



APEX HEALTHCARE BERHAD

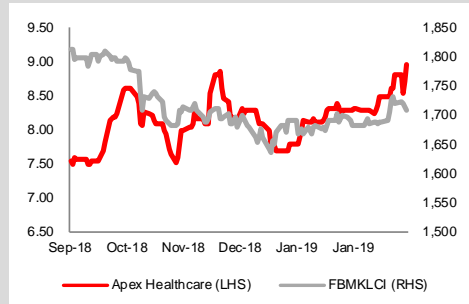
Neutral

DESCRIPTION

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

KLCI	1,707.7
12-Month Target Price	RM7.58
Current Price	RM8.95
Expected Share Price Return (%)	-15.3%
Expected Dividend Return (%)	1.3%
Expected Total Return (%)	-14.0%
Market	Main
Sector	Consumer
Bursa Code	7090
Bloomberg Ticker	APEX MK
Shariah-Compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	5.32 – 8.95
3-Month Average Vol ('000)	30.0

SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	4.8	6.1	61.0
Relative Returns	6.0	8.0	76.9

KEY STOCK DATA

Market Capitalisation (RMm)	1,052.8
No. of Shares (m)	117.6
Estimated Free Float (%)	49.1
Beta (x)	0.3

MAJOR SHAREHOLDERS

	%
Apex Pharmacy Holdings Sdn Bhd	40.4
Washington H Soul Pattinson	30.2
Fidelity Management & Research Co	2.9

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Higher Profit On Lower Tax Expense

Apex Healthcare (ApexH) reported full year FY18 net profit of RM58.6m (+31.8% YoY), which came in above both ours and consensus' estimates at 108% and 109% respectively. The discrepancy was due to the lower income tax expense as the Group benefitted from the reinvestment tax allowance. Better revenue performance was largely due to higher contribution from its manufacturing and marketing segment (+50.5% YoY) and its wholesale and distribution segment (+4% YoY). Pharmaceutical sales to the government sector and sale of own-brand products to the private sector both increased in FY18. ApexH has proposed a final dividend of 7.0 per share, bringing full year total dividend distributed to 13.5sen per share. We maintain our **Neutral** call and TP of RM7.58 as we remain cautious over the possibility of earnings dilution in near term, resulting from higher operating cost and depreciation.

§ **SPP Novo.** The new manufacturing facility has received its certificate of completion and compliance (CCC) and commenced operations in late December 2018. With the opening of SPP Novo, we can expect to see stronger growth coming from ApexH's manufacturing and marketing segment in the future. Going forward, we expect the Group to also focus on ramping up the SPP Novo plant to reach optimal operating capacity. We note that it takes time for the plant to reach optimal operating capacity; hence we remain cautious over the possibility of earnings dilution in near term due to initial start-up cost and higher depreciation. We estimate the increase in operating cost following the SPP Novo's commencement to be c. RM12m p.a.

§ **Own-branded products.** ApexH remains committed to allocate resources to develop wider range of in-house brand products as it commands premium margins. We reckon the margins expansion will provide cushioning effect to the Group's bottom line going forward, considering that SPP Novo has begun operations.

§ **3-to-1 bonus issue.** ApexH proposed a bonus issue, on the basis of 3 bonus shares for every 1 existing shares. Though there will be no direct impact on fundamentals, we are still positive on this move as it will not only enhance trading liquidity but also encourage investors' participation as the shares will be nominally more affordable post bonus issue. The proposed bonus issue is expected to complete by 2Q2019.

KEY FORECAST TABLE

FYE Dec (RM m)	2016A	2017A	2018A	2019F	2020F	3-year CAGR
Revenue	581.3	620.3	652.7	802.7	879.9	8.8%
Pre-tax Profit	46.3	56.0	69.3	71.1	78.8	13.8%
Net Profit	35.0	44.5	58.6	54.7	60.6	12.6%
EPS (Sen)	29.8	38.0	14.3	46.7	51.7	12.6%
P/E (x)	28.6	22.5	17.9	17.3	15.7	
Dividend Yield (%)	1.3	1.4	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	10.9	9.6	9.7	
ROE (%)	11.2	12.9	15.2	12.9	12.9	
NTA/ Share (RM)	2.6	2.9	3.3	3.6	4.0	
Price to NTA (x)	3.2	2.9	2.7	2.2	2.0	

