



APEX HEALTHCARE BERHAD

Underperform

DESCRIPTION

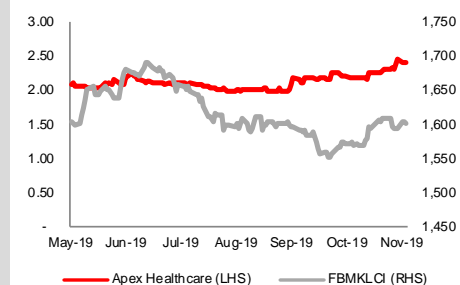
An investment holding company involved in the development, manufacturing, marketing and distribution of pharmaceuticals, diagnostics, consumer healthcare products and orthopaedic devices.

KLCI	1,592.19
12-Month Target Price	RM1.75
Current Price	RM2.40

Expected Share Price Return (%)	-27.1%
Expected Dividend Return (%)	1.3%
Expected Total Return (%)	-25.8%

Market	Main
Sector	Consumer
Bursa Code	7090
Bloomberg Ticker	APEX MK
Shariah-Compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	1.92 – 2.50
3-Month Average Vol ('000)	121.8

SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	9.5	19.6	11.6
Relative Returns	8.6	18.4	15.4

KEY STOCK DATA

Market Capitalisation (RMm)	1,132.5
No. of Shares (m)	471.9
Estimated Free Float (%)	19.4
Beta (x)	0.3

MAJOR SHAREHOLDERS

	%
Apex Pharmacy Holdings Sdn Bhd	40.3
Washington H Soul Pattinson	30.1
Fidelity Management & Research Co	1.6

Research Team

T 603 2268 3010
F 603 2268 3014
E research@publicinvestbank.com.my

Still Feeling The Pinch

Apex Healthcare reported a (ApexH) 9MFY19 net profit of RM38.7m, which came in within both our and street estimates, at 73% and 74% respectively. 9MFY19 earnings fell by 7% YoY, mainly due to increasing start-up cost following the commissioning of its new manufacturing plant, SPP Novo. The weaker performance was within our expectations as the plant is only expected to breakeven by end of FY21F. We maintain our earnings estimates as the higher start-up expense has been imputed in our forecast and we reiterate our **Underperform** call with an unchanged TP of RM1.75, based on 15x FY20F EPS.

§ **Start-up cost still a drag to earnings.** ApexH's 3QFY19 revenue jumped by 9.3% YoY to RM180.7m, mainly driven by better performance from the wholesale and distribution segment (+10.9% YoY). Despite the stronger revenue, net profit for the quarter fell by 5.2% YoY to RM14.1m. We attribute the weaker earnings to higher start-up expense and finance cost, following the commissioning of its new plant, SPP Novo. Prior to this in 3QFY18, finance cost for the Group was nil as ApexH only took on borrowings to fund its SPP Novo plant in 4QFY18 and finance costs incurred this quarter amounts to RM338k. Weaker earnings were also partly caused by the lower earnings contribution from its 40%-owned associate company, Straits Apex, where the share of profit fell by 16% YoY to RM1.9m.

§ **Temporary stumbling block.** To recap, SPP Novo commenced its operations in late December 2019 and targets to breakeven by the end of FY20F. Upon commencement of operations, the Group was negatively impacted by higher depreciation, operating cost and finance cost as ApexH took on borrowings to fund for SPP Novo, resulting in weaker bottomline.

KEY FORECAST TABLE

FYE Dec (RM m)	2017A	2018A	2019F	2020F	2021F	3-year CAGR
Revenue	620.3	652.7	746.2	802.9	873.8	10.2%
Pre-tax Profit	56.0	69.3	69.3	70.2	77.4	3.8%
Net Profit	44.5	58.6	53.2	53.9	59.5	0.5%
EPS (Sen)	9.4	12.4	11.3	11.4	12.6	0.5%
P/E (x)	25.5	19.3	21.3	21.0	19.0	
Dividend Yield (%)	1.2	1.4	1.3	1.3	1.3	
Debt to Equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	
ROA (%)	9.7	10.8	9.7	9.9	10.8	
ROE (%)	12.9	15.2	13.9	14.3	15.7	
NTA/ Share (RM)	0.7	0.8	0.8	0.8	0.8	
Price to NTA (x)	3.3	2.9	3.0	3.0	3.0	

