

Out think. Out perform.

A robust year

Apex Healthcare (Apex)'s 2018 core net profit came in above expectations, mostly due to the reinvestment allowance arising from its investment in the new Oral Solid dosage plant, SPP NOVO. Results were in line with our estimates at both revenue and PBT levels. Apex declared a higher final dividend of 7.0sen per share, bringing full-year DPS to 13.5sen, or a payout of 27% (2017: 12.0sen at 32%). Separately, the Group also announced the plan to undertake a 3-for-1 bonus issue, expected to be completed by 2Q19. We maintain our BUY rating with a marginally higher TP of RM10.34 based on 20x 2019E EPS.

4Q18 lifted by reinvestment allowance

4Q18 revenue grew by 7% yoy mainly driven by the growth in pharmaceutical sales to both private and government sectors. Core net profit surged by 31% yoy due to the reinvestment allowance and hence core net profit margin was higher by 2ppts to 11% in 4Q18. Note that Apex has received the certificate of completion and compliance (CCC) for SPP NOVO and commenced the start-up in 4Q18, and hence start-up expenses for the new plant has also started to clock in.

Stellar growth in 2018

2018 core net profit grew 34% yoy to RM60.2m, making up 112% and 111% of our and consensus' estimates respectively. The positive variance from our forecast was due to the reinvestment allowance arising from the Group's investment in SPP NOVO. Full-year revenue continued to grow at 5% yoy, mainly attributed to the improved contributions from pharmaceuticals sales to the government sector, contract manufacturing as well as sales of Group branded pharmaceuticals to the private sector which was supported by new product launches. Notably, share of results from associated company grew by 44% to RM7.8m as Straits Apex Sdn Bhd continued to broaden its customer base and increase capacity utilisation. This also gave a boost to the 24% growth in PBT in 2018.

Gearing up for expansion

We note that the Group has started to undertake loans to part finance the construction of its new plant, SPP NOVO, which saw an increase of RM30m in its total borrowings as at end-2018. We are not overly-concern on the gearing however, as the Group is still sitting firmly on a net cash position of RM81.2m (or 44 sen per share) and its current gearing ratio stands at a minimal level of 0.08x as at 31 Dec 2018. Capex spent in 2018 was around RM62.6m (2017: RM37.1m), primarily in relation to the construction of SPP NOVO.

Earnings & Valuation Summary

FYE 31 Dec	2017	2018	2019E	2020E	2021E
Revenue	620.3	652.7	708.9	768.9	842.3
EBITDA	60.2	71.0	84.9	100.3	117.3
Pretax profit	56.0	69.3	80.1	95.3	112.2
Net profit	44.5	58.6	60.8	72.4	85.3
EPS(sen)	37.8	49.8	51.7	61.6	72.5
PER	24.1	18.3	17.6	14.8	12.6
Core net profit	45.0	60.2	60.8	72.4	85.3
Core EPS(sen)	38.2	51.2	51.7	61.6	72.5
Core EPS growth (%)	12.8	33.9	13.5	19.1	17.7
Core PER	23.8	26.4	17.6	14.8	12.6
Net DPS(sen)	12.0	13.5	20.7	24.6	29.0
Dividend Yield (%)	1.3	1.5	2.3	2.8	3.2
EV/EBITDA (x)	(1.3)	(1.1)	(1.2)	(1.3)	(1.4)
Debt to equity (x)	-	0.1	-	-	-
BPS (RM)	2.9	3.3	3.5	3.9	4.3
PBR (x)	3.1	2.7	2.6	2.3	2.1
Chg in EPS (%)			0.1	0.1	
Affin/Consensus (x)			1.0	1.1	

Source: Company, Bloomberg, Affin Hwang forecasts

Affin Hwang Investment Bank Bhd (14389-U)

Results Note

Apex Healthcare

APEX MK
Listing Market: Main
Sector: Healthcare & Pharmaceuticals

RM8.95 @ 28 February 2019

KLCI: 1,707.73

BUY (maintain)

Upside: 16%

Price Target: RM10.34

Previous Target: RM10.20



Price Performance

	1M	3M	12M
Absolute	7.6%	9.8%	62.7%
Rel to KLCI	6.0%	8.0%	76.9%

Stock Data

Issued shares (m)	117.6
Mkt cap (RMm)/(US\$m)	1052.8/258.9
Avg daily vol - 3mth (m)	0.0
52-wk range (RM)	5.32-8.95
Est free float	49.1%
BV per share (RM)	3.15
P/BV (x)	2.84
Net cash/(debt) (RMm)	58.79
ROE (%) (2019E)	15%
Beta	0.27
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Apex Pharmacy Holdings	40.4%
Washington H Soul Pattison	30.2%
Fidelity Management	2.9%