Source: Company, PublicInvest Research estimates



Table 1: Results Summary

FYE Dec (RM m)	4Q18	4Q17	3Q18	YoY chg (%)	QoQ chg (%)	YTD FY18	YTD FY17	YoY chg (%)	Comments
Revenue	163.1	152.6	165.3	6.9	-1.3	489.6	467.7	4.7	Higher contribution from its manufacturing and marketing segment (+50.5% YoY) and its wholesale and distribution segment
Cost of Sales	-127.9	-118.7	-124.9	7.7	2.4	-369.6	-365.7	1.1	
Gross Profit	35.2	33.9	40.3	3.8	-12.8	120.0	102.0	17.7	
Other operating income/ (expenses)	-20.7	-20.5	-24.0	1.2	-13.7	-72.9	-64.7	12.6	
Operating profit/ (loss)	14.5	13.4	16.4	7.7	-11.7	47.1	37.2	26.6	
Finance income/ (costs)	-0.1	0.0	0.0	-	-	0.0	0.0	-100.0	
Other income/ (expenses)	2.4	2.9	2.3	-19.6	4.6	5.4	2.4	122.6	
Profit/ (Loss) before tax	16.7	16.4	18.6	2.2	-10.2	52.5	39.7	32.4	
Taxation	0.1	-3.6	-3.7	-101.8	-101.7	-10.7	-8.0	33.7	
Net Profit	16.8	12.8	14.9	31.3	12.5	41.9	31.7	32.1	Benefitted from the reinvestment tax allowance.
Non-controlling interests	0.0	0.0	0.0	-50.0	-102.2	-0.1	0.0	180.6	
PATAMI	16.8	12.8	14.9	31.3	12.8	41.8	31.7	32.0	
Core PATAMI	16.8	12.8	14.9	31.3	12.8	41.8	31.7	32.0	
Operating Margin (%)	8.9	8.8	9.9	0.7	-10.5	9.6	8.0	20.9	
Pre-tax Margin (%)	10.3	10.7	11.3	-4.4	-9.0	10.7	8.5	26.5	
Net Margin (%)	10.3	8.4	9.0	22.8	14.3	8.5	6.8	26.1	
Segment Revenue									
Manufacturing and Marketing	14.3	9.5	15.5	51.0	-7.8	38.7	21.0	84.1	
Wholesale and Distribution	146.4	140.8	147.3	4.0	-0.6	444.1	439.5	1.1	
Corporate	2.4	2.4	2.5	0.7	-4.3	6.7	7.2	-6.3	
Segment PBT									
Manufacturing and Marketing	7.6	9.1	12.0	-15.6	-36.4	36.3	27.7	31.1	
Wholesale and Distribution	6.9	5.0	5.5	37.7	25.0	16.4	14.1	16.2	
Corporate	3.2	2.8	1.5	13.1	106.8	1.7	-0.6	-380.4	

KEY FINANCIAL DATA

INCOME STATEMENT

FYE Dec (RM m)	2016A	2017A	2018A	2019F	2020F
Revenue	581.3	620.3	652.7	802.7	879.9
Operating Profit	46.5	50.7	65.5	63.1	70.0
Other Gains/(Losses)	-0.2	5.4	68.6	8.0	8.8
Finance Costs	0.0	0.0	0.1	0.0	0.0
Pre-tax Profit	46.3	56.0	69.3	71.1	78.8
Income Tax	-11.3	-11.6	-10.6	-16.4	-18.1
Effective Tax Rate (%)	-24.4	-20.6	-15.3	-23.0	-23.0
Minorities	0.0	0.0	-0.1	0.0	0.0
Net Profit	35.0	44.5	58.6	54.7	60.6
Growth					
Revenue (%)	10.3	6.7	5.2	17.1	9.6
Operating Profit (%)	-2.4	8.9	29.3	-0.7	10.9
Net Profit (%)	2.1	27.2	31.8	1.0	10.8

Source: Company, PublicInvest Research estimates

BALANCE SHEET

FYE Dec (RM m)	2016A	2017A	2018A	2019F	2020F
Property, Plant & Equipment	100.8	125.0	177.2	120.6	116.6
Cash and Cash Equivalents	34.2	51.9	81.2	102.2	138.2
Receivables	138.8	139.3	160.2	180.3	197.6
Other Assets	144.6	140.7	121.2	164.1	173.9
Total Assets	418.4	456.9	539.7	567.2	626.4
Payables	99.9	106.7	29.9	136.2	149.4
Borrowings	0.0	0.0	5.9	0.0	0.0
Deferred Tax	6.1	6.6	4.4	6.6	6.6
Other Liabilities	0.0	0.0	113.1	0.0	0.0
Total Liabilities	106.0	113.2	153.3	142.8	156.0
Total Equity	312.4	343.7	386.5	424.4	470.4
Total Equity and Liabilities	418.4	456.9	539.7	567.2	626.4

Source: Company, PublicInvest Research estimates

CASH FLOW

FYE Dec (RM m)	2016A	2017A	2018A	2019F	2020F
Depreciation and Amortisation	9.5	11.4	9.4	13.0	14.0
Operating Cash Flow	33.8	46.3	40.7	46.2	60.7
Capital Expenditure	-10.7	-37.1	-62.6	-10.0	-10.0
Free Cash Flow	23.1	9.3	-21.9	36.2	50.7
Investing Cash Flow	-6.2	-29.6	-65.8	-10.0	-10.0
Financing Cash Flow	-13.5	13.5	15.9	-14.1	-14.6
Net Cash Flow	14.1	3.2	-9.2	22.2	36.0

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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