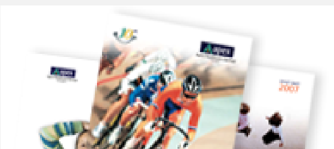

News Coverage

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Apex Set To Scale New Heights

KUALA LUMPUR: After selling its domestic retail pharmacy business to Watsons in 2005, Apex Healthcare Bhd has been largely out of the corporate limelight but it has been growing steadily and maintaining an annual net dividend payment of above seven sen a share.

Revenue grew to RM259.24 million in the financial year ended Dec 31, 2008 (FY08) from RM190.18 million in FY05, while pre-tax profit rose to RM19.02 million from RM14.77 million (after stripping out RM4.9 million gain from the disposal of the pharmacy business in FY05).

Annual net dividends ranged from 7.2 sen to 8.4 sen per share from 2004 and reached 8.2 sen in FY08.

Not long after the Watsons deal and within the same year, Apex acquired a 25% stake in Xiamen Maidiken Science & Technology Co Ltd (MDK), the holding company of retail pharmacy group Luyan (Fujian) Group. The interest has since been raised to 32.4% as at end-2008, according to the latest available data.

The number of outlets in the Fujian province has expanded to 67 from 38 in January 2008.

The group also maintained its generic drugs manufacturing under the Xepa brand and distribution business under the Apex name.

With more prescription drugs coming “off-patent” next year, the group is set for further growth, particularly in China, Indonesia, Myanmar, Vietnam, Kenya and Nigeria as rising affluence means people can afford better healthcare.

On an annual basis, the group launches about two to six new generic products in its manufacturing operations aimed at supporting its existing range of “therapeutic franchises”. Founded in 1962, Apex makes its generic drugs in Melaka, a credit to the capabilities of Malaysian manufacturing.

Apex is no newcomer to the fast-growing emerging markets, having already established links with pharmaceutical distributors in Myanmar and Nigeria for more than two decades, Apex subsidiary Xepa-Pattinson (M) Sdn Bhd executive director Goh Ser Heng told The Edge Financial Daily.

Nonetheless, he cautions that growth in these markets is still expected to be gradual. “The trust of patients and practitioners (doctors) needs to be established over time,” he said.

Speaking on behalf of the Apex group, Goh said China was a big and growing market despite the economic slowdown. He said Luyan’s new 150,000-sq ft logistics centre in Xiamen had started operations and plans were under way to develop new centres in three other prefectures — Fuzhou, Putian and Sanming.

He said the capital expenditure for those and other smaller developments was budgeted at 56 million yuan (RM27.82 million) in FY10.

“Recent regulatory changes will consolidate the industry by centralising pharmaceutical tenders and setting much higher financial and logistic asset requirements to qualify to be a distributor to the provincial government.

“This will benefit the financially stronger and the larger and better managed pharmaceutical distributors like Luyan, and remove smaller players from this segment of the market,” Goh said.

Luyan’s turnover grew 30% to 1.3 billion yuan in FY08 and MDK made a net contribution of RM2.2 million to Apex group, which posted a net profit of RM14.8 million in FY08.

For the nine months to Sept 30, 2009, Apex group posted a 25% year-on-year jump in pre-tax profit to RM17.8 million, while revenue rose 10% to RM212.6 million.

It had paid out an interim dividend of 5.25 sen per share less tax in October for FY09.

Apex has managed to enter into a net cash position of RM913,000 as at Sept 30, 2009 from a net debt of RM16.24 million at Dec 31, 2008 due to investment spending in China and Indonesia in 2008. An analyst said this indicated healthy cash flows from its investments.

Going forward, Apex aims to stick closely to its core business of making and distributing pharmaceutical and healthcare products. “We have no plans to diversify into unrelated areas,” said Goh. Growth would thus be largely organic, enhanced by key strategic acquisitions and investments from time to time, he said.

Another thing going for Apex is the fact that there is a preference for more affordable generic medicines in developing economies.

To cater for the needs and preferences of its customers, the group also has a small division that imports generic pharmaceuticals, mainly from the European Union countries.

At present, Apex budgets roughly 3% of annual revenue for innovation and development expenditure.

On returns to shareholders, Goh said: “Since our IPO, Apex has consistently paid an interim and a final dividend. We believe that shareholders deserve a return on their investment, and balance this with the need to retain cash to fund investments to ensure sustained growth.

“Our planning horizon is not short term, and we think our shareholders understand the way we manage our business, given our 10 years as a publicly-listed company in Malaysia, and over 40 years of doing business in Singapore and Malaysia.”

The stock closed three sen lower at RM1.85 last Thursday, with 19,500 shares traded.

According to Bloomberg data, at the current price, trailing 12-month price-to-earnings (PE) ratio is 8.14 times versus peer PE ratio of 10.14 times.

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