

9MFY13 Results Review

Chaw Sook Ting

Tel : +6(03)9207 7604

Email : chaw.sook.ting@rhbgroup.com

Apex Healthcare

NEUTRAL

Target	MYR 5.15
Previous	MYR 5.15
Price	MYR 4.79

Major Shareholders (%)

Apex Pharmacy Holdings	40.5%
Washington H Soul Pattinson	30.3%

Stock's Information

Market cap (RMm)	448.9
Shares Capital (m)	93.7
OSK 188 Ticker	AHEALTH
Industry	Consumer

Company Description

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

A Flattish 9MFY13 Performance

Apex Healthcare (AHB)'s 9MFY13 results fell below expectations, with revenue/net profit of MYR312.2m/MYR22.4m accounting for c.68%/62% of our FY13 estimates. The lower-than-expected results were due to: i) lower contribution from its manufacturing and marketing unit (-7% y-o-y), ii) a MYR0.9m start-up loss from ABio Orthopaedics (ABio), and iii) higher operating costs from its new distribution warehouse in Singapore. We have revised our FY13 forecasts but retain our FY14F numbers, as we believe that its earnings visibility will improve in FY14. This is on ABio beginning commercial production in September and the new distribution agencies in Singapore starting operations by Jan 2014. We maintain our FV at MYR5.15, pegged to an unchanged target 12x P/E. Maintain NEUTRAL.

Below expectations. AHB's 9MFY13 results missed our expectations, with revenue of MYR312.2m making up only 68% of our full-year projection, while its MYR22.4m net profit accounted for only c.62% of our FY13 target. On a yearly basis, 9MFY13 PBT dropped 7% y-o-y to MYR30m despite its revenue inching higher by 3% y-o-y to MYR312.2m. EBIT margin fell to 9.9% in 9MFY13 from 10.8% in 9MFY12. The lower results were mainly due to: i) lower contribution from manufacturing and marketing, ii) a MYR0.9m start-up loss from its 40%-owned joint venture (JV) ABio, and iii) higher operating cost from its new distribution warehouse in Singapore. On a quarterly basis, results were generally softer in 3QFY13, with its MYR8.6m PBT 7% lower q-o-q, attributed to a MYR0.5m start-up loss from ABio during the quarter under review.

Softer local sales, partially mitigated by stronger exports. The manufacturing and marketing segment, which saw a 7% y-o-y contraction in sales to MYR66.3m, was affected by slow domestic demand due to intensifying competition and lower sales to the Government. Nevertheless, the impact was partially mitigated by higher sales to key exports markets like Singapore and the Middle East. Going forward, management indicates that it will focus more on various marketing strategies to increase domestic sales. Revenue contribution from the wholesale and distribution segment grew 4% y-o-y, supported by sustainable growth from its own brand pharmaceutical and consumer healthcare products. As part of its efforts to strengthen its sales in Singapore, AHB has purchased a new distribution warehouse cum office there and the group expects to relocate its Singapore business unit to its new premises by mid-December. Meanwhile, renovations at its Penang plant and validation of all production equipment for orthopaedics production were completed in 3QFY13, with full commercial production beginning in September.

Maintain NEUTRAL, FV at MYR5.15. We are lowering our FY13 revenue and PBT forecasts by 4% and 14% respectively, after factoring in lower local sales and higher operating costs. Nevertheless, we are leaving our FY14 estimates untouched in view of AHB's stronger earnings visibility from FY14 onward. This is on ABio having started commercial production in September and the new distribution agencies in Singapore beginning operations by Jan 2014. We maintain our FV of MYR5.15, pegged its FY14F EPS of 43.7 sen to an unchanged target P/E of 12x. The group's financial position remains solid despite paying off for its new distribution facilities in Singapore. It has a total net cash of MYR32.4m) as at end-September.

