

Solid growth prospects seen for Apex Healthcare

Apex Healthcare Bhd (Feb 20, RM2.38)

Maintain buy with a higher target price (TP) of RM2.82: Apex Healthcare Bhd's financial year 2019 (FY19) core net profit came in within expectations. Its fourth quarter of FY19 (4QFY19) revenue grew 5% year-on-year (y-o-y), but core net profit declined 17% y-o-y mainly due to the absence of reinvestment allowance. Sequentially, revenue and earnings were softer due to the high base in 3QFY19 on the back of higher masks sales, seasonality factor and a higher effective tax rate. We reduce our earnings forecast by 5% to factor in a more cautious macro environment but maintain our "buy" rating on Apex with a higher TP of RM2.82 as we roll forward our valuation base to FY21 estimate (FY21E). 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 dividend per share (DPS) of two sen, bringing its full-year DPS to 3.7 sen, or a payout of 34% (2018: payout of 27%).

Revenue for 4QFY19 grew 5% y-o-y to RM171 million, mainly driven by stronger contribution from contract manufacturing and pharmaceutical sales to both private and public sectors. Notably, its manufacturing segment's revenue grew 29% y-o-y to RM18 million and achieved its best-ever quarter on the back of the ramp-up of production of SPP NOVO. The group's 4QFY19 core net profit however declined 17% y-o-y mainly due to the absence of reinvestment allowance which previously had lifted

Apex Healthcare Bhd

FYE DEC (RM MIL)	2018	2019	2020E	2021E	2022E
Revenue	652.7	688.8	795.3	850.8	931.9
Ebitda	71.0	75.1	96.6	106.7	121.8
Pre-tax profit	69.3	65.4	92.4	102.8	118.4
Net profit	58.6	51.9	70.2	78.0	89.9
EPS (sen)	12.5	11.0	14.9	16.6	19.1
PER	19.3	21.9	16.2	14.5	12.6
Core net profit	60.2	54.4	70.2	78.0	89.9
Core EPS (sen)	12.8	11.6	14.9	16.6	19.1
Core EPS growth (%)	33.9	(9.9)	29.0	11.2	15.2
Core PER	18.8	20.8	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	13.8	10.9	9.5	8.0
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

Sources: Company, Bloomberg, Affin Hwang forecasts

ed its earnings in 4QFY18.

Revenue and earnings were softer quarter-on-quarter (q-o-q) for 4QFY19 due to a combination of a high base in 3QFY19 on the back of stronger demand for face masks as a result of haze during the quarter, seasonality factor and a higher effective tax rate. On a positive note, 4QFY19 earnings before interest, tax, depreciation and amortisation (Ebitda) margin has improved 1.3 percentage points q-o-q to 12.8%. We believe that the commercial production of SPP NOVO helped to partially offset the fixed costs of SPP NOVO and lower associate contribution. The lower associate

contribution 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.

We trim our FY20-21E earnings by 5% to factor in weaker demand due to negative impact from 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. Downside risks are higher-than-expected start-up costs and product recall risk. — *Affin Hwang Capital, Feb 20*

Superior performance seen as potential rating catalyst for Public Bank

Public Bank Bhd (Feb 20, RM18.12)

Maintain add with a lower target price (TP) of RM22.60: Following Bank Negara Malaysia's move to cut overnight policy rate (OPR) by 25 basis points (bps) to 2.75% on Jan 22, Public Bank Bhd reduced its base rate by 25bps to 3.27% effective Jan 28. On the same day, it also cut its fixed deposit (FD) rates by 25bps for all tenors.

Public Bank's 25bps cuts in base rate and FD rates were in line with our expectations. As such, we stick to our view that the OPR cut on Jan 20 will lower its financial year ending Dec 31, 2020 forecast (FY20F) net profit by 1.1% (on a full-year basis), as highlighted in our banking report dated Jan 22. We expect the bank to take similar action at the next OPR cut in the first half of 2020, which is anticipated by our

economist. Based on this, the negative impact from two OPR cuts on Public Bank's FY20F net profit will be manageable at only about 2%.

Based on our analysis, the negative impact of every 25bps OPR cut on Public Bank's net profit (of 1.1%) is the lowest among local banks. This is because: i) its floating rate loan ratio of 77% projected for FY20F is the third lowest in the sector; ii) it has a relatively lower ratio of 26.1% for low-cost deposits (which means that it has a higher proportion of FDs which are fully repriced) versus the sector's average of 28.9%; and iii) about 7% of its loans are from its overseas operations and, hence, will not be affected by the OPR cuts. The bank has banking operations in Hong Kong, Vietnam and Cambodia.

