

# Apex Healthcare (APEX MK)

Malaysia - Small &amp; Mid Caps

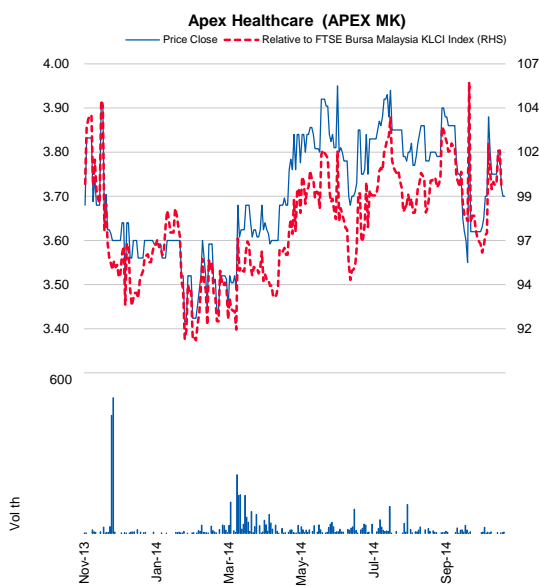
Market Cap: USD129m

**Neutral**

Target Price: MYR3.75

Price: MYR3.70

## Anchored By Stronger Exports

 Macro ◆◆  
 Risks ◆  
 Growth ◆  
 Value ◆◆


Source: Bloomberg

Avg Turnover (MYR/USD)	0.03m/0.01m
Cons. Upside (%)	1.4
Upside (%)	1.4
52-wk Price low/high (MYR)	3.42 - 3.95
Free float (%)	17
Share outstanding (m)	117
Shareholders (%)	
Apex Pharmacy Holdings	40.5
Washington H Soul Pattinson	30.3

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.8	(4.9)	(3.9)	(1.6)	0.5
Relative	6.0	(5.9)	(0.9)	2.5	(0.3)

### Shariah compliant

**Chaw Sook Ting** +603 9207 7604

[chaw.sook.ting@rhbgroup.com](mailto:chaw.sook.ting@rhbgroup.com)

Apex's 9M14 results were slightly below our expectation, as its core net profit of MYR24m (+14% YoY) accounted for about 71% of our FY14 full-year target. As such, we maintain NEUTRAL with our TP still at MYR3.75 (1.4% upside), pegged to an unchanged target 12x FY15F P/E. We also pare our FY14F revenue and net profit by 2% and 6% respectively but are maintaining our FY15F and FY16F numbers.

- ◆ **Slightly below expectation.** Apex Healthcare's (Apex) 9M14 results were slightly below expectations. Its 9M14 core net profit of MYR24m (+14% YoY) accounted for about 71% of our FY14 full-year target. Both its manufacturing & marketing and wholesale & distribution segments have performed well, contributing MYR22m (+44% YoY) and MYR348m (+19% YoY) to total sales respectively. The better results were supported by an increase in exports and higher sales in the Singapore market as well as sustained marketing efforts targeted at the local private segment.
- ◆ **Acquired 40% stake in SA.** Apex has acquired a 40% stake in Straits Apex SB (SA) for RM2.0m, which owns 87.4% of Penang-based Straits Orthopaedics (Mfg) SB (SO). Apex's JV company, ABio Orthopaedics SB (ABio) is currently a sub-contractor of SO, performing subcontracting works in the areas of trauma, instrumentation and spine. The development shows management's commitment to the orthopaedics business, which is part of its earnings growth engine for the long term.
- ◆ **Maintain NEUTRAL, TP at MYR3.75.** Overall, the outlook of the pharmaceutical industry remains intact, underpinned by: i) continuous efforts to reduce healthcare costs with the increasing use of generic drugs, ii) rising demand for quality medicines and consumer healthcare products, along with iii) higher standards of living. We have revised our FY14F revenue and net profit downward by 2% and 6% respectively but maintain our numbers for FY15 and FY16. Maintain NEUTRAL with our TP still at MYR3.75, pegged to an unchanged target 12x FY15F P/E. Its balance sheet remains robust, with total net cash of MYR43m as at end-Sep 2014.