FYE Dec (MYRm)	FY10	FY11	FY12	FY13F	FY14F
Revenue	313.7	366.0	398.6	441.5	516.6
Net Profit	32.9	28.1	29.0	30.9	40.9
% chg y-o-y	48.8	-14.8	3.3	6.6	32.3
Consensus	-	-	-	n.a	n.a
EPS (sen)	35.2	30.0	31.0	33.0	43.7
Net DPS (sen)	12.0	12.9	18.3	20.0	20.0
Net dividend yield (%)	2.5	2.7	3.8	4.2	4.2
ROE (%)	18.0	14.1	13.4	13.5	16.3
ROA (%)	12.4	9.7	10.0	9.3	11.0
P/E (x)	13.6	16.0	15.5	14.5	11.0
BV/share (MYR)	1.95	2.12	2.31	2.44	2.68
P/BV (x)	2.5	2.3	2.1	2.0	1.8

Results table (MYRm)

FYE Dec (MYRm)	3Q FY13	2Q FY13	q-o-q chg (%)	9M FY13	9M FY12	y-o-y chg (%)
Revenue	101.7	104.2	-2.4	312.2	302.6	3.2
EBIT	9.1	9.6	-4.7	31.0	32.5	-4.7
Interest expense	0.0	0.0	128.6	0.0	-0.1	-67.6
Associates	-0.5	-0.3	n.m.	-0.9	0.0	n.m.
PBT	8.6	9.3	-7.5	30.0	32.4	-7.3
Tax	-2.1	-2.4	-15.3	-7.6	-11.3	-32.8
MI	0.0	0.0	65.0	0.1	0.0	60.9
Net Profit	6.5	6.8	-4.9	22.4	21.1	6.1
EPS (sen)	6.9	7.3	-5.0	23.9	22.5	6.1
DPS (sen)	0.0	0.0	n.m.	4.0	4.5	-11.1
EBIT margin	9.0%	9.2%	-2.3	9.9%	10.8%	-7.7
NTA/share (MYR)	2.40	2.38	0.8	2.40	2.31	3.9

Source: Bursa Malaysia, RHB

RHB Guide to Investment Ratings

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

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

Disclosure & Disclaimer

All research is based on material compiled from data considered to be reliable at the time of writing, but RHB does not make any representation or warranty, express or implied, as to its accuracy, completeness or correctness. No part of this report is to be construed as an offer or solicitation of an offer to transact any securities or financial instruments whether referred to herein or otherwise. This report is general in nature and has been prepared for information purposes only. It is intended for circulation to the clients of RHB and its related companies. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report is for the information of addressees only and is not to be taken in substitution for the exercise of judgment by addressees, who should obtain separate legal or financial advice to independently evaluate the particular investments and strategies.

RHB, its affiliates and related companies, their respective directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this research report or any securities related thereto, and may from time to time add to, or dispose off, or may be materially interested in any such securities. Further, RHB, its affiliates and related companies do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies), as well as solicit such investment, advisory or other services from any entity mentioned in this research report.

RHB and its employees and/or agents do not accept any liability, be it directly, indirectly or consequential losses, loss of profits or damages that may arise from any reliance based on this report or further communication given in relation to this report, including where such losses, loss of profits or damages are alleged to have arisen due to the contents of such report or communication being perceived as defamatory in nature.

The term "RHB" shall denote where applicable, the relevant entity distributing the report in the particular jurisdiction mentioned specifically herein below and shall refer to RHB Research Institute Sdn Bhd, its holding company, affiliates, subsidiaries and related companies.

All Rights Reserved. This report is for the use of intended recipients only and may not be reproduced, distributed or published for any purpose without prior consent of RHB and RHB accepts no liability whatsoever for the actions of third parties in this respect.

Malaysia

This report is published and distributed in Malaysia by RHB Research Institute Sdn Bhd (233327-M), Level 11, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur, a wholly-owned subsidiary of RHB Investment Bank Berhad (RHBIB), which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

Singapore

This report is published and distributed in Singapore by DMG & Partners Research Pte Ltd (Reg. No. 200808705N), a wholly-owned subsidiary of DMG & Partners Securities Pte Ltd, a joint venture between Deutsche Asia Pacific Holdings Pte Ltd (a subsidiary of Deutsche Bank Group) and OSK Investment Bank Berhad, Malaysia which have since merged into RHB Investment Bank Berhad (the merged entity is referred to as "RHBIB", which in turn is a wholly-owned subsidiary of RHB Capital Berhad). DMG & Partners Securities Pte Ltd is a Member of the Singapore Exchange Securities Trading Limited. DMG & Partners Securities Pte Ltd may have received compensation from the company covered in this report for its corporate finance or its dealing activities; this report is therefore classified as a non-independent report.

