

Outthink. Outperform.

Upgrading: getting back to growth

Apex Healthcare (Apex) recorded stronger revenue (+9% yoy) and core net profit (+5.4% yoy) in 3Q19, with 9M19 results coming in above expectations. This is despite higher start-up costs from its new Oral Solid dosage plant, SPP NOVO, and lower associate contributions. We believe the improvement was mainly driven by the commercial production of SPP NOVO since mid-May, which has helped to partially offset the fixed costs of SPP NOVO. We raise our earnings forecast to factor in an earlier contribution from SPP NOVO. We upgrade Apex to BUY, from HOLD, with a higher TP of RM2.67.

Stronger earnings despite start-up expenses from SPP NOVO

3Q19 revenue grew 9% yoy to RM181m, mainly driven by the stronger contributions from: i) both private and public sector sales of Group branded pharmaceuticals, ii) contract manufacturing, and iii) distribution to pharmaceutical and consumer healthcare agencies. 3Q19 core net profit grew 5.4% yoy and 26.2% qoq despite higher operating and finance costs arising from the start-up of SPP NOVO and lower contributions from associates. Though Apex's 9M19 core net profit accounts for 76-77% of consensus and our estimates, we deem the results as above expectations as we expect a stronger performance in the coming quarters.

Turning more positive, expect margins to improve

Recall that Apex had received regulatory approval to start commercial production on 16 May 2019. We believe the commercial production of SPP NOVO has helped to partially offset the start-up costs of SPP NOVO, which include finance cost, depreciation and other operating expenses. Following a weak 1H19 and improvement in 3Q19, we are now turning more positive and expect the margin to improve with an earlier turnaround for SPP NOVO. The group's core net profit margin has improved to 8.9% in 3Q19 from 8.0% in 2Q19, though it is still slightly below 3Q18's 9.2%.

Upgrade to BUY with a higher TP of RM2.67

We raise our 2019-21E earnings by 8-27% as we expect SPP NOVO to turn around earlier (vs. prior expectations of breakeven by end-2020E) given the commercial sales of SPP NOVO. We upgrade our call on Apex to BUY (from HOLD) with a higher 12-month TP of RM2.67, still based on 17x 2020E PER. We like Apex for its solid growth prospects, led by commissioning of SPP NOVO and its established delivery network. Downside risks: higher-than-expected start-up costs, product recall risk.

Earnings & Valuation Summary

FYE 31 Dec	2017	2018	2019E	2020E	2021E
Revenue	620.3	652.7	705.2	807.3	874.8
EBITDA	60.7	72.6	78.9	102.3	113.0
Pretax profit	56.0	69.3	73.7	97.3	108.0
Net profit	44.5	58.6	55.9	73.9	82.0
EPS(sen)	9.5	12.5	11.9	15.7	17.4
PER	25.3	19.2	20.2	15.3	13.8
Core net profit	45.0	60.2	55.9	73.9	82.0
Core EPS(sen)	9.6	12.8	11.9	15.7	17.4
Core EPS growth (%)	12.8	33.9	(7.2)	32.2	11.0
Core PER	25.0	18.7	20.2	15.3	13.8
Net DPS(sen)	3.0	3.4	3.8	5.0	5.6
Dividend Yield (%)	1.2	1.4	1.6	2.1	2.3
EV/EBITDA (x)	17.2	14.8	13.5	10.2	9.0
Debt to equity (x)	-	0.1	0.1	0.0	0.0
BPS (RM)	0.7	0.8	0.9	1.0	1.1
PBR (x)	3.3	2.9	2.7	2.4	2.1
Chg in EPS (%)			7.9	26.8	27.3
Affin/Consensus (x)			1.1	1.3	1.3

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

Apex Healthcare

APEX MK

Listing Market: Main

Sector: Healthcare & Pharmaceuticals

RM2.40 @ 21 November 2019

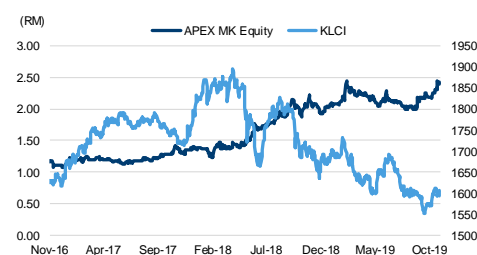
KLCI: 1,592.2

BUY (upgrade)

