



### APEX HEALTHCARE BERHAD

### Neutral

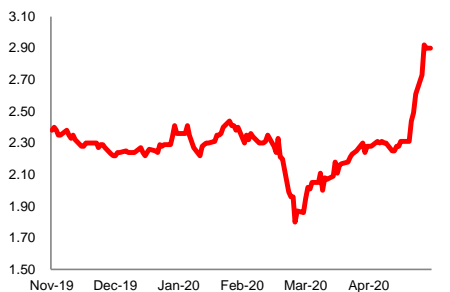
#### DESCRIPTION

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

12-Month Target Price	RM2.45
Current Price	RM2.90
Expected Return	-15.5%

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

#### SHARE PRICE CHART



52 Week Range (RM)	1.77 – 2.97
3-Month Average Vol ('000)	161.1

#### SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	29.5	20.8	38.3
Relative Returns	21.0	27.4	50.2

#### KEY STOCK DATA

Market Capitalisation (RMm)	1,369.9
No. of Shares (m)	472.4

#### 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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## Overall Still Healthy

Apex Healthcare's (ApexH) posted a net profit of RM14.4m (+26.1% YoY) for 1QFY20, which was in line with both our and consensus forecasts at 23% and 21% respectively. The stronger bottomline was achieved despite start-up costs incurred by SPP Novo, its oral solid dosage plant. While the Covid-19 outbreak has led to stronger demand for pharmaceuticals and healthcare products in 1QFY20, however a dragged out pandemic impact, in our view, might still impact pharmaceutical companies like ApexH as it alters the business environment and disrupts supply chains. We roll over our valuation to FY21F EPS and our TP is subsequently revised to RM2.45. We maintain our **Neutral** call on ApexH.

§ **Continues to grow.** ApexH delivered a revenue of RM193.3m (+8.5% YoY) in 1QFY20, predominantly due to the stronger contribution from its wholesale and distribution segment, which increased by 9% YoY. Its manufacturing and marketing division, however, posted weaker revenue growth of 2% YoY. Profit contribution from its 40%-owned associate company, Straits Apex, also grew by 37% YoY to RM1.1m. The strong growth in Straits Apex's 1QFY20 contribution was also partly due to a more favorable USD/MYR exchange rate, as more than 90% of its sales are denominated in USD. Apart from that, we can also attribute the strong YoY growth to low base effect, as Straits Apex recorded lower sales in 1QFY19. In tandem with both its topline growth and better contribution from Straits Apex, ApexH reported a net profit of RM14.4m, up by 26% YoY, despite the fact that SPP Novo is still in its gestation period and continues to incur start-up expense.

§ **Business as usual even during MCO.** Even with the recent MCO implemented in Malaysia, ApexH and Straits Apex's operations were not impacted as the both of them were given the greenlight by MITI to operate, considering that they were deemed as essential service providers. ApexH's subsidiaries were also allowed to operate during the Circuit Breaker, albeit with lesser manpower, as its subsidiaries were also classified as essential service.

§ **Earning accolades.** On a brighter note, ApexH's manufacturing arm, Xepa Soul Pattinson (M) SB has obtained its second European Union Good Manufacturing Practice (EU GMP) certification, specially for its oral solid dosage plant, SPP Novo. Xepa has also obtained GMP clearance from the Australian Therapeutic Authority as well as Good Distribution Practice for Medical Devices granted by the Medical Device Authority of Malaysia.

#### 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	52.7	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)	23.4	25.9	22.2	20.2	18.7	
DPS (Sen)	3.3	1.7	3.1	3.1	3.3	
Dividend Yield (%)	1.2	0.6	1.1	1.1	1.1	

