

Outthink. Outperform.

2Q19 results: Within expectation

Despite recording a slightly stronger revenue, Apex Healthcare's (Apex) core net profit fell 6% yoy in 2Q19, mainly due to higher start-up expenses from its new Oral Solid dosage plant, SPP NOVO. The weak results were within our expectation as SPP NOVO is expected to be in a gestation period for at least 1-2 years. Apex declared a higher DPS of 1.70sen for the quarter (2Q18: 1.63sen). We make no changes to our earnings forecasts and maintain our HOLD rating on Apex with a 12-month TP of RM2.11 (adjusted for the bonus issue).

Weaker earnings due to start-up expenses from SPP NOVO...

2Q19 revenue grew 2% yoy to RM159m, mainly driven by its manufacturing (+2% yoy) and distribution segments (+2% yoy). Core net profit, however, fell 6% yoy to RM13m in 2Q19, mainly due to higher operating and finance expenses arising from the start-up of SPP NOVO. The results came in within expectation with 6M19 core net profit accounting for 47-48% of the street and our full-year estimates.

... partly offset by stronger contributions from associate

The weaker performance was partly offset by stronger contributions from the group's 40%-owned associate, Straits Apex Sdn Bhd, which grew by 121% yoy to RM3.3m on improved sales. The associate company has managed to secure new customers as a result of the US-China trade tension as most of its customers are US multinational corporations.

In the midst of transferring products to SPP NOVO

To recap, Apex had received regulatory approval to start commercial production on 16 May 2019 and is currently in the midst of transferring high-volume oral solid dosage products from its existing plant to SPP NOVO, with a target to transfer 30 products. While we are positive on the progress, we expect the new plant to be in a gestation period for at least 1-2 years, which will adversely impact its earnings in the near term.

Maintain HOLD with TP of RM2.11

All in, we maintain our earnings forecasts and HOLD call on Apex with an adjusted TP of RM2.11 (from RM8.42, after adjusting for the 3-for-1 bonus issue, based on an unchanged 2020E target PER of 17x. Upside risk: lower-than-expected start-up expenses for SPP NOVO. Downside risks: higher-than-expected start-up expenses, implementation of drug price control and product recall risk.

Earnings & Valuation Summary

FYE 31 Dec	2017	2018	2019E	2020E	2021E
Revenue	620.3	652.7	699.2	759.3	802.8
EBITDA	60.2	71.0	74.1	82.8	91.0
Pretax profit	56.0	69.3	69.2	77.8	86.0
Net profit	44.5	58.6	51.8	58.3	64.4
EPS(sen)	9.5	12.5	11.0	12.4	13.7
PER	21.4	16.3	18.4	16.4	14.8
Core net profit	45.0	60.2	51.8	58.3	64.4
Core EPS(sen)	9.6	12.8	11.0	12.4	13.7
Core EPS growth (%)	12.8	33.9	(14.0)	12.6	10.5
Core PER	21.2	15.8	18.4	16.4	14.8
Net DPS(sen)	3.0	3.4	3.5	4.0	4.4
Dividend Yield (%)	1.5	1.7	1.7	2.0	2.2
EV/EBITDA (x)	14.5	12.7	12.0	10.6	9.3
Debt to equity (x)	-	0.1	0.1	0.0	0.0
BPS (RM)	0.7	0.8	0.9	1.0	1.1
PBR (x)	2.8	2.5	2.3	2.1	1.9
Chg in EPS (%)	-	-	-	-	-
Affin/Consensus (x)	-	-	1.0	1.0	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

Apex Healthcare

APEX MK

Listing Market: Main

Sector: Healthcare & Pharmaceuticals

RM2.03 @ 21 August 2019

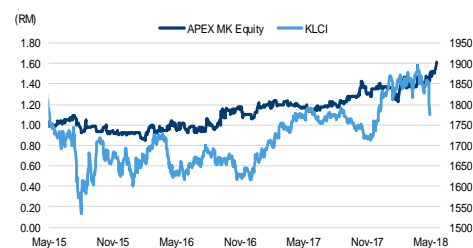
KLCI: 1,594.6

HOLD (maintain)

Upside: 4%

Price Target: RM2.11

Previous Target: RM2.11



Price Performance

	1M	3M	12M
Absolute	-4.7%	-4.8%	9.4%
Rel to KLCI	-0.9%	-4.3%	23.4%

Stock Data

Issued shares (m)	471.1
Mkt cap (RMm)/(US\$m)	956.4/229
Avg daily vol - 3mth (m)	0.1
52-wk range (RM)	1.85-2.46
Est free float	19.3%
BV per share (RM)	0.85
P/BV (x)	2.40
Net cash/(debt) (RMm)	77.86
ROE (%) (2019E)	13%
Beta	0.33
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Apex Pharmacy Holdings	40.4%
Washington H Soul Pattison	30.1%
Fidelity Management	2.3%

Source: Company, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	2Q18	1Q19	2Q19	QoQ %chg	YoY %chg	6M18	6M19	YoY %chg	Comment
Revenue	155.9	178.2	159.3	-10.6%	2.1%	324.3	337.5	4.1%	Driven by consistent contributions from: i) private-sector sales of the Group-branded pharmaceutical products, and ii) distribution to pharmaceutical and consumer healthcare agencies
Op costs	137.8	160.7	142.3	-11.4%	3.2%	289.2	303.0	4.8%	
EBITDA	18.1	17.6	17.0	-3.3%	-6.3%	35.2	34.5	-1.9%	
<i>EBITDA margin (%)</i>	11.6	9.8	10.7	0.8ppt	-1ppt	10.9	10.2	-0.6ppt	
Depn and amort	2.2	3.5	3.7	7.0%	66.4%	4.4	7.2	62.6%	
EBIT	15.9	14.1	13.2	-5.9%	-16.6%	30.8	27.3	-11.2%	
<i>EBIT margin (%)</i>	10.2	7.9	8.3	0.4ppt	-1.9ppt	9.5	8.1	-1.4ppt	
Int expense	0.0	-0.3	-0.4	15.8%	nm	0.0	-0.7		
Int and other inc	0.0	0.0	0.0	nm	nm	0.0	0.0		
Associates	1.5	0.8	3.3	314.9%	120.7%	3.1	4.1	31.2%	
EI				nm	nm	0.4	0.0	-96.9%	
	0.3	(0.0)	0.0						
Pretax profit	17.4	14.5	16.2	11.3%	-6.8%	33.9	30.7	-9.3%	
Tax	-3.7	-3.1	-3.0	-5.6%	-19.5%	-7.0	-6.1	-12.8%	
<i>Tax rate (%)</i>	21.1	21.5	18.2	-3.3ppt	-2.9ppt	20.6	19.8	-0.8ppt	
MI	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Net profit	13.7	11.4	13.2	16.0%	-3.5%	26.9	24.6	-8.4%	
EPS (sen)	2.9	9.7	2.8	-71.1%	-4.0%	14.2	12.5	-11.7%	
Core net profit	14.0	11.4	13.3	16.5%	-5.5%	27.2	24.6	-9.5%	Within expectations, making up 48% and 47% of our and consensus full-year estimates respectively

Source: Company, Affin Hwang

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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