Apex Healthcare to grow manufacturing and contract manufacturing segments

BY CHERYL POO

In anticipation of a stronger second half of 2021 as a result of the vaccination rollout, Apex Healthcare Bhd has its eye on growing its manufacturing and contract manufacturing segment.

The company will also be increasing research and development expenditure for creating speciality products that are globally relevant and competitive. Future expenditure will not only be targeted at traditional areas such as plant and machinery, but also the acquisition of intellectual property such as product formulations and patents, Apex Healthcare chairman and CEO Dr Kee Kirk Chin tells *The Edge*.

The regional pharmaceutical group has three business segments — manufacturing and marketing of pharmaceutical products as well as wholesale and distribution (W&D) of pharmaceutical and healthcare products, which collectively contribute over 90% to the group's profit; and the corporate division comprising investments, property, e-commerce and others.

"Covid-19 has affected demand for the products of the group, especially with the low number of patients at general practitioner clinics and private hospitals in the second half of 2020. While the group initiated cost leaning exercises to match expenses with lower revenue, it actually increased expenditure in research and development (12.1% over the last year) to deepen the pipeline of new products that will come onstream in the future. Besides the main therapeutic areas (for the pharmaceutical and consumer healthcare business), the group is developing products in new therapeutic classes and also broadening the portfolio of over-the-counter offerings to the market," he says.

Some of these future launches under the group brands that Apex Healthcare manufactures include pharmaceutical products with market potential such as solid and liquid dosage forms, dermatological preparations such as creams and ointments, and sterile eye drops. These dosage forms support its offerings predominantly in the respiratory, dermatological, cardiovascular and gastrointestinal therapeutic areas, which were the company's top selling products in 2020.

"We are also constantly looking at new therapeutic categories that fit our capabilities. As for W&D, the key agency brands are involved in nutritional supplements, biologics and oncology, supplemented by products from agency brands and general brands that form the backbone," Kee explains.

In FY2020 ended Dec 31, government-related sales amounting to RM75 million mainly in Malaysia and Singapore made up 10.7% of Apex Healthcare's revenue. The company does not expect governments to cut back significantly on medicine purchases.

In response to growing volumes, Apex Healthcare expanded its cold chain capabilities in both Malaysia and Singapore in 4Q2020. While the group has cold chain pharma distribution capabilities of 2°C to 8°C for 56 types of vaccines in both countries, it currently does not distribute Covid-19 vaccines as the latter remains under government-funded programmes, which are organised nationally.

KENNY YAP/THE EDGE

"Besides the main therapeutic areas, the group is developing products in new therapeutic classes and also broadening the portfolio of over-the-counter offerings..." — Kee

"There might be distribution opportunities for us if and when Covid-19 vaccines secure regulatory approval for sale to the private sector in Malaysia and Singapore," Kee says.

Meanwhile, the group is rolling out its business-to-business platform to complement its existing business-to-consumer e-commerce platform in Malaysia. Both platforms are also available in Singapore.

"[We] place emphasis on digital initiatives and building stronger e-commerce capabilities, and investments will be stepped up towards this direction," Kee adds.

For 1QFY2021, Apex Healthcare posted a net profit of RM11.9 million, 17.36% lower than the RM14.4 million in the same period last year. Revenue came in at RM179.5 million, 7.14% lower than RM193.3 million previously.

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Where the next M&A play in plantation could be

BY KANG SIEW LI

In the wake of diversified group IJM Corp Bhd's exit from the plantation business through the sale of its entire 56.2% shareholding in IJM Plantations Bhd to Kuala Lumpur Kepong Bhd for RM1.53 billion in cash, the inevitable question arises — which plantation players will be next?

Analysts are of the view that now is a good time for plantation companies to not only take stock of their portfolios but to also take action — by making acquisitions or to let go of non-core assets — given the prevailing elevated crude palm oil (CPO) prices. Year to date, CPO spot prices have averaged at RM4,114 per tonne, a jump of 65% compared to the same period last year.

Some analysts point out that plantation companies struggling on their own make for attractive takeover targets for bigger companies that are on the hunt.

"I think those plantation companies with poor (financial) performance or no succession planning would be the (potential) targets for mergers and acquisitions (M&As)," PublicInvest Research analyst Chong Hoe Leong tells *The Edge* in an emailed response to questions.