We trim our FY20-21F earnings

per share forecasts for Public Bank by about 1.9% to factor in two OPR cuts, including the one on Jan 22. These are based on the assumptions that the lending and FD rates will be reduced by 25bps each following both OPR cuts. Consequently, our dividend discount model-based TP is reduced from RM23.10 to RM22.60.

We retain our "add" call on Public Bank as we believe it is the most defensive among its peers against the expected rise in the industry's gross impaired loans ratio and credit costs. Furthermore, based on our assessment, the OPR cuts will have the smallest impact on Public Bank among local banks. A rerating catalyst is superior financial performance (relative to other banks) amid the current uncertain operating environment. — *CGS-CIMB Research, Feb 19*



Maybank's operation in Malaysia is seen as solid and would provide a stable base for the group. The Edge file photo

Maybank expected to see better performance in 4QFY19

Malayan Banking Bhd (Feb 20, RM8.42)

Maintain buy with an unchanged target price (TP) of RM10.30:

Earnings of Malayan Banking Bhd's (Maybank) Indonesia unit fell 14.9% year-on-year (y-o-y), due to higher provisions which grew 35.9% y-o-y as it maintained a conservative stance. Maybank Indonesia set aside provisions primarily in the commercial segment which was impacted by a challenging economic environment. Compared to last year, the gross non-performing loan (NPL) level stood at 3.3% in the fourth quarter of financial year 2019 (4QFY19) versus 2.6% in 4QFY18.

Operating income grew 3.9% y-o-y supported by a 15% y-o-y expansion in non-interest income attributable to global market related fees, bancassurance, investment and e-channel transaction fees. Meanwhile, net interest income rose 0.8% y-o-y as interest expense grew 9.3% y-o-y to 7.31 trillion rupiah (RM2.22 billion) versus interest income growth of 4.7% y-o-y. Net interest margin declined 17 basis points y-o-y to 5.07%, due to the stockpiling of liquidity prior to Indonesia's general election.

Maybank Indonesia's total customer deposits fell 5.3% y-o-y to 110.6 trillion rupiah, due to the reversing of its earlier build-up in liquidity after the general election. Non-current and savings account fell 3.1% y-o-y to 70.1 trillion rupiah.

Total loans contracted 8.1% y-o-y to 122.6 trillion rupiah, due to Maybank Indonesia's continued conservative stance in growing its

asset selectively. The bank also decided to have an exit strategy for selected loans in the corporate and commercial segments. Putting into context, as at 4QFY19, global banking booked moderate loans growth of 3.4% y-o-y to 32.1 trillion rupiah, while community financial services non-retail loans was 17.1% lower y-o-y to 48.3 trillion rupiah. Nevertheless, its loan-to-deposit ratio was at a healthy level of 94.1%, while its liquidity coverage ratio stood at 145.2%.

Operating expenditure grew 6.2% y-o-y, which is considered under control. The rise was attributable to the incentives paid for mudharabah deposits which grew 79.3% y-o-y. Discounting these incentives, the actual operating cost was flat.

There is no change to our earnings forecasts for now as the Maybank group will be announcing its result later this month.

We should highlight that Maybank Indonesia saw better operating profits despite lower loans. It also saw a sequential quarter of results. Notwithstanding Maybank Indonesia's results, we expect the Maybank group to see an improved performance in 4QFY19 continuing from 3QFY19. We opine that its operation in Malaysia remains solid

and would provide a stable base for the group. There could also be potential improvement in FY20. Our unchanged TP of RM10.30 is based on pegging its FY20 book value of equity per share to 1.4 times. We should note that its dividend yield of above 6% should provide a buffer from any downside risk. — *MIDF Research, Feb 20*

Malayan Banking Bhd

FYE DEC (RM MIL)	2017A	2018A	2019E	2020F	2021F
Net interest income	12,147	12,073	12,278	12,631	13,397
Islamic banking income	4,900	5,612	6,229	6,603	6,933
Non-interest income	6,298	5,945	6,553	6,261	5,960
Total income	23,345	23,630	25,060	25,495	26,290
Pre-tax profit	10,098	10,901	10,817	11,225	11,806
Net profit	7,521	8,113	8,087	8,392	8,827
Core net profit	7,521	8,113	8,087	8,392	8,827
Core EPS (sen)	72.0	74.2	71.6	71.6	73.0
PER (x)	11.7	11.3	11.7	11.7	11.5
Net dividend (sen)	55	57	56	56	57
Net dividend yield (%)	6.5	6.8	6.7	6.7	6.8
BVPS (sen)	6.77	6.82	7.12	7.34	7.55
P/BV (x)	1.2	1.2	1.2	1.1	1.1
ROE (%)	10.9	11.4	9.8	9.6	9.5

Sources: Company, MIDF Research