



## APEX HEALTHCARE BERHAD

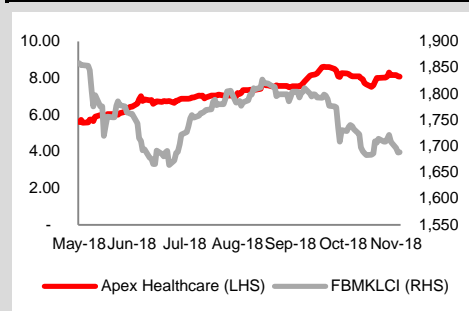
Neutral

## DESCRIPTION

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

KLCI	1,694.2
12-Month Target Price	RM7.58
Current Price	RM8.10
Expected Share Price Return (%)	-6.4%
Expected Dividend Return (%)	1.5%
Expected Total Return (%)	-4.9%
Market	Main
Sector	Consumer
Bursa Code	7090
Bloomberg Ticker	APEX MK
Shariah-Compliant	Yes

## SHARE PRICE CHART



52 Week Range (RM)	4.90 – 8.72
3-Month Average Vol ('000)	21.6

## SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	-2.2	12.4	49.8
Relative Returns	0.3	18.6	50.9

## KEY STOCK DATA

Market Capitalisation (RMm)	951.7
No. of Shares (m)	117.5
Estimated Free Float (%)	49.1
Beta (x)	0.3

## MAJOR SHAREHOLDERS

	%
Apex Pharmacy Holdings Sdn Bhd	40.5
Washington H Soul Pattinson	30.2
Fidelity Management & Research Co	3.0

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## No Surprises

Apex Healthcare Berhad (ApexH) reported a 32.2% YoY increase in 3QFY18 net profit to RM14.9m. Cumulatively, 9MFY18 net profit also increased by 32.0% YoY to RM41.8m, which was in line with our full-year estimates at 77% but above consensus at 81%. The positive set of results is the fruit of ApexH's focus on developing more Group-branded products that yield higher margins on top of consistent performance in its marketing and distribution of pharmaceuticals and consumer healthcare products. We keep our earnings estimates and maintain **Neutral** with TP of RM7.58 unchanged, premised on 15x multiple to FY19 EPS. We continue to like ApexH for i) additional capacity from its new Oral Solid Dosage (SPP NOVO) manufacturing facility, ii) strong balance sheet with net cash position, and iii) synergistic relationship with a number of multinational drug companies and wide distribution network for pharmaceuticals, over-the-counter and consumer products in Malaysia.

§ **2QFY18 revenue increased** by 4.8% YoY, driven by private sector sales of pharmaceutical and consumer healthcare, especially its own-branded products. Higher contract manufacturing and public sector pharmaceutical sales in Malaysia and Singapore also contributed to the higher revenue. Segment-wise, external 3QFY18 revenue for Manufacturing and Marketing almost doubled as it recorded 93.1% YoY growth to RM15.5m, while Wholesale and Distribution was flat at 0.1% YoY. ApexH's associate company, Straits Apex contributed higher share of profit of RM2.3m in comparison to RM0.7m in 3QFY17, supported by broader customer base.

§ **Margin improvements.** Operating, pretax and net margins were better at 9.9%, 11.3% and 9.0% respectively (compared to 8.0%, 8.4% and 7.1% in 3QFY17), boosted by growth in higher margin products in its sales mix. This is in line with the Group's shift towards growing own-branded products to enhance margins. We expect the increased margin levels to be sustainable in the coming quarters.

## KEY FORECAST TABLE

FYE Dec (RM m)	2016A	2017A	2018F	2019F	2020F	3-year CAGR
Revenue	581.3	620.3	685.2	743.2	799.9	8.8%
Pre-tax Profit	46.3	56.0	70.4	77.0	82.5	13.8%
Net Profit	35.0	44.5	54.2	59.2	63.5	12.6%
EPS (Sen)	29.8	38.0	46.2	50.6	54.2	12.6%
P/E (x)	27.1	21.3	17.5	16.0	14.9	
Dividend Yield (%)	1.4	1.5	1.5	1.5	1.5	
Debt to Equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	
ROA (%)	8.4	9.7	10.7	10.5	10.2	
ROE (%)	11.2	12.9	14.1	13.8	13.3	
NTA/ Share (RM)	2.6	2.9	3.3	3.6	4.1	
Price to NTA (x)	3.1	2.8	2.5	2.2	2.0	

