



APEX HEALTHCARE BERHAD

Neutral

DESCRIPTION

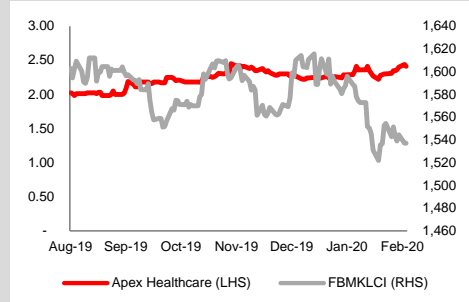
An investment holding company involved in the development, manufacturing, marketing and distribution of pharmaceuticals, diagnostics, consumer healthcare products and orthopaedic devices.

KLCI	1,534.16
12-Month Target Price	RM2.20
Current Price	RM2.41

Expected Share Price Return (%)	-8.7%
Expected Dividend Return (%)	1.3%
Expected Total Return (%)	-7.4%

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

SHARE PRICE CHART



52 Week Range (RM)	1.97 – 2.50
3-Month Average Vol ('000)	74.8

SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	5.2	0.0	15.5
Relative Returns	9.5	4.2	26.2

KEY STOCK DATA

Market Capitalisation (RMm)	1,138.1
No. of Shares (m)	472.2
Estimated Free Float (%)	19.5
Beta (x)	0.3

MAJOR SHAREHOLDERS

	%
Apex Pharmacy Holdings Sdn Bhd	40.3
Washington H Soul Pattinson	30.0
Fidelity Management & Research Co	1.6

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Positive Outlook

Apex Healthcare's (ApexH) FY19 net profit of RM52.8m (-10% YoY) were within both our and consensus' estimates at 98% and 96% respectively. While ApexH's reported earnings were down on a YoY basis, we find solace that the outlook for ApexH has turned more favourable as overall impact of SPP Novo's higher gestation cost on the Group was lesser than the earlier estimate of RM12m per annum. As such, we raise our earnings forecast for FY20-21F by 13-15% to account for a possible earlier turnaround of SPP Novo. We upgrade our call for ApexH to **Neutral**, with a higher TP of RM2.20, based on 17x FY20F EPS (at +1 SD of its 5-year historical mean). Nevertheless, we believe the positive earnings outlook has already been priced in. ApexH also announced a final dividend of 2sen per share.

§ **Slight headwinds...** ApexH recorded revenue growth of 4.6% YoY to RM170.6m, on the back of better performance from both its wholesale and distribution segment (+3% YoY) and its manufacturing and marketing segment (+29% YoY). Despite the stronger revenue, net profit reported a 17% YoY decline to RM14.0m, given the lower profit contribution from its 40%-owned associate company, Straits Apex, of RM1.3m (-45.8% YoY) and higher tax expense of RM4.5m (as opposed to tax credit of RM64k in 4QFY18). Contribution from Straits Apex can be lumpy as revenue recognition can be impacted by client's request to delay the shipment of orders. Note that fulfilment for part of the confirmed orders has been pushed back to FY20F upon customers' instructions, hence resulting in the weaker share of profit from Straits Apex.

§ **...but nothing ApexH cannot handle.** To recap, SPP Novo commenced its operations in late December 2018 and targets to breakeven by the end of FY20F and start-up expense associated with SPP Novo was estimated to be RM12m per annum. While ApexH clearly took the hit from higher initial cost in FY19, the earnings reported was only down by c.RM5.8m on a YoY basis, lower than the RM12m estimated initially, as it was mitigated by the improvements in other income. Going into FY20F, we expect the start-up losses to remain below the initial estimate of RM12m as we believe the continuous ramp-up of SPP Novo can help mitigate the negative impact of higher cost. We also believe that ApexH is in the position to possibly clinch more government tenders, considering that SPP Novo is designed to cater for high volume products. Despite the lower margin for government contracts, we are expecting the large volume to help turnaround the new plant earlier than its initial target.

KEY FORECAST TABLE

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F	3-year CAGR
Revenue	652.7	688.8	802.9	873.8	946.3	5.6%
Pre-tax Profit	69.3	66.3	80.4	88.2	95.4	5.9%
Net Profit	58.6	52.8	61.8	67.8	73.3	5.9%
EPS (Sen)	12.4	11.2	13.1	14.4	15.5	5.9%
P/E (x)	19.4	21.5	18.4	16.8	15.5	
Dividend Yield (%)	1.4	1.5	1.3	1.3	1.3	
Debt to Equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	
ROA (%)	10.8	9.0	9.7	9.7	9.5	
ROE (%)	15.2	12.4	13.1	12.9	12.5	
NTA/ Share (RM)	0.8	0.9	1.0	1.1	1.2	
Price to NTA (x)	3.0	2.7	2.4	2.2	1.9	