Forecasts and Valuations	Dec-12	Dec-13	Dec-14F	Dec-15F	Dec-16F
Total turnover (MYRm)	399	418	461	507	531
Reported net profit (MYRm)	29.0	30.0	32.5	37.0	38.9
Recurring net profit (MYRm)	29.0	30.0	32.5	37.0	38.9
Recurring net profit growth (%)	2.4	3.5	8.1	14.0	5.1
Recurring EPS (MYR)	0.31	0.32	0.35	0.35	0.33
DPS (MYR)	0.13	0.10	0.12	0.12	0.12
Recurring P/E (x)	12.0	11.6	10.7	10.5	11.1
P/B (x)	1.60	1.48	1.35	1.55	1.43
P/CF (x)	11.2	12.7	9.1	10.3	9.8
Dividend Yield (%)	3.4	2.7	3.2	3.2	3.2
EV/EBITDA (x)	6.29	6.39	5.66	5.64	5.60
Return on average equity (%)	14.0	13.3	13.2	13.8	13.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			0.0	0.0	0.0

Source: Company data, RHB

Figure 1: Apex's results review

FYE Dec (MYRm)	3Q13	2Q14	3Q14	QoQ (%)	YoY (%)	YTD FY14	YTD FY13	YoY (%)	Comments
<b>Revenue</b>	<b>102</b>	<b>122</b>	<b>123</b>	<b>0%</b>	<b>20%</b>	<b>376</b>	<b>312</b>	<b>20%</b>	Supported by higher exports and increased sales in Singapore
<b>EBITDA</b>	<b>11</b>	<b>12</b>	<b>12</b>	<b>2%</b>	<b>12%</b>	<b>39</b>	<b>37</b>	<b>7%</b>	
<i>EBITDA Margin (%)</i>	11%	10%	10%	1%	-7%	10%	12%	-11%	
Depreciation	-2	-2	-2	-3%	14%	-7	-6	18%	
<b>EBIT</b>	<b>9</b>	<b>10</b>	<b>10</b>	<b>2%</b>	<b>12%</b>	<b>33</b>	<b>31</b>	<b>5%</b>	
<i>EBIT Margin (%)</i>	9%	8%	8%	2%	-7%	9%	10%	-13%	
Interest expense	0	0	0	NA	-94%	0	0	-88%	
Interest income	0	0	0	NA	NA	0	0	NA	
Associates	-1	0	0	NA	-116%	0	-1	-136%	
EI/Others	0	0	0	NA	NA	0	0	NA	
<b>Pretax profit</b>	<b>9</b>	<b>10</b>	<b>10</b>	<b>2%</b>	<b>20%</b>	<b>33</b>	<b>30</b>	<b>10%</b>	
<i>Pretax Margin (%)</i>	8%	8%	8%	2%	-1%	9%	10%	-9%	
Tax	-2	-2	-3	15%	39%	-9	-8	13%	
<i>Effective tax rate (%)</i>	24%	25%	28%	12%	16%	26%	25%	3%	
Minority Interest	0	0	0	-13%	-15%	0	0	22%	
<b>Net Profit</b>	<b>6</b>	<b>8</b>	<b>7</b>	<b>-2%</b>	<b>14%</b>	<b>24</b>	<b>22</b>	<b>9%</b>	
<b>Core Profit</b>	<b>6</b>	<b>8</b>	<b>7</b>	<b>-2%</b>	<b>14%</b>	<b>24</b>	<b>22</b>	<b>9%</b>	
<i>Core net margin (%)</i>	6%	6%	6%	-2%	-5%	6%	7%	-10%	

Source: Company data, RHB

## Financial Exhibits

<b>Profit &amp; Loss (MYRm)</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14F</b>	<b>Dec-15F</b>	<b>Dec-16F</b>
Total turnover	399	418	461	507	531
Cost of sales	(297)	(313)	(347)	(380)	(398)
<b>Gross profit</b>	<b>101</b>	<b>106</b>	<b>114</b>	<b>126</b>	<b>132</b>
Gen & admin expenses	(16)	(18)	(19)	(21)	(22)
Selling expenses	(45)	(48)	(55)	(60)	(63)
Other operating costs	3	2	3	3	3
<b>Operating profit</b>	<b>42</b>	<b>41</b>	<b>42</b>	<b>48</b>	<b>50</b>
Operating EBITDA	50	49	51	57	59
Depreciation of fixed assets	(7)	(8)	(9)	(9)	(9)
Amortisation of intangible assets	(0)	(0)	-	-	-
<b>Operating EBIT</b>	<b>42</b>	<b>41</b>	<b>42</b>	<b>48</b>	<b>50</b>
Net income from investments	-	(1)	1	2	2
Interest expense	(0)	(0)	-	-	-
<b>Pre-tax profit</b>	<b>42</b>	<b>41</b>	<b>43</b>	<b>49</b>	<b>52</b>
Taxation	(13)	(10)	(11)	(12)	(13)
Minority interests	(0)	(0)	(0)	(0)	(0)
<b>Profit after tax &amp; minorities</b>	<b>29</b>	<b>30</b>	<b>32</b>	<b>37</b>	<b>39</b>
<b>Reported net profit</b>	<b>29</b>	<b>30</b>	<b>32</b>	<b>37</b>	<b>39</b>
<b>Recurring net profit</b>	<b>29</b>	<b>30</b>	<b>32</b>	<b>37</b>	<b>39</b>