Source: Company, PublicInvest Research estimates

**Table 1: Results Summary**

<u>FYE Dec (RM m)</u>	<u>3Q19</u>	<u>3Q18</u>	<u>2Q19</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>YTD FY19</u>	<u>YTD FY18</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	180.7	165.3	159.3	9.3	13.4	518.2	489.6	5.8	Mainly driven by better performance from the wholesale and distribution segment (+10.4% YoY)
Cost of Sales	-140.7	-124.9	-122.7	12.7	14.7	-402.2	-369.6	8.8	
Gross Profit	39.9	40.3	36.5	-1.1	9.3	115.9	120.0	-3.4	
Other operating income/ (expenses)	1.1	0.8	1.7	39.3	-36.8	3.9	2.6	48.1	
Operating profit/ (loss)	15.6	16.4	13.2	-5.0	17.5	42.9	47.1	-9.1	
Finance income/ (costs)	-0.3	0.0	-0.4	NM	-9.6	-1.0	0.0	NM	ApexH took on borrowings to fund for SPP Novo.
Other income/ (expenses)	1.9	2.3	3.3	-15.7	-42.6	6.0	5.4	11.6	
Profit/ (Loss) before tax	17.1	18.6	16.2	-8.1	5.8	47.9	52.5	-8.9	
Taxation	-3.0	-3.7	-3.0	-18.8	1.7	-9.1	-10.7	-14.8	
Net Profit	14.1	14.9	13.2	-5.5	6.7	38.8	41.9	-7.4	
Non-controlling interests	0.0	0.0	0.0	NM	NM	0.0	-0.1	-77.0	
PATAMI	14.1	14.9	13.2	-5.2	6.8	38.7	41.8	-7.3	
Core PATAMI	14.1	14.9	13.2	-5.2	6.8	38.7	41.8	-7.3	
Operating Margin (%)	8.6%	9.9%	8.3%			8.3%	9.6%		
Pre-tax Margin (%)	9.5%	11.3%	10.2%			9.2%	10.7%		
Net Margin (%)	7.8%	9.0%	8.3%			7.5%	8.5%		
<u>Segment Revenue</u>									
Manufacturing and Marketing	15.4	15.5	11.7	-0.7	31.9	38.9	38.7	0.4	
Wholesale and Distribution	163.3	147.3	145.6	10.9	12.2	473.0	444.1	6.5	
Corporate	2.0	2.5	2.0	-20.1	-1.2	6.2	6.7	-7.4	
<u>Segment PBT</u>									
Manufacturing and Marketing	10.4	12.0	7.9	-13.1	32.8	27.5	36.3	-24.4	
Wholesale and Distribution	5.9	5.5	6.7	6.5	-12.5	19.9	16.4	21.5	
Corporate	1.3	1.5	2.6	-16.8	-49.6	2.6	1.7	53.5	

Source: Company

KEY FINANCIAL DATA
INCOME STATEMENT

FYE Dec (RM m)	2017A	2018A	2019F	2020F	2021F
Revenue	620.3	652.7	746.2	802.9	873.8
Operating Profit	50.7	61.6	65.4	66.0	71.5
Other Gains/(Losses)	5.4	7.8	5.2	5.5	6.0
Finance Costs	0.0	-0.1	-1.3	-1.3	0.0
Pre-tax Profit	56.0	69.3	69.3	70.2	77.4
Income Tax	-11.6	-10.6	-15.9	-16.1	-17.8
Effective Tax Rate (%)	-20.6	-15.3	-23.0	-23.0	-23.0
Minorities	0.0	-0.1	-0.1	-0.1	-0.1
Net Profit	44.5	58.6	53.2	53.9	59.5
Growth					
Revenue (%)	6.7	5.2	14.3	7.6	8.8
Operating Profit (%)	8.9	21.5	6.1	0.9	8.3
Net Profit (%)	27.2	31.8	-9.1	1.3	10.4

Source: Company, PublicInvest Research estimates

BALANCE SHEET

FYE Dec (RM m)	2017A	2018A	2019F	2020F	2021F
Property, Plant & Equipment	125.0	177.2	168.2	157.8	148.9
Cash and Cash Equivalents	51.9	56.0	30.8	16.0	7.4
Receivables	139.3	160.4	183.4	197.4	214.8
Other Assets	140.7	146.3	166.2	173.1	182.3
Total Assets	456.9	540.0	548.6	544.3	553.3
Payables	106.7	117.7	135.5	146.7	159.7
Borrowings	0.0	29.9	24.0	13.6	9.1
Deferred Tax	6.6	6.0	6.0	6.0	6.0
Other Liabilities	0.0	0.0	0.0	0.0	0.0
Total Liabilities	113.2	153.5	165.5	166.3	174.8
Total Equity	343.7	386.5	383.1	378.0	378.6
Total Equity and Liabilities	456.9	540.0	548.6	544.3	553.3

Source: Company, PublicInvest Research estimates

CASH FLOW

FYE Dec (RM m)	2017A	2018A	2019F	2020F	2021F
Depreciation and Amortisation	9.4	19.0	19.0	20.4	18.9
Operating Cash Flow	46.3	40.5	47.2	64.6	64.9
Capital Expenditure	-37.1	-62.6	-10.0	-10.0	-10.0
Free Cash Flow	9.3	-22.1	37.2	54.6	54.9
Investing Cash Flow	-29.6	-65.8	-10.0	-10.0	-10.0
Financing Cash Flow	13.5	15.9	-62.5	-69.4	-63.5
Net Cash Flow	3.2	-9.5	-25.2	-14.8	-8.6

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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PUBLIC INVESTMENT BANK BERHAD (20027-W)

9th Floor, Bangunan Public Bank

6, Jalan Sultan Sulaiman

50000 Kuala Lumpur

T 603 2268 3000

F 603 2268 3014

Dealing Line 603 2268 3129