As of 21 November 2013, DMG & Partners Securities Pte Ltd and its subsidiaries, including DMG & Partners Research Pte Ltd do not have proprietary positions in the securities covered in this report, except for:

a) -

As of 21 November 2013, none of the analysts who covered the securities in this report has an interest in such securities, except for:

a) -

Special Distribution by RHB

Where the research report is produced by an RHB entity (excluding DMG & Partners Research Pte Ltd) and distributed in Singapore, it is only distributed to "Institutional Investors", "Expert Investors" or "Accredited Investors" as defined in the Securities and Futures Act, CAP. 289 of Singapore. If you are not an "Institutional Investor", "Expert Investor" or "Accredited Investor", this research report is not intended for you and you should disregard this research report in its entirety. In respect of any matters arising from, or in connection with this research report, you are to contact our Singapore Office, DMG & Partners Securities Pte Ltd.

Hong Kong

This report is published and distributed in Hong Kong by RHB OSK Securities Hong Kong Limited (“RHBSHK”) (formerly known as OSK Securities Hong Kong Limited), a subsidiary of OSK Investment Bank Berhad, Malaysia which have since merged into RHB Investment Bank Berhad (the merged entity is referred to as “RHBIB”), which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

RHBSHK, RHBIB and/or other affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company. RHBSHK, RHBIB and/or other affiliates may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company.

Risk Disclosure Statements

The prices of securities fluctuate, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance. RHBSHK does not maintain a predetermined schedule for publication of research and will not necessarily update this report.

Indonesia

This report is published and distributed in Indonesia by PT RHB OSK Securities Indonesia (formerly known as PT OSK Nusadana Securities Indonesia), a subsidiary of OSK Investment Bank Berhad, Malaysia, which have since merged into RHB Investment Bank Berhad, which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

Thailand

This report is published and distributed in Thailand by RHB OSK Securities (Thailand) PCL (formerly known as OSK Securities (Thailand) PCL), a subsidiary of OSK Investment Bank Berhad, Malaysia, which have since merged into RHB Investment Bank Berhad, which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

Other Jurisdictions

In any other jurisdictions, this report is intended to be distributed to qualified, accredited and professional investors, in compliance with the law and regulations of the jurisdictions.

Kuala Lumpur	Hong Kong	Singapore
<p>Malaysia Research Office RHB Research Institute Sdn Bhd Level 11, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur Malaysia Tel : +(60) 3 9280 2185 Fax : +(60) 3 9284 8693</p>	<p>RHB OSK Securities Hong Kong Ltd. (formerly known as OSK Securities Hong Kong Ltd.) 12th Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118</p>	<p>DMG & Partners Securities Pte. Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211</p>
Jakarta	Shanghai	Phnom Penh
<p>PT RHB OSK Securities Indonesia (formerly known as PT OSK Nusadana Securities Indonesia) Plaza CIMB Niaga 14th Floor Jl. Jend. Sudirman Kav.25 Jakarta Selatan 12920, Indonesia Tel : +(6221) 2598 6888 Fax : +(6221) 2598 6777</p>	<p>RHB OSK (China) Investment Advisory Co. Ltd. (formerly known as OSK (China) Investment Advisory Co. Ltd.) Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611</p>	<p>RHB OSK Indochina Securities Limited (formerly known as OSK Indochina Securities Limited) No. 1-3, Street 271 Sangkat Toeuk Thla, Khan Sen Sok Phnom Penh Cambodia Tel: +(855) 23 969 161 Fax: +(855) 23 969 171</p>
Bangkok		
<p>RHB OSK Securities (Thailand) PCL (formerly known as OSK Securities (Thailand) PCL) 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 862 9999</p>		