Apex 9M profit above expectations on lower tax rate, better margins

Affin Hwang Capital / The Edge Financial Daily
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Apex Healthcare Bhd
(Nov 16, RM8.53)
Maintain buy with an unchanged target price (TP) of RM10.20: Apex Healthcare Bhd's earnings for the cumulative nine months ended Sept 30, 2018 (9MFY18) came in tracking ahead of our and consensus full-year forecasts, mainly due to a lower effective tax rate and better-than-expected earnings before interest and tax margins for the wholesale and distribution segment.

Notwithstanding this, 9MFY18 earnings came in solid, with revenue growing by 5% year-on-year and strong growth coming from private-sector pharmaceutical and consumer healthcare products. Likewise, margins also improved due to a better product mix recorded.

Apex's new production facility is on track for commissioning by the first quarter of 2019. It would relieve the existing utilisation rate of 100% of the adjacent production facility. Meanwhile, we anticipate earnings delivery arising from management's order visibility to fully utilise the new capacity within 12 to 18 months of completion. Separately, we believe Apex is a generic drug manufacturer with an established delivery network across Malaysia. Among local drug producers, it is best poised to benefit from impending changes to domestic healthcare policies.

In view of its earnings tracking ahead of our estimates, we have made slight adjustments to our effective tax rate and margin forecasts for the wholesale and distribution segment, and adjusted our FY18 core net profit estimate by 7.4% and marginally for our FY19 estimate. We have maintained our "buy" rating and TP of RM10.20, based on an unchanged FY19 price-earnings ratio estimate of 20 times.

We like Apex for its consistent execution which supports its defensive, yet attractive, FY17 to FY20 earnings per share compound annual growth rate estimate of 17%. Key risks include a delay in the new SPP Novo plant, product recall risk and low liquidity risk. — *Affin Hwang Capital*, Nov 16

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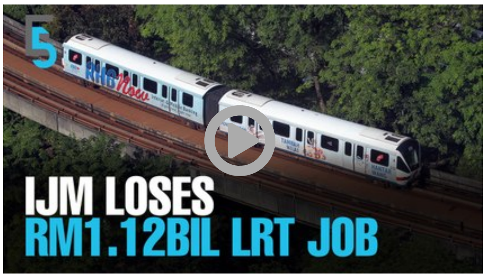
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