Boustead Plantations Bhd, for one, has been a popular subject of M&A chatter in recent times, especially as its controlling shareholder Boustead Holdings Bhd (BHB) is looking to unlock value in the group under its "Reinventing Boustead" business strategy. A BHB spokesman tells *The Edge* the group cannot comment due to the upcoming annual general meeting on June 24.

Chong notes that Boustead Plantations has been disposing of small parcels of plantation land to declare dividend payouts. "It has been the practice."

In a Sept 18, 2020, report, Maybank Investment Bank (Maybank IB) Research analyst Ong Chee Ting noted that since listing in 2014, Boustead Plantations has sold 2,164ha of land, raised about RM1 billion in gross proceeds and recognised total disposal gains of RM900 million. It has also paid out about RM1 billion in total dividends since listing.

Boustead Plantations is a considerably smaller outfit than IJM Plantations. The former has a market capitalisation of RM1.27 billion compared with that of IJM Plantations' RM2.72 billion as at June 17, 2021.

As at June 8, 2021, Boustead Plantations' price-to-book ratio was the lowest — among eight comparable companies in the same industry — at 0.51 times, which was well below the industry average of 1.24 times. The stock closed at 56 sen last Thursday, a 52% discount to the latest book value per share of RM1.16, suggesting that it is undervalued. The comparable companies are Sarawak Oil Palms Bhd, Far East Holdings Bhd, Hap Seng Plantations Holdings Bhd, TSH Resources Bhd, Kretam Holdings Bhd, Kim Loong Resources Bhd and United Malacca Bhd.

After two years of losses, Boustead Plantations returned to profitability in the financial year ended Dec 31, 2020 (FY2020), achieving a RM42.95 million net profit compared with a RM144.01 million net loss in the previous year. It kicked off FY2021 on a solid note, with a net profit of RM12.23 million in the first quarter.

Boustead Plantations owned a total of 98,200ha of land in Malaysia as at Dec 31, 2020, of which 73,500ha was planted with oil palm trees. Of the total oil palm planted area, 24,100ha (or 33%) were located in Peninsular Malaysia, 39,100ha (or 53%) in Sabah and 10,300ha (or 14%) in Sarawak.

In his report, Maybank IB Research's Ong pointed out that of the 19 estates Boustead Plantations owns in Peninsular Malaysia, 89% are strategically located along the highly populated west coast in the states of Selangor, Penang, Johor, Kedah and Perak.

Among the company's estates, he identified eight that have the potential to be developed for property development in the coming years. "There are broadly two categories: (i) immediate potential: Balau Estate, Kulai Young Estate, Bukit Mertajam Estate, Malakoff Estate and Kuala Muda Estate, and (ii) future potential: Batu Pekaka Estate, Taiping Rubber Plantation and Telok Sengat Estate," he writes.

Ong believes the prevailing market conditions are conducive for pursuing M&A in the plantation industry. "This is especially so since the equity stocks have yet to fully appreciate the high CPO prices enjoyed by the market in the past few months," he tells *The Edge*.

"In addition, new planting has slowed sharply in the past few years due to weak investment cases as well as lack of plantable reserves. The commitments on the NDPE (no deforestation, no peat and no exploitation) policy by established planters also meant an increasing shift in interest towards brown-

SOURCE: KUALA LUMPUR KEPONG BHD IN ITS ANNOUNCEMENT TO ACQUIRE IJM PLANTATIONS BHD ON JUNE 11, 2021

Comparable companies in the plantation industry as at June 8, 2021

COMPARABLE COMPANIES	MARKET CAPITALISATION (RM'000)	PRICE-TO-BOOK RATIO (TIMES)	ENTERPRISE VALUE/ PLANTED AREA MULTIPLE (RM/HA)
Sarawak Oil Palms Bhd	2,229,154	0.94	28,867
Far East Holdings Bhd	1,728,069	1.51	97,306
Hap Seng Plantations Holdings Bhd	1,551,389	0.9	38,383
TSH Resources Bhd	1,545,794	1.06	89,242
Kretam Holdings Bhd	1,466,405	2.32	74,213
Kim Loong Resources Bhd	1,382,116	1.84	79,985
Boustead Plantations Bhd	1,310,400	0.51	32,414
United Malacca Bhd	1,086,604	0.82	36,496
	Min	**0.51**	**28,867**
	Max	**2.32**	**97,306**
	Simple average	**1.24**	**59,613**

ManagePay Systems hopes for new partners in digital bank bid

BY **CHERYL POO**

It is understood that ManagePay Systems Bhd (MPay), which is vying for one of five digital bank licences from Bank Negara Malaysia, may soon confirm a potential partnership with up to three parties in its application as the closing date of June 30 draws near.

