Ending the year on a healthy note

Apex Healthcare's 2019 core net profit was within expectations. The group's 4Q19 revenue grew 5% yoy, but core net profit declined 17% yoy mainly due to the absence of reinvestment allowance. Sequentially, revenue and earnings was softer due to high base in 3Q19 on the back of higher masks sales, seasonality factor, and higher effective tax rate. We cut our earnings forecast by 5% to factor in a more cautious macro environment but reiterate BUY on Apex with a higher TP of RM2.82 as we roll forward our valuation base to 2021E. We expect 2020 to be a recovery year for Apex as it continues to ramp-up the production of SPP NOVO. Apex declared a final DPS of 2.0sen, bringing full-year DPS to 3.7sen or a payout of 33% (2018: payout of 27%).

Lower core net profit due to absence of reinvestment allowance

4Q19 revenue grew 5% yoy to RM171m, mainly driven by stronger contribution from i) contract manufacturing, and ii) pharmaceutical sales to both private and public sectors. Notably, its manufacturing segment's revenue grew 29% yoy to RM18m and achieved its best ever quarter on the back of the ramp-up in production of SPP NOVO. The group's 4Q19 core net profit however declined 17% yoy mainly due to the absence of reinvestment allowance which previously had lifted its earnings in 4Q18.

Softer sequential performance due to high base in 3Q19

Revenue and earnings were softer qoq in 4Q19 due to a combination of a high base in 3Q19 on the back of stronger demand for face masks. On a positive note, 4Q19 EBITDA margin has improved 1.3ppt qoq to 12.8%. We believe that the commercial production of SPP NOVO has helped to partially offset the fixed costs of SPP NOVO. The lower contribution from associate during the quarter was attributed to the postponement of fulfilment dates for a portion of secured orders to 2020 by customers and higher operating costs due to the commencement of the associate's third new manufacturing facility in Penang.

Maintain BUY with a higher TP of RM2.82

We trim our 2020-21E earnings by 5% to factor in a more cautious macro environment due to negative impact from Covid-19. We maintain our BUY call on Apex with a higher TP of RM2.82 (from RM2.67) on an unchanged target multiple of 17x as we roll forward our valuation base to 2021E earnings which we believe will be less affected by Covid-19. We continue to like Apex for its solid growth prospects led by its strong execution, stable earnings and added growth from the turnaround of SPP NOVO. Key risks: higher-than-expected start-up costs, product recall risk.

Earnings & Valuation Summary

FYE 31 Dec	2018	2019	2020E	2021E	2022E
Revenue	652.7	688.8	795.3	850.8	931.9
EBITDA	71.0	76.1	97.2	107.4	122.6
Pretax profit	69.3	66.3	92.4	102.8	118.4
Net profit	58.6	52.8	70.2	78.0	89.9
EPS(sen)	12.5	11.2	14.9	16.6	19.1
PER	19.3	21.5	16.2	14.5	12.6
Core net profit	60.2	55.4	70.2	78.0	89.9
Core EPS(sen)	12.8	11.8	14.9	16.6	19.1
Core EPS growth (%)	33.9	(8.0)	26.6	11.2	15.2
Core PER	18.8	20.5	16.2	14.5	12.6
Net DPS(sen)	3.4	3.7	4.8	5.3	6.1
Dividend Yield (%)	1.4	1.5	2.0	2.2	2.5
EV/EBITDA (x)	15.2	13.6	10.5	9.2	7.8
Debt to equity (x)	0.1	0.1	0.0	0.0	0.0
BPS (RM)	0.8	0.9	1.0	1.1	1.2
PBR (x)	2.9	2.7	2.4	2.2	1.9
Chg in EPS (%)			(5.1)	(4.9)	new
Affin/Consensus (x)			1.1	1.1	new