Upside: 11%

Price Target: RM2.67

Previous Target: RM2.11



Price Performance

	1M	3M	12M
Absolute	10.1%	18.2%	8.4%
Rel to KLCI	8.6%	18.4%	15.4%

Stock Data

Issued shares (m)	471.9
Mkt cap (RMm)/(US\$m)	1132.5/271.6
Avg daily vol - 3mth (m)	0.1
52-wk range (RM)	1.92-2.5
Est free float	19.4%
BV per share (RM)	0.86
P/BV (x)	2.80
Net cash/(debt) (RMm)	76.29
ROE (%) (2019E)	13%
Beta	0.33
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Apex Pharmacy Holdings	40.4%
Washington H Soul Pattison	30.1%
Liew Yoon Yee	1.6%

Source: Company, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	3Q18	2Q19	3Q19	QoQ %chg	YoY %chg	9M18	9M19	YoY %chg	Comment
Revenue	165.3	159.3	180.7	13.4%	9.3%	489.6	518.2	5.8%	Led by stronger contributions from: i) both private and public sector sales of Group-branded pharmaceutical products, ii) contract manufacturing, distribution to pharmaceutical and consumer healthcare agencies
Op costs	146.3	142.9	159.4	11.6%	8.9%	435.7	463.2	6.3%	
EBITDA	18.9	16.4	21.3	29.6%	12.5%	53.9	54.9	2.0%	
<i>EBITDA margin (%)</i>	<i>11.4</i>	<i>10.3</i>	<i>11.8</i>	<i>1.5ppt</i>	<i>0.3ppt</i>	<i>11.0</i>	<i>10.6</i>	<i>-0.4ppt</i>	
Depn and amort	2.3	3.7	3.8	3.1%	70.0%	6.7	11.1	65.1%	
EBIT	16.6	12.7	17.4	37.4%	4.7%	47.2	43.9	-7.0%	
<i>EBIT margin (%)</i>	<i>10.1</i>	<i>8.0</i>	<i>9.6</i>	<i>1.7ppt</i>	<i>-0.4ppt</i>	<i>9.6</i>	<i>8.5</i>	<i>-1.2ppt</i>	
Int expense	0.0	-0.4	-0.3	-9.6%	nm	0.0	-1.0	nm	
Int and other inc	-0.4	0.0	-1.9	nm	nm	-0.7	-1.9	>100%	
Associates	2.3	3.3	1.9	-42.6%	-15.7%	5.4	6.0	11.6%	
EI	0.4	0.0	1.9	>100%	>100%	0.7	1.9	>100%	Adjusted for forex gains/losses
Pretax profit	18.5	15.6	17.1	9.8%	-7.6%	51.8	47.0	-9.4%	
Tax	-3.7	-3.0	-3.0	1.7%	-18.8%	-10.7	-9.1	-14.8%	
<i>Tax rate (%)</i>	<i>19.9</i>	<i>18.9</i>	<i>17.5</i>	<i>-1.4ppt</i>	<i>-2.4ppt</i>	<i>20.6</i>	<i>19.3</i>	<i>-1.2ppt</i>	
MI	0.0	0.0	0.0	->100%	->100%				
Net profit	14.8	12.6	14.1	11.8%	-4.5%	41.1	37.9	-7.8%	While 9M19 core net profit comprised 76-77% of consensus and our estimates, we believe the results were above expectations as we expect a stronger performance in the coming quarters.
EPS (sen)	3.1	2.7	3.0	11.7%	-4.9%	8.8	8.0	-8.2%	
Core net profit	15.2	12.7	16.0	26.2%	5.4%	41.8	39.7	-4.9%	

Source: Company, Affin Hwang

Important Disclosures and Disclaimer

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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