheng, Melaka, and leveraging on its European Union Good Manufacturing Practice (EU GMP) certification.

As Apex has reached its maximum capacity for the production of solid products (tablets and capsules), the SPP Novo plant is needed to cater for growing demand.

“[At full capacity,] SPP Novo is designed to increase our solid production capacity by up to three times, but we will be fitting out with approximately double the capacity upon commissioning by [the] end of 2018,” said Kee.

He added that about RM130 million of its revenue is derived from the manufacturing segment, and about half of this is from solid products. A back-of-the-envelope calculation suggests that if Apex doubles its solid product capacity, the group may see an increase in its solid product sales to RM130 million.

“For Europe, we are working on contract manufacturing opportunities,” said Kee, noting that the group is in the midst of evaluating merger and acquisition targets, as well as joint-venture opportunities in Europe and other developed markets. “The EU GMP certification will enable the group to stay ahead of the game, ensuring the best quality of its products,” he added.

Apex shares closed 26 sen or 4.56% lower at RM5.44 last Friday, bringing a market capitalisation of RM637.28 million. The stock has risen 14% over the past year, from RM4.77 on March 22, 2017.

PublicInvest Research analyst Nor Asilah Amran believes Apex’s stock has further potential upside due to additional capacity from its new SPP Novo manufacturing facility, a strong balance sheet with a net cash position of 69 sen per share, and synergistic relationships with a number of multinational drug companies and a wide distribution network for pharmaceuticals, over-the-counter and consumer products in Malaysia.

“These are added values that are probably not experienced by the other pharmaceuticals players as others are mostly purely manufacturers,” she told The Edge Financial Daily over the phone.

Nor Asilah expects the group's net profit to come in higher at RM45.3 million on revenue of RM661.4 million in FY18. She has an "outperform" call on Apex, with a target price of RM5.92 premised on a 15.3 times multiple of its FY18 earnings per share (EPS) estimates.

Valuation-wise, Nor Asilah is also of the view that Apex shares are trading at the low end compared with its peers.

Bloomberg data showed that Apex was trading at a price-earnings ratio (PER) of 14.33 times, compared with Kotra Industries Bhd and YSP Southeast Asia Holding Bhd of 18.96 times and 16.75 times respectively.

It is also worth noting that Apex's return on equity (ROE) is higher than other pharmaceutical players. Its ROE stood at 13.55%, 11.63% and 12.47% for FY17, FY16 and FY15 respectively.

Affin Hwang Investment Bank Bhd analyst Tan Jun Zhang also likes Apex for its solid execution and favourable outlook driven by its new SPP Novo plant.

In a note to clients dated Feb 23, Tan projects Apex's net profit to come in at RM46.9 million on revenue of RM694.8 million in FY18.

"The EU GMP certification and the expected completion of SPP Novo in the third quarter of 2018 are expected to provide exciting future growth opportunities," he added, maintaining a "buy" rating on Apex with a slightly higher target price of RM6.40 based on 16 times FY18 EPS estimates.

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