19 December 2023

Consumer Non-cyclical | Healthcare

Apex Healthcare (APEX MK)

Buy

A Saving Grace Amid a COVID-19 Resurgence

Fair Value (Return):	MYR2.90 (17.9%)
Price:	MYR2.46
Market Cap:	USD378m
Avg Daily Turnover (MYR/USD)	0.18m/0.04m

- **MYR2.90 FV based on 20x FY24F P/E.** Apex Healthcare is the prime beneficiary of: i) Potential pent-up demand for cough and flu products amid a resurgence of COVID-19 cases, ii) rising health awareness, and iii) the ageing society trend. We expect its capacity-driven strategy and inelastic consumer demand towards pharmaceutical products to propel earnings growth. Valuations are compelling, as APEX currently trades at 17x 2024 PE, -0.7SD below its historical mean.
- **Pent-up demand expected on rising COVID-19 numbers.** Reported COVID-19 case numbers recently increased 88% to 12,757 during the second week of December vs 6,796 last week. The situation is likely to be worsen in conjunction with the year-end festivities and school holidays according to Health Director-General Dr Muhammad Radzi Abu Hassan. Given the higher chances of infection in view of the new COVID-19 variant, coupled with the lack of public awareness in wearing face masks, the rising confirmed cases trend could potentially lead to pent-up consumer demand towards cough and flu medicines as seen in 2H22.
- **Capacity-driven growth outlook.** We expect further upside to be supported by an organic expansion pipeline, given that the Cheng Industrial Estate production facility in Melaka is fully utilised. APEX recently entered into a sales & purchase agreement (SPA) with Panasonic Appliances Refrigeration Devices Malaysia for the acquisition of 20.7 acres industrial land at this estate. The industrial complex comprises two main factory buildings and has been assessed as suitable for retrofitting to meet Xepa-Soul Pattinson (Malaysia)'s (Xepa) manufacturing requirements, effectively reducing necessary construction costs.
- **Resilient healthcare products demand.** To date, APEX's distribution network encompasses 15,505 customer accounts (primarily comprising clinics, pharmacies, hospitals, and retail and general stores here). Demand for dietary supplements in Malaysia is set to record a healthy 5-year CAGR growth of 4.5% from 2022 to 2027. Factors contributing to the robust growth include increasing personal health awareness, demand-driven consumption, and the rising ageing society trend.
- **Earnings forecast and valuation.** We project a 3-year earnings CAGR of 4% from 2022 to 2025 (stripping out Straits Apex Group's (SAG) contributions, the 3-year CAGR would have been 16%) vs 11%, ie the 10-year average growth rate of medical products' retail sales. We adopt a P/E-based valuation with 20x FY24 PE to drive a FV of MYR2.90. The valuation is in line with APEX's 5-year historical mean, given its better earnings visibility, better-than-peers margins profile, and capacity-driven growth outlook. Key risks: FX fluctuations, changes in the regulatory environment, loss of key principals, and higher-than-expected operating costs.

Analyst

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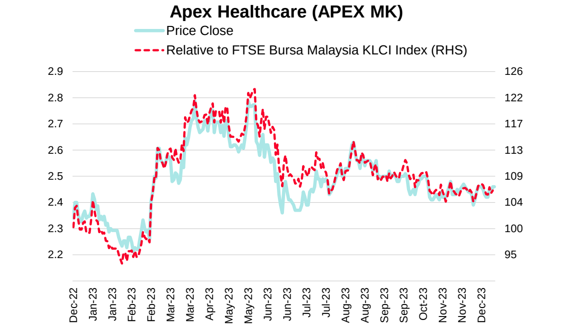
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.8	0.4	(2.4)	4.2	7.0
Relative	7.0	0.3	(2.7)	(1.1)	8.1
52-wk Price low/high (MYR)					2.21 – 2.79



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	771	878	918	987	1,057
Recurring net profit (MYRm)	59	98	95	102	110
Recurring net profit growth (%)	6.4	67.1	(3.2)	7.2	7.8
Recurring P/E (x)	30.03	17.97	18.56	17.31	16.05
P/B (x)	3.5	3.2	2.2	2.1	2.0
P/CF (x)	28.58	24.52	18.69	15.95	16.65
Dividend Yield (%)	4.7	3.5	3.3	3.5	3.8
EV/EBITDA (x)	18.58	14.54	10.96	10.01	9.01
Return on average equity (%)	12.1	18.7	13.9	12.3	12.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Note:
Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia
Malaysia
Consumer Non-cyclical
Apex Healthcare
APEX MK
Buy

Valuation basis

P/E

Key drivers

i. Increase in health awareness;
ii. Rise in non-communicable diseases (NCDs);
iii. Ageing society trend.