The central bank had issued its Licensing Framework for Digital Banks policy on Dec 31, 2020, for the licensing of new players with innovative business models that can meet the nation's economic needs. Mpay, provider of end-to-end electronic payment (e-payment) solutions for banks and financial institutions, merchants and card issuers with operations in Malaysia, is confident of its ability to meet those needs.

"We [actually] don't need another licence, as we already have 12 and are already operating like a full-fledged non-bank financial institution. But we will apply for this [digital banking licence], as it will lower our cost of doing business," its founder and managing director Datuk Chew Chee Seng tells *The Edge* in a virtual interview.

Chew adds that MPay has operating licences from the central bank, Securities Commission Malaysia, Malaysian Communications and Multimedia Commission and the Ministry of Housing and Local Government (KPKT), among others.

Chew holds the controlling stake in MPay with 183.54 million shares, or 25.5% equity interest.

It is understood that there are more than 40 applications for the digital bank licence, with contenders such as ride-hailing and mobile payment company Grab Holdings Inc, Sunway Bhd and the Sarawak government.

The Edge reported on June 14 that Bank Kerjasama Rakyat Malaysia Bhd and Malaysian Industrial Development Finance Bhd may be bidding for the licence too. In another report, Petroliam Nasional Bhd (Petronas); YTL Corp Bhd, together with Sea Ltd; and Genting Bhd are also said to be vying for a licence. Meanwhile, RHB Bank Bhd and Axiata Group Bhd's Boost Holdings Sdn Bhd have tied up to apply for a licence.

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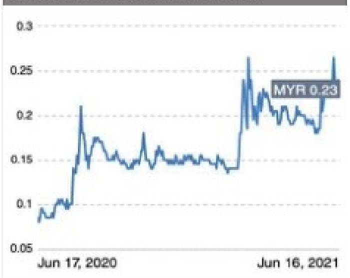
MANAGEPAY SYSTEMS BERHAD



On its digital banking bid, Chew says up to three local companies may team up with MPay to form the joint venture for the application.

MPay intends to retain a controlling stake of at least 60% in the joint venture, leaving its potential partners with a maximum of 40% shareholding even if all three players come on board.

Chew says the three companies will complete MPay's value proposition with their financial technology capabilities, customer base ecosystem and technical base respectively.

In 2020, MPay was to have teamed up with Singapore-based Passion Venture Capital Pte Ltd (PVC) to apply for the licence, but the deal failed to materialise. According to Chew, MPay has since decided to work with local entities or foreign companies based in Malaysia instead.

As for its product offerings, Chew says: "We are not a niche player. We are offering communities that don't have adequate access to credit cards the opportunity to have digital banking tools and services."

For the first quarter ended March 31, 2021 (1QFY2021), MPay returned to the black with a net profit of RM2.2 million from a net loss of RM26.2 million in the previous quarter. Revenue was RM3.3 million, up 60.9% quarter on quarter from RM2.05 million. Listed in 2011, the company had been loss-making in seven of the last 10 years.

In a Bursa Malaysia filing, MPay attributed the higher revenue to improved payment services revenue, and the increase in net profit to the reversal of impairment provision for debtors of RM3.227 million as well as a RM1 million reduction in direct cost. As at March 31, the group had a cash balance of RM18.09 million and no borrowings. Meanwhile, its total order book and contracts received stood at RM355,000.

Chew says the company had been setting up its capabilities, systems and processes over the last five years.

Its e-payment licence has been in operation for the last nine years, e-money and Mastercard in the last six, and QuicKash P2P financing and QuicKredit direct lending in the last three.

"We are on track to building the top line as well as the bottom line, as [sales] volume has increased. 2021 will be our turnaround year, as we have built [towards] a sustainable revenue over many years," he says, adding that MPay will "easily double last year's revenue for 2021", as it had a ready stable of digital solutions to meet market needs and recurring profits were now within its expectations and grasp.