Source: Company data, RHB

<b>Cash flow (MYRm)</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14F</b>	<b>Dec-15F</b>	<b>Dec-16F</b>
<b>Operating profit</b>	<b>42</b>	<b>41</b>	<b>42</b>	<b>48</b>	<b>50</b>
Depreciation & amortisation	7	8	9	9	9
<b>Change in working capital</b>	<b>(8)</b>	<b>(12)</b>	<b>(3)</b>	<b>(8)</b>	<b>(4)</b>
Other operating cash flow	(2)	(0)	1	2	2
<b>Operating cash flow</b>	<b>40</b>	<b>37</b>	<b>49</b>	<b>50</b>	<b>57</b>
Interest paid	0	0	-	-	-
Tax paid	(10)	(10)	(11)	(12)	(13)
<b>Cash flow from operations</b>	<b>31</b>	<b>27</b>	<b>38</b>	<b>38</b>	<b>44</b>
Capex	(7)	(37)	(5)	(5)	(5)
Other investing cash flow	4	26	4	-	-
<b>Cash flow from investing activities</b>	<b>(4)</b>	<b>(11)</b>	<b>(1)</b>	<b>(5)</b>	<b>(5)</b>
Dividends paid	(12)	(13)	(11)	(14)	(14)
Increase in debt	(4)	-	-	-	-
Other financing cash flow	(0)	(6)	-	-	-
<b>Cash flow from financing activities</b>	<b>(16)</b>	<b>(19)</b>	<b>(11)</b>	<b>(14)</b>	<b>(14)</b>
Cash at beginning of period	23	35	33	59	77
<b>Total cash generated</b>	<b>11</b>	<b>(2)</b>	<b>26</b>	<b>19</b>	<b>25</b>
Forex effects	1	0	-	-	-
<b>Implied cash at end of period</b>	<b>35</b>	<b>33</b>	<b>59</b>	<b>77</b>	<b>102</b>

Source: Company data, RHB

## Financial Exhibits

<b>Balance Sheet (MYRm)</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14F</b>	<b>Dec-15F</b>	<b>Dec-16F</b>
Total cash and equivalents	35	33	59	77	102
Inventories	43	48	51	56	58
Accounts receivable	95	101	107	118	124
Other current assets	31	5	1	1	1
<b>Total current assets</b>	<b>204</b>	<b>186</b>	<b>217</b>	<b>252</b>	<b>285</b>
Tangible fixed assets	76	107	103	99	95
Total other assets	9	20	20	20	20
Total non-current assets	86	127	123	119	114
<b>Total assets</b>	<b>290</b>	<b>313</b>	<b>340</b>	<b>370</b>	<b>399</b>
Accounts payable	66	70	76	83	87
Other current liabilities	2	2	2	2	2
<b>Total current liabilities</b>	<b>68</b>	<b>72</b>	<b>78</b>	<b>85</b>	<b>89</b>
Other liabilities	6	6	6	6	6
<b>Total non-current liabilities</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>
<b>Total liabilities</b>	<b>74</b>	<b>78</b>	<b>84</b>	<b>91</b>	<b>95</b>
Share capital	94	94	94	94	94
Retained earnings reserve	121	138	159	182	207
Other reserves	1	3	3	3	3
<b>Shareholders' equity</b>	<b>216</b>	<b>235</b>	<b>256</b>	<b>279</b>	<b>304</b>
Minority interests	0	0	0	0	1
Other equity	(0)	0	0	(0)	(0)
<b>Total equity</b>	<b>216</b>	<b>235</b>	<b>256</b>	<b>279</b>	<b>304</b>
<b>Total liabilities &amp; equity</b>	<b>290</b>	<b>313</b>	<b>340</b>	<b>370</b>	<b>399</b>