Key risks

Key risks FX fluctuations, changes in the regulatory environment, loss of key principals, and higher-than-expected operating costs.

Company Profile

APEX is Malaysia's largest generic drug manufacturer with an established presence in the domestic market, Singapore, and other countries.

Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Recurring EPS	0.08	0.14	0.13	0.14	0.15
DPS	0.12	0.09	0.08	0.09	0.09
BVPS	0.71	0.78	1.13	1.19	1.25
Return on average equity (%)	12.1	18.7	13.9	12.3	12.6

Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Recurring P/E (x)	30.03	17.97	18.56	17.31	16.05
P/B (x)	3.5	3.2	2.2	2.1	2.0
FCF Yield (%)	2.8	3.4	4.7	5.6	5.3
Dividend Yield (%)	4.7	3.5	3.3	3.5	3.8
EV/EBITDA (x)	18.58	14.54	10.96	10.01	9.01
EV/EBIT (x)	23.01	17.19	12.89	11.75	10.51

Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover	771	878	918	987	1,057
Gross profit	161	198	210	45	50
EBITDA	83	105	116	122	131
Depreciation and amortisation	(16)	(16)	(17)	(18)	(19)
Operating profit	67	89	99	104	113
Net interest	1	1	2	4	4
Pre-tax profit	75	119	112	120	130
Taxation	(16)	(19)	(17)	(18)	(20)
Reported net profit	59	100	95	102	110
Recurring net profit	59	98	95	102	110

Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Change in working capital	(10)	(18)	(6)	3	(10)
Cash flow from operations	62	72	95	111	106
Capex	(13)	(12)	(12)	(12)	(12)
Cash flow from investing activities	(15)	48	204	(13)	(13)
Dividends paid	(25)	(57)	(58)	(63)	(67)
Cash flow from financing activities	(31)	(63)	(63)	(64)	(68)
Cash at beginning of period	173	93	105	341	375
Net change in cash	16	58	236	34	25
Ending balance cash	189	154	341	375	400

Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total cash and equivalents	194	174	410	444	469
Tangible fixed assets	167	189	184	179	173
Total investments	52	79	91	103	117
Total assets	680	745	1,001	1,095	1,152
Short-term debt	6	6	5	4	3
Total long-term debt	9	4	0	0	0
Total liabilities	173	187	189	243	258
Total equity	507	558	812	852	894
Total liabilities & equity	680	745	1,001	1,095	1,152

Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Revenue growth (%)	10.3	13.9	4.6	7.5	7.2
Recurrent EPS growth (%)	6.4	67.1	(3.2)	7.2	7.8
Gross margin (%)	20.9	22.5	22.9	4.6	4.7
Operating EBITDA margin (%)	10.7	11.9	12.6	12.4	12.4
Net profit margin (%)	7.6	11.4	10.4	10.3	10.4
Dividend payout ratio (%)	140.4	61.3	61.3	61.3	61.3
Capex/sales (%)	1.7	1.4	1.3	1.2	1.1
Interest cover (x)	77.4	116.1	(433.2)	(570.2)	(819.4)

