



**APEX HEALTHCARE BERHAD**

**Underperform**

**DESCRIPTION**

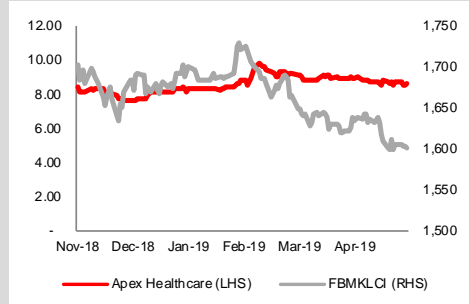
An investment holding company involved in the development, manufacturing, marketing and distribution of pharmaceuticals, diagnostics, consumer healthcare products and orthopaedic devices.

**KLCI** 1,601.87  
**12-Month Target Price** RM7.00  
**Current Price** RM8.60

**Expected Share Price Return (%)** -18.6%  
**Expected Dividend Return (%)** 1.4%  
**Expected Total Return (%)** -17.2%

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

**SHARE PRICE CHART**



**52 Week Range (RM)** 5.72 – 9.83  
**3-Month Average Vol ('000)** 29.0

**SHARE PRICE PERFORMANCE**

	1M	3M	12M
Absolute Returns	-4.2	-0.8	52.9
Relative Returns	-3.6	5.0	69.3

**KEY STOCK DATA**

Market Capitalisation (RMm)	1,012.9
No. of Shares (m)	117.8
Estimated Free Float (%)	49.4
Beta (x)	0.3

**MAJOR SHAREHOLDERS**

	%
Apex Pharmacy Holdings Sdn Bhd	40.4
Washington H Soul Pattinson	30.1
Fidelity Management & Research Co	2.2

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**Hit By Higher Cost**

Apex Healthcare (ApexH) reported a 13.5% drop in 1QFY19 net profit, its first YoY decline since 4QFY16. The Group's net profit for the quarter stood at RM11.4m, missing ours but was in line with consensus' estimates, at 19% and 21% respectively. The discrepancy was mainly due to lower operating cost assumptions. Following the commencement of operations in SPP Novo, we expect FY19-20F to remain challenging for the Group, as it will take c.2 years for SPP Novo to reach optimal operating capacity while the increase in depreciation cost would also result in margin compression. As such, we cut our FY19F and FY20F earnings forecasts by 10% and 15% respectively and downgrade our call from Neutral to **Underperform** with a lower TP of RM7.00, based on 15x FY20F EPS.

§ **Missing estimates.** ApexH's 1QFY19 revenue increased to RM178.2m (+6% YoY), on the back of higher contribution from the sale of own-brand products to the private sector, contract manufacturing for external parties and distribution of pharmaceutical products. In spite of the stronger revenue, net profit for the quarter fell 14% YoY, due to higher start-up cost on its new manufacturing facility, SPP Novo. Lower contribution from its associate company, Straits Apex, also contributed to the weaker earnings. Share of earnings from the associate company fell by 50% YoY, to RM0.8m, due to weaker sales. The decline in 1QFY19 marks the first YoY decline in net profit since 4QFY16.

§ **Rocky times ahead.** One of the main contributors for ApexH's lacklustre 1QFY19 results was due to the higher start-up cost in SPP Novo. To recap, the manufacturing facility 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 the higher depreciation and operating cost, resulting in margin compression. PBT margin for 1QFY19 declined to 8%, as compared to 10% in 1QFY18. On top of that, reinvestment allowance that ApexH benefitted from in 2017 and 2018 has been fully used up. Therefore, we expect the effective tax rate to return to its pre-reinvestment allowance level of c.25% going forward.

§ **Silver lining.** We note that the Group has obtained regulatory approval for its SPP Novo plant on 16<sup>th</sup> May. This signifies that the Group would possibly be able to start selling and distributing the products produced by the SPP Novo plant in near future. We expect to see stronger revenue in 2HFY19. Additionally, the Group also remain committed to develop a larger range of own-brand products as it fetches higher margins. However, ApexH's unwavering effort to develop more products would only benefit the Group in longer term as there would normally be a gestation period in developing and launching a new product.

**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)	38.0	50.0	45.5	46.0	50.8	0.5%
P/E (x)	22.7	17.2	18.9	18.7	16.9	
Dividend Yield (%)	1.4	1.6	1.4	1.5	1.5	
Debt to Equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	
ROA (%)	9.7	10.8	9.0	8.5	8.7	
ROE (%)	12.9	15.2	12.5	11.6	11.7	
NTA/ Share (RM)	2.9	3.3	3.6	3.9	4.3	
Price to NTA (x)	0.0	0.0	0.0	0.0	0.0	