Source: Company data, RHB

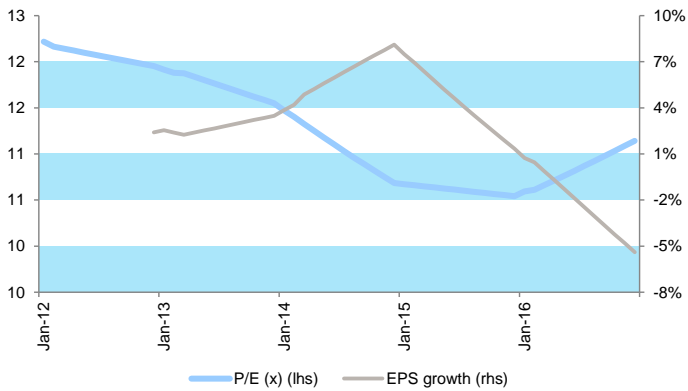
<b>Key Ratios (MYR)</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14F</b>	<b>Dec-15F</b>	<b>Dec-16F</b>
Revenue growth (%)	8.9	5.0	10.2	9.9	4.7
Operating profit growth (%)	20.9	(2.4)	1.8	13.6	4.3
Net profit growth (%)	2.4	3.5	8.1	14.0	5.1
EPS growth (%)	2.4	3.5	8.1	1.3	(5.4)
Bv per share growth (%)	8.8	8.6	9.0	(12.8)	8.9
Operating margin (%)	10.7	9.9	9.1	9.5	9.4
Net profit margin (%)	7.3	7.2	7.0	7.3	7.3
Return on average assets (%)	10.0	10.0	9.9	10.4	10.1
Return on average equity (%)	14.0	13.3	13.2	13.8	13.3
Net debt to equity (%)	(16.0)	(14.0)	(22.9)	(27.7)	(33.6)
DPS	0.13	0.10	0.12	0.12	0.12
Recurrent cash flow per share	0.33	0.29	0.41	0.36	0.38

Source: Company data, RHB

# SWOT Analysis

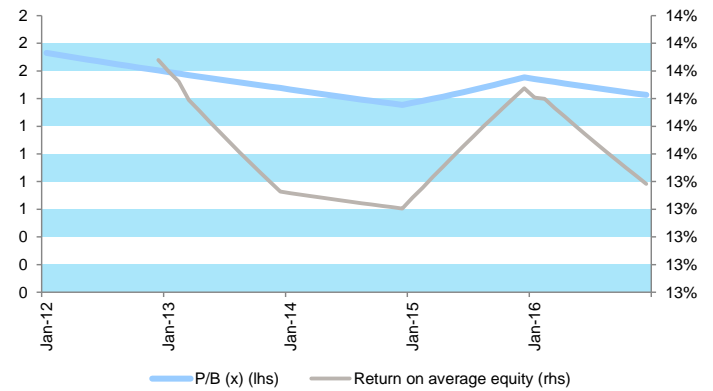


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

## Company Profile

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

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2014-11-18			

Source : RHB, Bloomberg

## 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.

This report may further consist of, whether in whole or in part, summaries, research, compilations, extracts or analysis that has been prepared by RHB's strategic, joint venture and/or business partners. No representation or warranty (express or implied) is given as to the accuracy or completeness of such information and accordingly investors should make their own informed decisions before relying on the same.

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 17 November 2014, 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 17 November 2014, 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><b>Malaysia Research Office</b> 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><b>RHB OSK Securities Hong Kong Ltd. (formerly known as OSK Securities Hong Kong Ltd.)</b> 12<sup>th</sup> Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908</p>	<p><b>DMG &amp; Partners Securities Pte. Ltd.</b> 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211</p>
Jakarta	Shanghai	Phnom Penh
<p><b>PT RHB OSK Securities Indonesia (formerly known as PT OSK Nusadana Securities Indonesia)</b> Plaza CIMB Niaga 14th Floor Jl. Jend. Sudirman Kav.25 Jakarta Selatan 12920, Indonesia Tel : +(6221) 2598 6888 Fax : +(6221) 2598 6777</p>	<p><b>RHB OSK (China) Investment Advisory Co. Ltd. (formerly known as OSK (China) Investment Advisory Co. Ltd.)</b> Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633</p>	<p><b>RHB OSK Indochina Securities Limited (formerly known as OSK Indochina Securities Limited)</b> 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><b>RHB OSK Securities (Thailand) PCL (formerly known as OSK Securities (Thailand) PCL)</b> 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 2 862 9999 Fax : +(66) 2 108 0999</p>		