Source: Company data, RHB

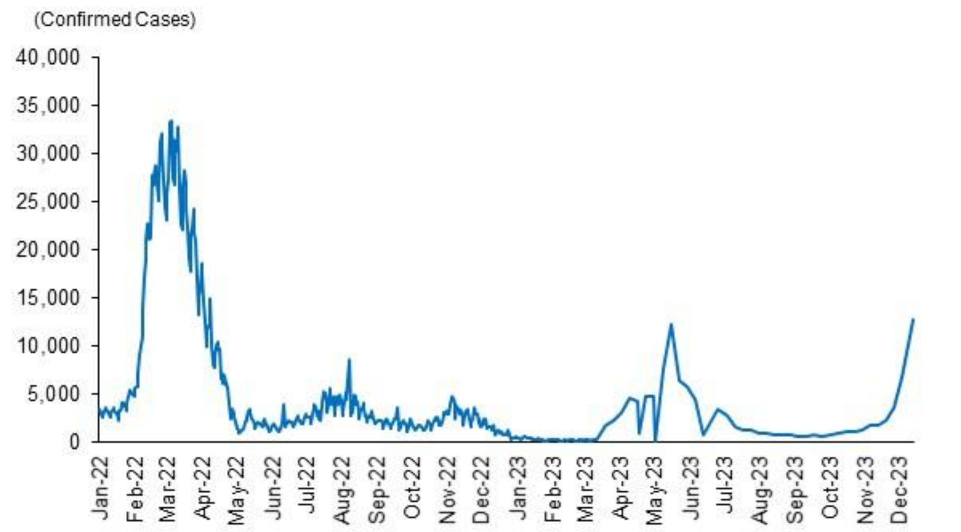
Investment Thesis

Expect pent-up demand on the recent rise in COVID-19 case numbers. The number of reported COVID-19 cases recently increased 88% to 12,757 during the second week of December from 6,796 during the first week of the month. The situation is expected to be worsen in conjunction with year-end festivities and school holidays – this is according to Health Director-General Dr Muhammad Radzi.

In 2H22, the daily average of confirmed COVID-19 cases in Malaysia totalled 2,474 cases. Fast-forward to 4Q23, the daily average confirmed cases has spiked to 1,823 cases, ie just 26% shy of 2H22's daily average. Given the higher chances of infection in view of the new COVID-19 variant, coupled with the lack of public awareness with regards to the wearing of face masks, the rising trend of confirmed cases could potentially lead to pent-up consumer demand for cough and flu medicines – as seen in 2H22 – under our base case scenario.

Chances of severity/fatality could be manageable, given that most Malaysians are fully inoculated (84%). Nevertheless, should the consumer demand come in better-than-expected – assuming a 13% revenue growth in line with 2021's retail pharmacy sales growth was 13%) that would result in 12% earnings growth for FY24.

Figure 1: Malaysia's confirmed COVID-19 cases



Source: World Health Organisation, RHB

Capacity-driven growth outlook. We expect further upside to be supported by an organic expansion pipeline, given that APEX's existing Xepa production site at the Cheng Industrial Estate in Melaka is fully utilised. For instance, its oral solid dosage (OSD) manufacturing plant – SPP NOVO (completed since Dec 2018) – is currently operating at 60% utilisation (based on installed capacity). The group's older plant – SPP 1 – is running at 75-80%.

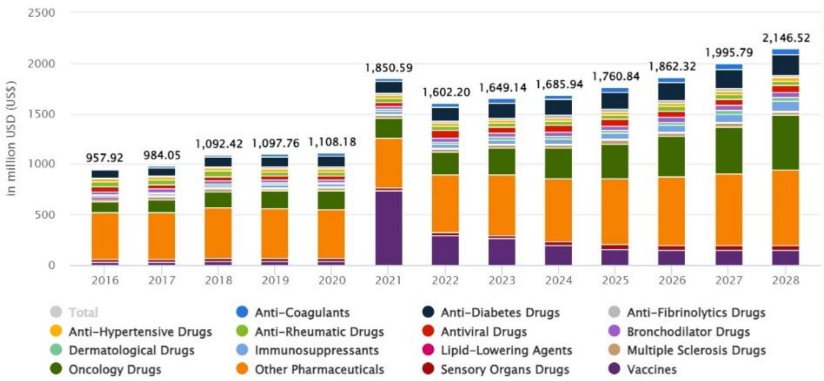
In view to that, APEX recently entered into an SPA with Panasonic Appliances Refrigeration Devices Malaysia for the acquisition of 20.7 acres industrial land at Cheng Industrial Estate. This industrial complex is strategically located within 400m from Xepa's current production site. It also comprises two main factory buildings with combined gross floor area of 377,888sq ft and has been assessed as suitable for retrofitting to meet Xepa's manufacturing requirements – effectively reducing necessary cost of construction. More so, the proximity of the new plant offers APEX advantage in terms operating efficiency. Notwithstanding the above, the group has a remaining 75,867sq m of land located in Alor Gajah, Melaka, which is slated for future capacity expansion.