Source: Company, PublicInvest Research estimates

**Table 1: Results Summary**

<u>FYE Dec (RM m)</u>	<u>1Q20</u>	<u>1Q19</u>	<u>4Q19</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>YTD FY20</u>	<u>YTD FY19</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	193.3	178.2	170.6	8.5	13.3	193.3	178.2	8.5	Mainly due to the growth in its wholesale and distribution segment (+9% YoY)
Cost of Sales	-149.6	-138.7	-131.9	7.8	13.4	-149.6	-138.7	7.8	
<b>Gross Profit</b>	<b>43.7</b>	<b>39.5</b>	<b>38.8</b>	<b>10.7</b>	<b>12.8</b>	<b>43.7</b>	<b>39.5</b>	<b>10.7</b>	
Other operating income/ (expenses)	1.3	1.1	1.1	12.2	15.5	1.3	1.1	12.2	
<b>Operating profit/ (loss)</b>	<b>17.2</b>	<b>14.1</b>	<b>17.8</b>	<b>22.1</b>	<b>-3.3</b>	<b>17.2</b>	<b>14.1</b>	<b>22.1</b>	
Finance income/ (costs)	-0.3	-0.3	-0.6	0.3	-41.1	-0.3	-0.3	0.3	
Other income/ (expenses)	1.1	0.8	1.3	36.8	-14.3	1.1	0.8	36.8	Stronger contribution YoY from Straits Apex was boosted by a more favorable USD/MYR exchange rate
<b>Profit/ (Loss) before tax</b>	<b>17.9</b>	<b>14.5</b>	<b>18.5</b>	<b>23.4</b>	<b>-2.9</b>	<b>17.9</b>	<b>14.5</b>	<b>23.4</b>	
Taxation	-3.6	-3.1	-4.5	14.5	-20.0	-3.6	-3.1	14.5	
<b>Net Profit</b>	<b>14.4</b>	<b>11.4</b>	<b>14.0</b>	<b>25.8</b>	<b>2.5</b>	<b>14.4</b>	<b>11.4</b>	<b>25.8</b>	
Non-controlling interests	0.0	0.0	0.0	NM	NM	0.0	0.0	NM	
<b>PATAMI</b>	<b>14.4</b>	<b>11.4</b>	<b>14.0</b>	<b>26.1</b>	<b>2.6</b>	<b>14.4</b>	<b>11.4</b>	<b>26.1</b>	
<b>Core PATAMI</b>	<b>14.4</b>	<b>11.4</b>	<b>14.0</b>	<b>26.1</b>	<b>2.6</b>	<b>14.4</b>	<b>11.4</b>	<b>26.1</b>	
Operating Margin (%)	8.9%	7.9%	10.4%			8.9%	7.9%		
Pre-tax Margin (%)	9.3%	8.2%	10.8%			9.3%	8.2%		
Net Margin (%)	7.4%	6.4%	8.2%			7.4%	6.4%		
<b><u>Segment Revenue</u></b>									
Manufacturing and Marketing	12.1	11.8	18.4	2.4	-34.1	12.1	11.8	2.4	
Wholesale and Distribution	179.6	164.2	150.3	9.4	19.5	179.6	164.2	9.4	
Corporate	1.5	2.2	1.9	-29.6	-19.6	1.5	2.2	-29.6	
<b><u>Segment PBT</u></b>									
Manufacturing and Marketing	11.3	9.2	11.7	22.8	-3.9	11.3	9.2	22.8	
Wholesale and Distribution	9.2	7.3	6.7	25.0	36.7	9.2	7.3	25.0	
Corporate	-1.8	-1.2	1.6	45.2	NM	-1.8	-1.2	45.2	

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	-0.2	-0.1	-0.1	-0.1
<b>Net Profit</b>	<b>58.6</b>	<b>52.7</b>	<b>61.8</b>	<b>67.8</b>	<b>73.3</b>
<b>Growth</b>					
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
<b>Total Assets</b>	<b>540.0</b>	<b>583.2</b>	<b>638.2</b>	<b>700.3</b>	<b>768.1</b>
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
<b>Total Liabilities</b>	<b>153.5</b>	<b>157.6</b>	<b>165.0</b>	<b>173.5</b>	<b>182.1</b>
Total Equity	386.5	425.5	473.2	526.8	586.0
<b>Total Equity and Liabilities</b>	<b>540.0</b>	<b>583.2</b>	<b>638.2</b>	<b>700.3</b>	<b>768.1</b>

Source: Company, PublicInvest Research estimates

### PER SHARE DATA & RATIOS

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Book Value Per Share	0.8	0.9	1.0	1.1	1.2
EPS (Sen)	12.4	11.2	13.1	14.4	15.5
DPS (Sen)	3.3	1.7	3.1	3.1	3.3
Payout Ratio	27.0%	15.2%	2387.5%	2177.3%	2093.3%
ROA	10.8%	2.5%	9.7%	9.7%	9.5%
ROE	15.2%	3.4%	13.1%	12.9%	12.5%

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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