

1HFY13 Results Review

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Apex Healthcare

NEUTRAL

Target	MYR 5.15
Previous	MYR 4.60
Price	MYR 4.95

Major Shareholders (%)

Apex Pharmacy Holdings	40.5%
Washington H Soul Pattinson	30.3%

Stock's Information

Market cap (RMm)	463.9
Shares Capital (m)	93.7
OSK 188 Ticker	AHEALTH
Industry	Consumer

Company Description

Apex Healthcare is a pharmaceutical company that manufactures off-patent drugs and distributes third-party drugs.

Short-term Setback For Long-term Gain

Apex Healthcare's (AHB) 1HFY13 results fell slightly below expectations, with PBT of MYR21.5m and revenue of MYR210.6m respectively accounting for c.44% and 46% of our FY13 estimate. The company was affected by a lower contribution from its manufacturing & marketing unit (-6% y-o-y), which saw less Government-related orders and softer local demand. We retain our FY13 forecast but lift our FY14F numbers in the view of its stronger earnings visibility. Our FV is lifted to MYR5.15, pegged to an unchanged target 12x P/E. AHB's share price was stable during the recent market sell-off as the pharmaceutical industry, which enjoys relatively inelastic demand, offers low beta play. Its financial position remains strong with total net cash of MY58m (net cash per share of 61.7 sen) as of end-June. **Maintain NEUTRAL.**

Results a slight miss. AHB's 1HFY13 results slightly missed our expectations, with MYR21.5m in PBT (-9% y-o-y) accounting for c.44% of our full-year target and revenue of MYR210.6m (+3 % y-o-y) making up 46% of our full-year projection. Its y-o-y earnings of MYR15.9m were higher by 9%, due to a non-recurring capital gains tax charge of MYR2.5m in FY12 upon the completion of the disposal of its China investment. Excluding the one-off item, net profit growth would have normalised to -8% y-o-y. The company's 1HFY13 was affected by a 6% y-o-y lower contribution to total revenue from its manufacturing & marketing segment (MYR45.9m), primarily due to lower government-related sales and softer local demand. Meanwhile, its wholesale & distribution segment registered a 5% y-o-y growth in revenue, boosted by strong sales of its own-brand products in the pharmaceutical and consumer divisions. Note that its *Agnesia* products performed particularly well in both the domestic and export markets, recording a 56% growth y-o-y. However, AHB reported lower q-o-q results for 2QFY13, with earnings of MYR6.8m falling 25% q-o-q while revenue of MYR104.2 dropped 2% q-o-q, mainly from a lower sales contribution from *Xepa* and pre-operating losses from its orthopaedic venture.

Update on orthopaedic venture. Its 40%-owned JV company, Abio Orthopaedics SB (AOSB), has rented a 80,000 sq ft factory in Prai Industrial Estate and renovations are in progress. AHB's orthopaedic venture in Penang is facing a mild delay during the construction period. While the company initially projected the plant's construction as well as equipment and machinery installation to be completed in 2QFY13 and production to kick-start by 3QFY13, the timeline for it to be commercially operational has been deferred to 4QFY13. We should see the full-year impact of the orthopaedic venture reflected in its books from FY14 onwards. On a positive note, the Malaysian Investment Development Authority (MIDA) has approved a budget of MYR220.5m for 36 projects under the Domestic Investment Strategic Fund (DISF) back in July. AOSB is one of the companies entitled to receive a DISF grant.

Maintain NEUTRAL, FV revised to MYR5.15. We leave our FY13 forecast unchanged but lift our FY14 estimate in view of its stronger earnings visibility from FY14 onward. Our FV is now at MYR5.15, pegged to an unchanged target P/E of 12x. AHB's share price was stable during the recent market sell-off as the pharmaceutical industry offers a low beta play and has relatively inelastic demand. The industry outlook continues to be positive, supported by: i) efforts to reduce healthcare costs with the increasing use of generic drugs, ii) an ageing population and rising demand for quality medicines and consumer healthcare products, along with iii) higher standards of living. AHB proposed a single-tier interim dividend of four sen per share to reward its shareholders. The company's financial position remains strong with total net cash of MYR58m (or net cash per share of 61.7sen) as at end-June.

FYE Dec (MYRm)	FY10	FY11	FY12	FY13F	FY14F
Revenue	313.7	366.0	398.6	460.1	516.6
Net Profit	32.9	28.1	29.0	35.9	40.9
% chg y-o-y	48.8	-14.8	3.3	23.8	13.9
Consensus	-	-	-	n.a	n.a
EPS (sen)	35.2	30.0	31.0	38.3	43.7
Gross DPS (sen)	16.0	17.2	18.3	20.0	20.0
Gross dividend yield (%)	3.2	3.5	3.7	4.0	4.0
ROE (%)	18.0	14.1	13.4	15.3	16.0
ROA (%)	12.4	9.7	10.0	10.5	10.9
P/E (x)	14.1	16.5	16.0	12.9	11.3
BV/share (MYR)	1.95	2.12	2.31	2.50	2.73
P/BV (x)	2.5	2.3	2.1	2.0	1.8

Result Table (MYRm)

FYE Dec (MYRm)	2Q13	1Q13	q-o-q chg (%)	YTD FY13	YTD FY12	y-o-y chg (%)
Revenue	104.2	106.4	-2.0	210.6	204.8	2.8
EBIT	9.6	12.3	-22.4	21.9	23.7	-7.8
Interest expense	0.0	0.0	-30.0	0.0	-0.1	-76.4
Associates	-0.3	-0.1	n.m.	-0.4	0.0	n.m.
PBT	9.3	12.2	-24.0	21.5	23.7	-9.3
Tax	-2.4	-3.1	-20.3	-5.5	-8.9	-38.5
MI	0.0	0.0	-4.8	0.0	0.0	41.4
Net Profit	6.8	9.1	-25.2	15.9	14.7	8.5
EPS (sen)	7.3	9.7	-25.2	17.0	15.7	8.4
DPS (sen)	0.0	0.0	n.m.	0.0	0.0	n.m.
EBIT margin	9.2%	11.6%	-20.8	10.4%	11.6%	-10.3
NTA/share (MYR)	2.38	2.41	-1.2	2.38	2.31	3.0

Source: Bursa Malaysia, RHB estimates

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Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

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