We expect the growing demand for OSD medicine – mainly for chronic and non-communicable diseases such as cardiovascular and gastrointestinal disorders – to fuel APEX's medium-term growth outlook while also sustaining its market leadership and position as the largest generic drug manufacturer for the private sector.

Riding on resilient demand for healthcare products. To date, APEX's distribution network encompasses 15,505 customer accounts – primarily comprising clinics, pharmacies, hospitals, and retail and general stores in Malaysia. Demand for dietary supplements here are also set to record a healthy 5-year CAGR growth of 4.5% from 2022 to 2027. Factors contributing to this robust growth include increasing awareness on personal health, demand-driven consumption (due to lack of nutrients intake amid time-pressed and hectic urban lifestyles), and the rising ageing society trend.

The group's extensive distribution arm – Apex Pharma Marketing – in Malaysia and Singapore offers more than 3,700 range of branded pharmaceutical products. These include third-party and in-house brands.

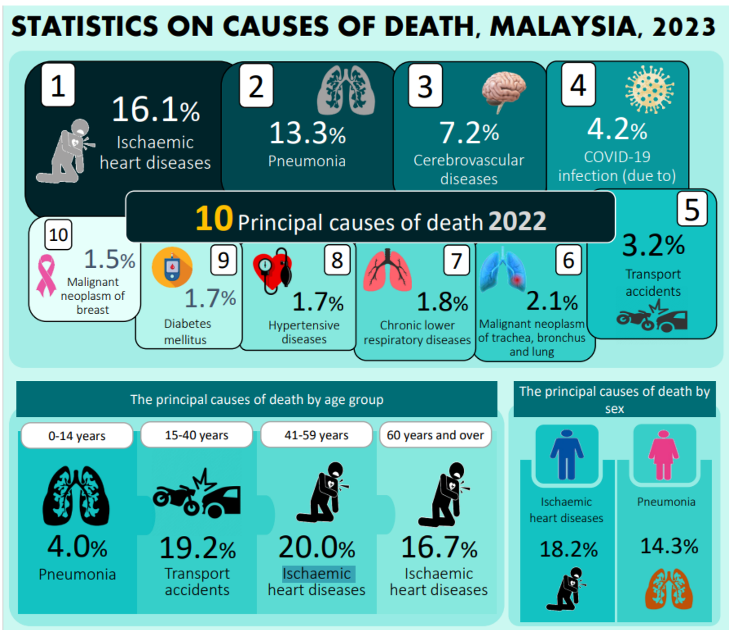
Figure 2: Statistics on Malaysia's pharmaceutical sector