Source: Company, PublicInvest Research estimates

**Table 1: Results Summary**

<u>FYE Dec (RM m)</u>	<u>4Q19</u>	<u>4Q18</u>	<u>3Q19</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	170.6	163.1	180.7	4.6	-5.5	688.8	652.7	5.5	Lifted by better performance from both its manufacturing and marketing segment (+29% YoY) and wholesale and distribution segment (+3% YoY)
Cost of Sales	-131.9	-127.9	-140.7	3.1	-6.3	-534.1	-497.5	7.4	
Gross Profit	38.8	35.2	39.9	10.2	-2.9	154.7	155.2	-0.3	
Other operating income/ (expenses)	1.1	0.4	1.1	157.8	0.6	5.0	3.1	63.2	
Operating profit/ (loss)	17.8	14.5	15.6	22.7	14.1	60.6	61.6	-1.6	
Finance income/ (costs)	-0.6	-0.1	-0.3	NM	62.7	-1.6	-0.1	NM	ApexH took on extra borrowings to fund for SPP Novo's expansion.
Other income/ (expenses)	1.3	2.4	1.9	-46.0	-33.0	7.3	7.8	-6.0	
Profit/ (Loss) before tax	18.5	16.7	17.1	10.4	7.9	66.3	69.3	-4.2	
Taxation	-4.5	0.1	-3.0	NM	-49.2	-13.6	-10.6	-27.9	
Net Profit	14.0	16.8	14.1	-16.6	-0.8	52.8	58.7	-10.0	
Non-controlling interests	0.0	0.0	0.0	NM	NM	0.0	-0.1	-74.4	
PATAMI	14.0	16.8	14.1	-16.7	-0.8	52.8	58.6	-10.0	
Core PATAMI	14.0	16.8	14.1	-16.7	-0.8	52.8	58.6	-10.0	
Operating Margin (%)	10.4%	8.9%	8.6%			8.8%	9.4%		
Pre-tax Margin (%)	10.8%	10.3%	9.5%			9.6%	10.6%		
Net Margin (%)	8.2%	10.3%	7.8%			7.7%	9.0%		
Segment Revenue									
Manufacturing and Marketing	18.4	14.3	15.4	28.6	19.4	57.3	53.0	8.0	
Wholesale and Distribution	150.3	146.4	163.3	2.7	-7.9	623.4	590.5	5.6	
Corporate	1.9	2.4	2.0	-19.3	-3.4	8.1	9.1	-10.6	
Segment PBT									
Manufacturing and Marketing	11.7	7.6	10.4	53.6	12.5	39.2	43.9	-10.8	
Wholesale and Distribution	6.7	6.9	5.9	-2.4	14.5	26.6	23.3	14.4	
Corporate	1.6	3.2	1.3	-49.1	26.6	4.2	4.9	-13.5	

Source: Company

KEY FINANCIAL DATA
INCOME STATEMENT

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Revenue	652.7	688.8	802.9	873.8	946.3
Operating Profit	61.6	60.6	72.3	77.9	84.0
Other Gains/(Losses)	7.8	7.3	9.2	10.9	11.8
Finance Costs	-0.1	-1.6	-1.1	-0.6	-0.4
Pre-tax Profit	69.3	66.3	80.4	88.2	95.4
Income Tax	-10.6	-13.6	-18.5	-20.3	-21.9
Effective Tax Rate (%)	15.3	20.4	23.0	23.0	23.0
Minorities	-0.1	0.0	-0.1	-0.1	-0.1
Net Profit	58.6	52.8	61.8	67.8	73.3
Growth					
Revenue (%)	5.2	0.1	7.6	8.8	8.3
Operating Profit (%)	21.5	0.0	10.6	7.8	7.8
Net Profit (%)	31.8	-0.1	16.1	9.7	8.2

Source: Company, PublicInvest Research estimates

BALANCE SHEET

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Property, Plant & Equipment	177.2	170.2	165.6	156.9	146.7
Cash and Cash Equivalents	56.0	120.4	102.2	146.4	194.6
Receivables	160.4	159.4	197.4	214.8	232.6
Other Assets	146.3	133.3	173.1	182.3	194.3
Total Assets	540.0	583.2	638.2	700.3	768.1
Payables	117.7	120.1	145.4	158.4	171.6
Borrowings	29.9	24.1	13.6	9.1	4.5
Deferred Tax	6.0	5.9	6.0	6.0	6.0
Other Liabilities	0.0	7.5	0.0	0.0	0.0
Total Liabilities	153.5	157.6	165.0	173.5	182.1
Total Equity	386.5	425.5	473.2	526.8	586.0
Total Equity and Liabilities	540.0	583.2	638.2	700.3	768.1

Source: Company, PublicInvest Research estimates

CASH FLOW

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Depreciation and Amortisation	9.4	15.0	16.4	18.7	20.2
Operating Cash Flow	40.5	68.1	67.2	72.9	76.9
Capital Expenditure	-62.6	-39.7	-10.0	-10.0	-10.0
Free Cash Flow	-22.1	28.4	57.2	62.9	66.9
Investing Cash Flow	-65.8	-23.0	-10.0	-10.0	-10.0
Financing Cash Flow	15.9	-16.1	-24.6	-18.7	-18.7
Net Cash Flow	-9.5	0.3	32.7	44.2	48.2

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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