Year to date, MPay hit a high of 27 sen on June 9 before falling 14.8% to close at 23 sen last Wednesday, giving it a market capitalisation of RM175.14 million. E

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MANAGEPAY SYSTEMS BERHAD (ALL FIGURES IN MYR MIL)	FY18 31/12/2018	FY19 31/12/2019	FY20 31/12/2020	FY2021Q1 31/3/2021
Income Statement				
Turnover	10.7	17.8	13.0	3.3
EBITDA	(3.5)	0.9	(27.9)	2.9
Depreciation	6.7	7.7	7.3	1.0
EBIT	(10.3)	(6.8)	(35.2)	1.9
Associates	0.4	0.4	0.1	0.0
Interest income	1.3	0.9	0.5	0.1
Interest expense	0.0	0.0	0.0	0.0
Extraordinary gain/(loss)	(0.1)	-	(1.5)	-
Pre-tax profit	(8.6)	(5.5)	(36.1)	2.0
Net profit - owners of company	(8.6)	(5.5)	(36.5)	2.1
Balance sheet				
Fixed assets - PPE	20.5	22.9	17.9	18.3
Biological assets	-	-	-	-
Intangibles & goodwill	18.1	20.2	11.8	11.4
Cash and equivalents	24.4	9.2	5.9	18.1
Total current assets	46.1	39.7	21.3	32.0
ST borrowings	-	0.1	0.1	0.3
Total current liabilities	6.0	6.7	5.1	12.1
Total assets	86.4	81.0	48.6	52.5
Shareholders' fund	86.4	81.0	48.1	52.3
Long term borrowings	-	0.1	0.3	-

Demand for orthopaedic devices expected to continue growing at steady rate

FROM PAGE 26

When the coronavirus broke out last year, Apex Healthcare raced to meet acute market shortages of pandemic-related products (PRP) such as medical face masks, thermometers, vitamin C and hand sanitisers even as demand for its regular products, such as cough and cold pharmaceutical products, fell in the second half of 2020 (2H2020) due to social distancing measures.

Net profit for 2QFY2020 dipped slightly to RM13 million from RM13.2 million a year ago. While revenue grew 9.7% to RM174.4 million from RM159.3 million, driven by the surge in sales of PRP, the same volume done in 2020 for PRP is not expected to recur in 2021 as the product shortage was a one-off event.

Kee says 1QFY2021 saw the continuation of the cautious recovery in consumer confidence and activity. This was reflected in improved sales for the group, especially to private sector clinics and hospitals.

That said, the pace and sustainability of the recovery remains fragile, aggravated by new coronavirus variants and the Full Movement Control Order from June 1 to 28.

Meanwhile, Kee expects demand for orthopaedic devices to continue to grow at a steady compound annual growth rate of 3.8%, driven primarily by an ageing population.

Apex Healthcare's 40% associate Straits Apex Sdn Bhd (SA) is a manufacturer of orthopaedic devices for the global market.

For the past three years, SA contributed slightly more than 10% of the group's profit before tax — 11.3% in 2018, 11% in 2019 and 12.4% in 2020.

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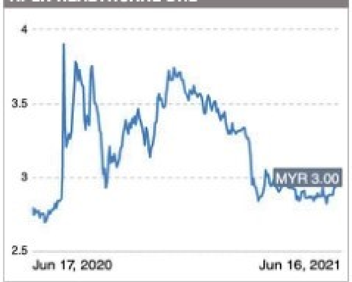
APEX HEALTHCARE BHD



"Most segments of the market are mature and established. In order to do better, we have to add new production capabilities [for the orthopaedic segment] to widen our product offering. These were planned and confirmed before the onset of the pandemic and progressively installed throughout 2020. However, we now expect that this newly installed capacity may not be fully utilised in 2021 because of subdued demand due to the continued pandemic, and the higher fixed costs will impact profit margins in the short term," Kee explains.

While the group does not commit to a fixed dividend policy, it has paid dividends twice a year since its initial public offering in 2000 and intends to maintain this practice.

In FY2020, the group raised the final dividend to 2.8 sen per share to reward shareholders because of its strong financial performance. In all, total dividends paid and payable by the group in respect of FY2020 is 4.5 sen per ordinary share, a 21.6% increase over the 3.7 sen paid in FY2019.

The 4.5 sen dividend works out to a yield of 1.5%, based on Apex Healthcare's closing price of RM3 last Thursday.

In a research report, AmInvestment Bank Research has a "buy" call on the healthcare company based on its future prospects as a recovery play. It said pent-up demand was likely to provide the group with a lucrative FY2022.

"In the short term, however, we forecast subdued performance as a result of rising raw material costs and poor pharmaceutical demand. We expect better quarterly results going forward as the group's SA unit is expected to draw in stronger sales," it said. Year to date, shares of Apex Healthcare closed 16.43% lower at RM3 last Thursday, giving it a market capitalisation of RM1.4 billion. E