Source: Company, Bloomberg

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Proposed 3-for-1 bonus issue

Apex has proposed to undertake a bonus issue on the basis of 3 bonus shares for every 1 existing share held to reward its shareholders and improve the liquidity of the shares. Though no direct impact on fundamentals, we view the move positively as it will enhance liquidity of the shares and encourage greater participation by investors as the post-bonus adjusted share price will be nominally cheaper compared to its current share price. The exercise will see up to 358.9m new shares issued, bringing up its total share base to 478.6m shares in a maximum scenario with 2.0m outstanding ESOS options fully exercised. We opine that these will likely be exercised as they are currently in-the-money. In a minimum scenario however, the enlarged share base will be 470.5m. The proposed bonus issue is expected to be completed by 2Q19.

Maintain BUY with a marginally higher TP of RM10.34

We tweaked our earnings forecast slightly on minor housekeeping adjustments and adjusted the number of shares to account for ESOS. Maintain BUY with a marginally higher TP of RM10.34, based on an unchanged 2019E PER of 20x. While we understand that the Group has started to incur higher start-up cost in relation to its new plant, we expect this to be offset by the reinvestment allowance from its investment in the new Oral Solid dosage plant, SPP NOVO. We continue to like Apex due to its solid growth prospects, supported by the impending commissioning of SPP NOVO and its established delivery network. Key risks include higher-than-expected start-up cost and product recall risk.

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	4Q17	3Q18	4Q18	QoQ % chg	YoY % chg	2017	2018	YoY % chg	Comment
Revenue	152.6	165.3	163.1	-1.3%	6.9%	620.3	652.7	5.2%	Healthy revenue growth on the back of improved contributions from pharmaceuticals sales to the government sector, contract manufacturing and sales of Group branded pharmaceuticals to the private sector
Op costs	136.9	146.6	145.9	-0.5%	6.6%	560.1	581.7	3.9%	
EBITDA	15.7	18.6	17.2	-7.9%	9.4%	60.2	71.0	18.0%	
<i>EBITDA margin (%)</i>	<i>10.3</i>	<i>11.3</i>	<i>10.5</i>	<i>-0.7ppt</i>	<i>0.2ppt</i>	<i>9.7</i>	<i>10.9</i>	<i>1.2ppt</i>	
Depn and amort	2.3	2.3	2.7	19.5%	19.8%	9.5	9.4	-1.1%	
EBIT	13.4	16.4	14.5	-11.7%	7.7%	50.7	61.6	21.5%	
<i>EBIT margin (%)</i>	<i>8.8</i>	<i>9.9</i>	<i>8.9</i>	<i>-1ppt</i>	<i>0.1ppt</i>	<i>8.2</i>	<i>9.4</i>	<i>1.3ppt</i>	
Int expense	0.0	0.0	-0.1	nm	nm	0.0	-0.1	nm	
Int and other inc	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Associates	2.9	2.3	2.4	4.6%	-19.6%	5.4	7.8	44.6%	
EI	0.7	0.4	0.9	144.2%	35.2%	0.5	1.6	227.1%	
Pretax profit	16.4	18.6	16.7	-10.2%	2.2%	56.0	69.3	23.6%	Lower than statutory tax rate mainly due to reinvestment allowance
Tax	(3.6)	-3.7	0.1	-101.7%	-101.8%	-11.6	-10.6	-8.3%	
<i>Tax rate (%)</i>	<i>21.9</i>	<i>19.8</i>	<i>-0.4</i>	<i>-20.2ppt</i>	<i>-22.2ppt</i>	<i>20.6</i>	<i>15.3</i>	<i>-5.3ppt</i>	
MI	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.	
Net profit	12.8	14.9	16.8	12.8%	31.3%	44.5	58.6	31.8%	Above expectations at 112% and 111% of ours and consensus earnings estimates respectively
EPS (sen)	10.9	12.7	14.3	12.8%	31.3%	37.9	50.0	31.8%	
Core net profit	13.5	15.3	17.7	16.0%	31.5%	45.0	60.2	33.9%	

Source: Affin Hwang, Company data

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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