Source: Statista

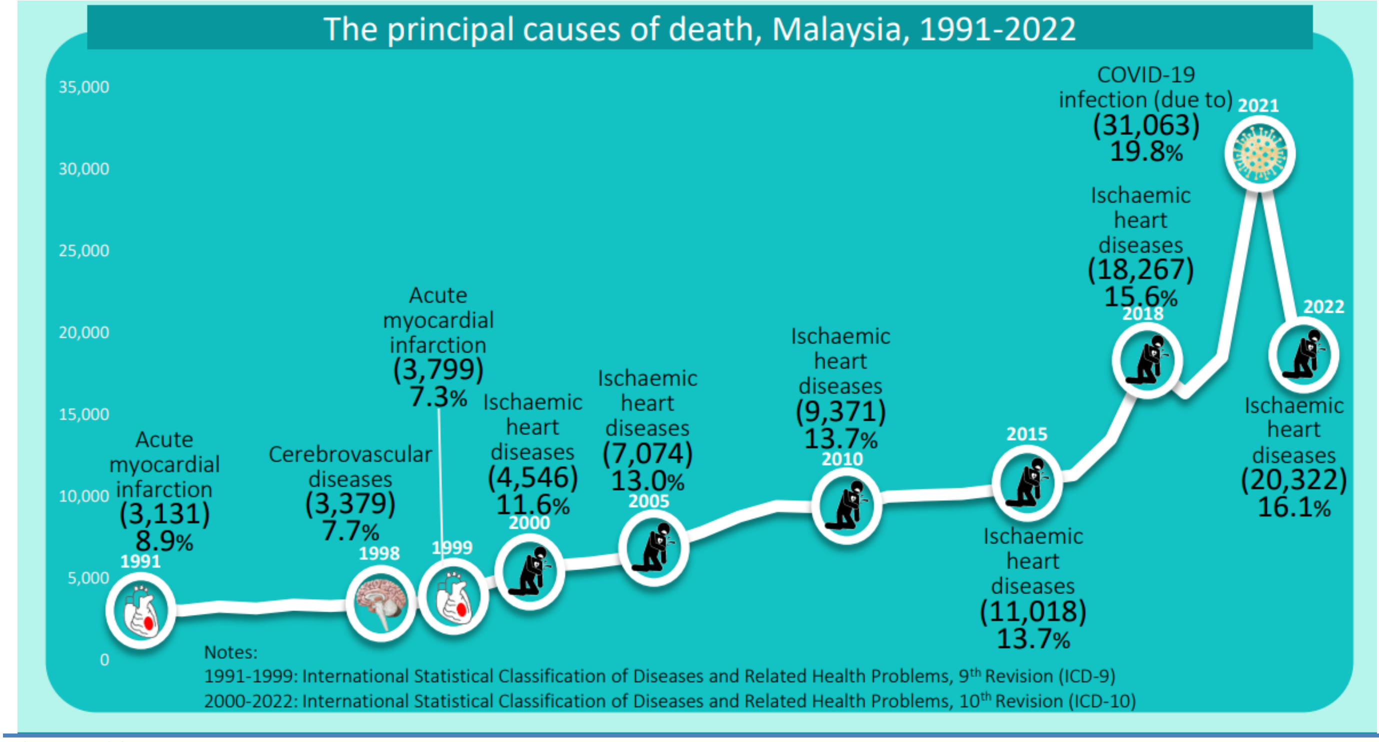
Rising number of non-communicable diseases (NCDs). According to Department of Statistic Malaysia or DOSM, cardiovascular diseases remain the primary cause of death in Malaysia. In 2022, the country reported 20,322 fatalities as a result of ischaemic heart diseases. Although the numbers of fatalities appear to be lower on a YoY basis – due to the higher number of deaths due to COVID-19 in 2021 – the mortality rate of contracting ischaemic heart diseases has been on a rising trend (2022: 16.1% , 2019: 15%). Key root causes of NCDs include an unhealthy lifestyle (diet, and lack of physical activity), smoking and second-hand smoke exposure, high blood cholesterol level (as a result of stress), and other genetic factors. Other challenges in containing NCDs include a lack of public awareness (in conducting regular health screening), late diagnosis, and low adherence to treatments.

Figure 3: Statistics on causes of death in Malaysia (2022)



Source: Department of Statistics Malaysia (DOSM)

Figure 4: Causes of death in Malaysia (1991-2022)

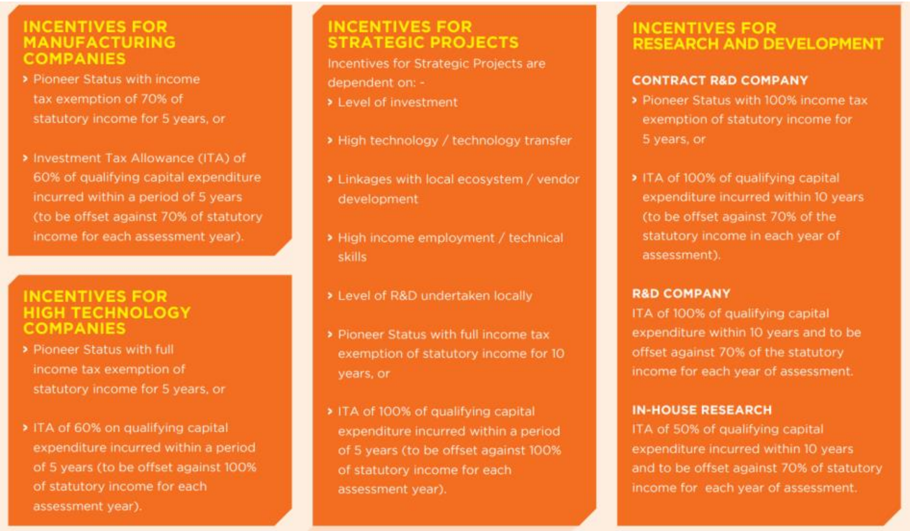


Source: DOSM

Rising health awareness. The increase in health awareness among consumers to improve immunity against COVID-19 and NCDs is expected to be the near term re-rating catalyst, in our view, in propelling the growth of over-the-counter or OTC consumer healthcare products. According to Vodus Research, Malaysians have become more health conscious owing to the COVID-19 pandemic, and high rates of obesity and diabetes. In 2021, 50% of all Malaysians consumed health supplements products – vitamin C was among the most popular supplements consumed. This is followed by multi-vitamins and fish oil.