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

Apex Healthcare

APEX MK
Listing Market: Main
Sector: Healthcare & Pharmaceuticals

RM2.41 @ 19 February 2020

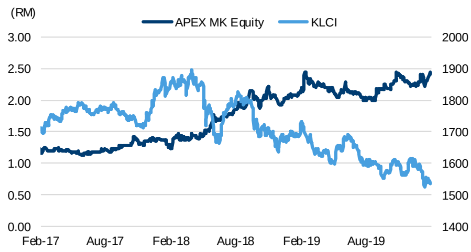
KLCI: 1,534.2

BUY (maintain)

Upside: 17%

Price Target: RM2.82

Previous Target: RM2.67



Price Performance

	1M	3M	12M
Absolute	5.2%	-0.4%	13.4%
Rel to KLCI	9.5%	4.2%	26.2%

Stock Data

Issued shares (m)	472.2
Mkt cap (RMm)/(US$m)	1138.1/273.6
Avg daily vol - 3mth (m)	0.1
52-wk range (RM)	1.97-2.5
Est free float	19.5%
BV per share (RM)	0.87
P/BV (x)	2.77
Net cash/(debt) (RMm)	96.25
ROE (%) (2020E)	15%
Beta	0.35
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Apex Pharmacy Holdings	40.3%
Washington H Soul Pattison	30.0%
Liew Yoon Yee	1.6%

Source: Company, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	4Q18	3Q19	4Q19	QoQ %chg	YoY %chg	2018	2019	YoY %chg	Comment
Revenue	163.1	180.7	170.6	-5.5%	4.6%	652.7	688.8	5.5%	Led by stronger contribution from: i) contract manufacturing, and ii) pharmaceutical sales to both private and public sectors.
Op costs	145.4	159.9	148.8	-6.9%	2.4%	581.7	612.7	5.3%	
EBITDA	17.7	20.8	21.8	5.2%	23.4%	71.0	76.1	7.2%	
EBITDA margin (%)	*10.9*	*11.5*	*12.8*	1.3ppt	1.9ppt	*10.9*	*11.0*	0.2ppt	
Depn and amort	2.7	3.8	3.9	1.5%	44.3%	9.4	15.0	59.1%	
EBIT	15.0	16.9	17.9	6.0%	19.6%	61.6	61.1	-0.7%	
EBIT margin (%)	*9.2*	*9.4*	*10.5*	1.1ppt	1.3ppt	*9.4*	*8.9*	-0.6ppt	
Int expense	-0.1	-0.3	-0.6	62.7%	>100.0%	-0.1	-1.6	>100.0%	
Int and other inc	0.4	0.5	0.5	8.0%	43.7%	1.7	2.1	29.9%	
Associates	2.4	1.9	1.3	-33.0%	-46.0%	7.8	7.3	-6.0%	
EI	(0.9)	(1.9)	(0.7)	-61.2%	-19.9%	-1.6	-2.7	63.4%	Adjusted for forex gains/losses, inventories written-off
Pretax profit	**16.7**	**17.1**	**18.5**	**7.9%**	**10.4%**	**69.3**	**66.3**	**-4.2%**	
Tax	0.1	-3.0	-4.5	49.2%	->100.0%	-10.6	-13.6	27.9%	
Tax rate (%)	-0.4	17.5	24.2	6.7ppt	24.6ppt	15.3	20.4	5.1ppt	
MI	0.0	0.0	0.0	->100.0%	->100.0%	-0.1	0.0	->100.0%	
Net profit	**16.8**	**14.1**	**14.0**	**-0.8%**	**-16.7%**	**58.6**	**52.8**	**-10.0%**	
EPS (sen)	3.6	3.0	3.0	-0.9%	-17.0%	12.5	11.2	-10.3%	
Core net profit	**17.7**	**16.0**	**14.7**	**-7.9%**	**-16.8%**	**60.2**	**55.4**	**-8.0%**	2019 core net profit within expectations, accounting for 99-101% of our and consensus estimates.

Source: Company, Affin Hwang

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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