Source: Company, PublicInvest Research estimates

**Table 1: Results Summary**

<u>FYE Dec</u> <u>(RM m)</u>	<u>1Q19</u>	<u>1Q18</u>	<u>4Q18</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>QoQ</u> <u>chg</u> <u>(%)</u>	<u>YTD</u> <u>FY19</u>	<u>YTD</u> <u>FY18</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>Comments</u>
Revenue	178.2	168.4	163.1	5.8	9.3	178.2	168.4	5.8	Due to stronger contribution from private sector sales, contract manufacturing and distribution of pharmaceutical products.
Cost of Sales	-138.7	-128.3	-127.9	8.2	8.5	-138.7	-128.3	8.2	
<b>Gross Profit</b>	<b>39.5</b>	<b>40.1</b>	<b>35.2</b>	<b>-1.6</b>	<b>12.3</b>	<b>39.5</b>	<b>40.1</b>	<b>-1.6</b>	
Other operating income/ (expenses)	1.1	-25.2	-20.7	-104.4	-105.4	1.1	-25.2	-104.4	
<b>Operating profit/ (loss)</b>	<b>14.1</b>	<b>14.9</b>	<b>14.5</b>	<b>-5.5</b>	<b>-2.8</b>	<b>14.1</b>	<b>14.9</b>	<b>-5.5</b>	
Finance income/ (costs)	-0.3	0.0	-0.1	-	251.1	-0.3	0.0	-	
Other income/ (expenses)	0.8	1.6	2.4	-51.1	-66.2	0.8	1.6	-51.1	
<b>Profit/ (Loss) before tax</b>	<b>14.5</b>	<b>16.5</b>	<b>16.7</b>	<b>-12.0</b>	<b>-13.1</b>	<b>14.5</b>	<b>16.5</b>	<b>-12.0</b>	
Taxation	-3.1	-3.3	0.1	-5.3	-4,989.1	-3.1	-3.3	-5.3	Attributed to higher startup cost for SPP Novo as well as lower contribution from Straits Apex
<b>Net Profit</b>	<b>11.4</b>	<b>13.2</b>	<b>16.8</b>	<b>-13.7</b>	<b>-32.1</b>	<b>11.4</b>	<b>13.2</b>	<b>-13.7</b>	
Non-controlling interests	0.0	0.0	0.0	-62.5	-1,600.0	0.0	0.0	-62.5	
<b>PATAMI</b>	<b>11.4</b>	<b>13.2</b>	<b>16.8</b>	<b>-13.5</b>	<b>-32.2</b>	<b>11.4</b>	<b>13.2</b>	<b>-13.5</b>	
<b>Core PATAMI</b>	<b>11.4</b>	<b>13.2</b>	<b>16.8</b>	<b>-13.5</b>	<b>-32.2</b>	<b>11.4</b>	<b>13.2</b>	<b>-13.5</b>	
Operating Margin (%)	7.9	8.8	8.9	-10.7	-11.0	7.9	8.8	-10.7	
Pre-tax Margin (%)	8.2	9.8	10.3	-16.9	-20.5	8.2	9.8	-16.9	
Net Margin (%)	6.4	7.8	10.3	-18.3	-37.9	6.4	7.8	-18.3	
<b><u>Segment Revenue</u></b>									
Manufacturing and Marketing	11.8	11.8	53.0	0.6	-77.7	11.8	11.8	0.6	
Wholesale and Distribution	164.2	154.4	590.5	6.3	-72.2	164.2	154.4	6.3	
Corporate	2.2	2.2	9.1	-1.3	-75.8	2.2	2.2	-1.3	
<b><u>Segment PBT</u></b>									
Manufacturing and Marketing	9.2	12.6	7.6	-27.2	20.2	9.2	12.6	-27.2	
Wholesale and Distribution	7.3	5.5	6.9	34.1	6.7	7.3	5.5	34.1	
Corporate	-1.2	-1.1	3.2	8.3	-138.5	-1.2	-1.1	8.3	

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
<b>Net Profit</b>	<b>44.5</b>	<b>58.6</b>	<b>53.2</b>	<b>53.9</b>	<b>59.5</b>
<b>Growth</b>					
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	73.3	102.9	138.6
Receivables	139.3	160.4	183.4	197.4	214.8
Other Assets	140.7	146.3	166.2	173.1	182.3
<b>Total Assets</b>	<b>456.9</b>	<b>540.0</b>	<b>591.2</b>	<b>631.2</b>	<b>684.6</b>
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
<b>Total Liabilities</b>	<b>113.2</b>	<b>153.5</b>	<b>165.5</b>	<b>166.3</b>	<b>174.8</b>
Total Equity	343.7	386.5	425.6	464.9	509.8
<b>Total Equity and Liabilities</b>	<b>456.9</b>	<b>540.0</b>	<b>591.2</b>	<b>631.2</b>	<b>684.6</b>

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
<b>Operating Cash Flow</b>	<b>46.3</b>	<b>40.5</b>	<b>47.2</b>	<b>64.6</b>	<b>64.9</b>
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
<b>Investing Cash Flow</b>	<b>-29.6</b>	<b>-65.8</b>	<b>-10.0</b>	<b>-10.0</b>	<b>-10.0</b>
<b>Financing Cash Flow</b>	<b>13.5</b>	<b>15.9</b>	<b>-19.9</b>	<b>-25.0</b>	<b>-19.2</b>
<b>Net Cash Flow</b>	<b>3.2</b>	<b>-9.5</b>	<b>17.3</b>	<b>29.6</b>	<b>35.7</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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