Various supportive measure in place. The Government values the importance of the pharmaceutical sector as a catalytic industry. Hence, it has the relevant policies and regulations to support this sector's growth. In view to that, there are pockets of supportive measures (Figure 5) – primarily tax incentives – to support local pharmaceutical players in gearing up their R&D capabilities, as well as allowing them to move up the value chain.

Figure 5: Supportive regulatory measure for Malaysia's pharmaceutical industry



Source: Malaysian Investment Development Authority

Other supportive measures in the healthcare sector under Budget 2024:

i. The Government allocated MYR30m in incentives to train the local workforce. This includes offering professionals' expertise as instructors and funding innovation in the production of new products in key sectors such as aerospace and medical devices;

ii. MYR5.5bn was allocated to obtain the supplies of medicine, consumables, reagents, and vaccines;

iii. MYR200m was allocated for the procurement to ensure the readiness of health services in responding to emergency calls;

iv. MYR100m was allocated under the MADANI Medical Scheme.

Financial Overview and Valuation

Financial overview. APEX's business operations can be divided into three key segments: Distribution (90% of its revenue), manufacturing (10% of revenue), and corporates (<1% of revenue; most of the segmental performance are reported as a share of JV and associate item).

Figure 6: Business division

Reporting segments	Business Operation	% of top line contribution
Manufacturing	Manufacturing and marketing of pharmaceuticals, consumer healthcare products, and medical devices.	10%
Distribution	Wholesale, marketing and distribution of pharmaceuticals, consumer healthcare products, and medical devices.	90%
Corporate	Contract manufacturing of orthopaedic devices.	<1%

Source: Company data

The group registered a steady 3-year CAGR revenue growth of c.8.4% between FY19 and FY22. These were attributable to several key factors, including the gradual reopening of the economy (which boosted export sales), pent-up consumer demand for respiratory medicines (in 2021-2022), and APEX's timely capacity expansion, ie the addition of a high-speed blister packaging line for tablets and capsules.

Meanwhile, the performance of SAG – recorded as a share of results of an associate – tripled YoY to MYR29.6m in 2022 as a result of a rise in customer orders (clearance of backlog orders) post the pandemic. The firm has also benefited from trade diversions, with new orders mainly from Europe due to the surge in production costs in the West. As such, APEX recorded a historic high core profit of MYR98m, representing a 3-year CAGR of 23%.

Results highlights. APEX's revenue increased 9.4% QoQ on the back of stepped-up sales and marketing initiatives in the face of slowing market demand, especially for consumer healthcare. 3Q23 revenue was also 1.4% higher YoY and, despite the seemingly miniscule change (considering that 3Q23 saw high market demand fuelled by a strong post-pandemic economic recovery), this figure boasts positive prospects. Regardless, the group's PBT was down 5.9% YoY due to lower share of earnings from associate SAG. It was also 91% lower QoQ due to a huge non-recurring gain of MYR304.4m recognised in 2Q23.

Earnings projection. Moving forward, we are projecting a 3-year earnings CAGR of 4% from 2022 to 2025 – stripping out SAG's contributions disposal, the 3-year CAGR would have been 16% – vs 11% or the 10-year average growth rate of the retail sales of medical products. This is expected to be anchored by resilient consumer demand for medicines, as: i) Pharmaceutical sales are typically non-cyclical in nature, ii) there is growth visibility stemming from demand for orthopaedic and surgical equipment (as global customers seek to diversify their global supply base), and iii) there is a steady drug procurement outlook as patient visits continue to chart healthy growth post the pandemic.

Figure 7: Revenue trends

Source: Company data

Figure 8: Core profit trends

Source: Company data

Balance sheet. As of 3Q23, APEX has a net cash of MYR375m as the group continues to pare down its borrowings. Meanwhile, it had been reporting a consistent stable operating cash flow position, given similar numbers in 3Q22 (MYR49m vs MYR46m). Moving forward, APEX's cash flow should be able to support the group's capex commitments and dividend payments.