Source: Company, PublicInvest Research estimates



Table 1: Results Summary

<u>FYE Dec (RM m)</u>	<u>3Q18</u>	<u>3Q17</u>	<u>2Q18</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>YTD FY18</u>	<u>YTD FY17</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	165.3	157.7	155.9	4.8	6.0	489.6	467.7	4.7	Stronger private sector sales of pharmaceutical and consumer healthcare, especially its own-branded products
Cost of Sales	-124.9	-123.7	-116.4	1.0	7.3	-369.6	-365.7	1.1	
<b>Gross Profit</b>	<b>40.3</b>	<b>34.1</b>	<b>39.5</b>	<b>18.4</b>	<b>2.1</b>	<b>120.0</b>	<b>102.0</b>	<b>17.7</b>	
Other operating income/ (expenses)	-24.0	-21.5	-23.7	11.5	1.4	-72.9	-64.7	12.6	
<b>Operating profit/ (loss)</b>	<b>16.4</b>	<b>12.6</b>	<b>15.9</b>	<b>30.2</b>	<b>3.2</b>	<b>47.1</b>	<b>37.2</b>	<b>26.6</b>	
Finance income/ (costs)	0.0	0.0	0.0	NA	NA	0.0	0.0	-100.0	
Other income/ (expenses)	2.3	0.7	1.5	>100.0	50.3	5.4	2.4	>100.0	Higher share of profit from its associate Straits Apex
<b>Profit/ (Loss) before tax</b>	<b>18.6</b>	<b>13.3</b>	<b>17.4</b>	<b>40.1</b>	<b>7.3</b>	<b>52.5</b>	<b>39.7</b>	<b>32.4</b>	
Taxation	-3.7	-2.0	-3.7	83.6	0.8	-10.7	-8.0	33.7	
<b>Net Profit</b>	<b>14.9</b>	<b>11.3</b>	<b>13.7</b>	<b>32.3</b>	<b>9.1</b>	<b>41.9</b>	<b>31.7</b>	<b>32.1</b>	
Non-controlling interests	0.0	0.0	0.0	>100.0	>100.0	-0.1	0.0	>100.0	
<b>PATAMI</b>	<b>14.9</b>	<b>11.3</b>	<b>13.7</b>	<b>32.2</b>	<b>8.7</b>	<b>41.8</b>	<b>31.7</b>	<b>32.0</b>	
<b>Core PATAMI</b>	<b>14.9</b>	<b>11.3</b>	<b>13.7</b>	<b>32.2</b>	<b>8.7</b>	<b>41.8</b>	<b>31.7</b>	<b>32.0</b>	
Operating Margin (%)	9.9	8.0	10.2	24.2	-2.6	9.6	8.0	20.9	Margins are boosted by growth in higher margin products in its sales mix
Pre-tax Margin (%)	11.3	8.4	11.1	33.7	1.3	10.7	8.5	26.5	
Net Margin (%)	9.0	7.1	8.8	26.2	2.6	8.5	6.8	26.1	
<b>Segment Revenue</b>									
Manufacturing and Marketing	15.5	8.0	11.5	93.1	34.9	38.7	21.0	84.1	
Wholesale and Distribution	147.3	147.1	142.5	0.1	3.4	444.1	439.5	1.1	
Corporate	2.5	2.6	2.0	-4.3	25.4	6.7	7.2	-6.3	
<b>Segment PBT</b>									
Manufacturing and Marketing	12.0	8.7	11.7	37.4	2.7	36.3	27.7	31.1	
Wholesale and Distribution	5.5	4.7	5.4	16.4	1.9	16.4	14.1	16.2	
Corporate	1.5	0.4	1.3	>100.0	20.0	1.7	-0.6	->100.0	

## KEY FINANCIAL DATA

### INCOME STATEMENT

FYE Dec (RM m)	2016A	2017A	2018F	2019F	2020F
Revenue	581.3	620.3	685.2	743.2	799.9
Operating Profit	46.5	50.7	63.5	69.5	74.5
Other Gains/(Losses)	-0.2	5.4	6.9	7.4	8.0
Finance Costs	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	46.3	56.0	70.4	77.0	82.5
Income Tax	-11.3	-11.6	-16.2	-17.7	-19.0
Effective Tax Rate (%)	-24.4	-20.6	-23.0	-23.0	-23.0
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>35.0</b>	<b>44.5</b>	<b>54.2</b>	<b>59.2</b>	<b>63.5</b>
<b>Growth</b>					
Revenue (%)	10.3	6.7	10.5	8.5	7.6
Operating Profit (%)	-2.4	8.9	25.4	9.4	7.2
Net Profit (%)	2.1	27.2	21.8	9.3	7.2

Source: Company, PublicInvest Research estimates

### BALANCE SHEET

FYE Dec (RM m)	2016A	2017A	2018F	2019F	2020F
Property, Plant & Equipment	100.8	125.0	123.6	121.6	118.8
Cash and Cash Equivalents	34.2	51.9	80.0	116.8	158.2
Receivables	138.8	139.3	153.9	166.9	179.7
Other Assets	144.6	140.7	149.2	156.3	163.5
<b>Total Assets</b>	<b>418.4</b>	<b>456.9</b>	<b>506.8</b>	<b>561.7</b>	<b>620.2</b>
Payables	99.9	106.7	116.4	126.2	135.8
Borrowings	0.0	0.0	0.0	0.0	0.0
Deferred Tax	6.1	6.6	6.6	6.6	6.6
Other Liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>106.0</b>	<b>113.2</b>	<b>123.0</b>	<b>132.7</b>	<b>142.4</b>
Total Equity	312.4	343.7	383.8	428.9	477.8
<b>Total Equity and Liabilities</b>	<b>418.4</b>	<b>456.9</b>	<b>506.8</b>	<b>561.7</b>	<b>620.2</b>

Source: Company, PublicInvest Research estimates

### CASH FLOW

FYE Dec (RM m)	2016A	2017A	2018F	2019F	2020F
Depreciation and Amortisation	9.5	11.4	11.4	12.0	12.8
<b>Operating Cash Flow</b>	<b>33.8</b>	<b>46.3</b>	<b>52.2</b>	<b>60.8</b>	<b>66.1</b>
Capital Expenditure	-10.7	-37.1	-10.0	-10.0	-10.0
Free Cash Flow	23.1	9.3	42.2	50.8	56.1
<b>Investing Cash Flow</b>	<b>-6.2</b>	<b>-29.6</b>	<b>-10.0</b>	<b>-10.0</b>	<b>-10.0</b>
<b>Financing Cash Flow</b>	<b>-13.5</b>	<b>13.5</b>	<b>-14.1</b>	<b>-14.1</b>	<b>-14.6</b>
<b>Net Cash Flow</b>	<b>14.1</b>	<b>3.2</b>	<b>28.1</b>	<b>36.8</b>	<b>41.4</b>

Source: Company, PublicInvest Research estimates

## RATING CLASSIFICATION

### STOCKS

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### SECTOR

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

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