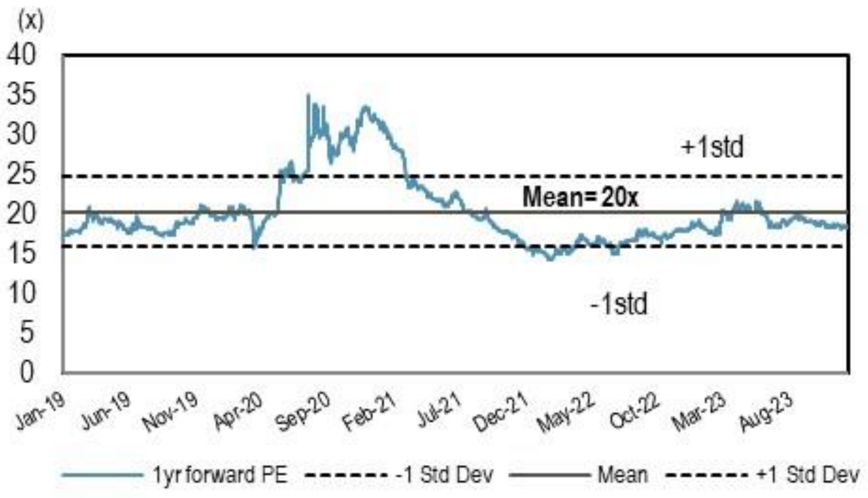
Dividend policy. The group does not have a dividend policy but has been giving out dividends consistently over the last four years. For the latest reported financial quarter (9M23), APEX paid out an interim single-tier dividend of 2.50 sen per share (2022 payout was 61%). We estimate a similar payout ratio of 61% for 2023 and 2024, which should translate to 2024F dividend yields of 3%.

Divestment of SAG. APEX had completed the divestment of some of its SAG stakes to Quadria at an enterprise value of USD240m. The transaction represents an opportunity for the group to unlock long-term shareholder value in its investment in SAG. Since 2013, APEX has invested a total of MYR7m for its 40% equity interest in the firm. At an EV of USD240m (equivalent to MYR1,059m), and assuming the estimated negative net debt and working capital adjustment of USD25m (equivalent to MYR110m), the 40% interest attributable to APEX would amount to USD86m (equivalent to MYR379m) before re-investment. Based on such an illustration, the divestment would generate a return on this 10-year investment for APEX of approximately 54x over its investment costs since 2013. The disposal valuation EV/EBITDA of 16.7x is deemed valuation-accretive, given the group's 5-year historical mean of 13x. Post divestment, APEX's effective stake is expected to be lowered to 16% from the current 40%.

Beyond 2024, we were upbeat on SAG's growth outlook, underpinned by the potential improvement operating efficiency post consolidation of its manufacturing campus at Batu Kawan (with aims to relocate the Prai and Telok Kumbar plants in single location by 4Q23). Note: SAG is poised to benefit from increasing orders from its multi-national customers as a result of increased global demand, as well as clients seeking avenues to diversify their global supply base.

Valuation. We adopted a P/E-based valuation at 20x FY24 P/E to value the stock. This valuation is in line with APEX's 5-year historical mean, given its better earnings visibility, better-than-peers margins profile, and capacity-driven growth outlook. Being the largest pharmaceutical player in the private sector (estimated market share of 15%), APEX has been able to differentiate itself from competitors like Duopharma Biotech (DBB MK, BUY, TP: MYR1.41) and Pharmaniaga (PHRM MK, NR) due to its larger clientele based (serving 15,505 customer accounts as at 2022; primarily clinics, pharmacies, hospitals, and retail and general stores in Malaysia) as opposed to the public sector, which generally commands lower margins.

Figure 9: APEX's P/E band



Source: Bloomberg, RHB

Figure 10: Peers comparison table

Company	Country	FYE	Mkt cap (USDm)	Price 18-Dec-23 (Local currency)	P/E (x) Actual	P/E (x) 1-yr fwd	P/E (x) 2-yr fwd	Div. yld (%) 1-yr fwd	ROE (%) 1-yr fwd	EV/ EBITDA 1-yr fwd	NP growth (%) 1-yr fwd	NP growth (%) 2-yr fwd
APEX	MA	12/2023	378.0	2.46	16.4	18.3	18.5	2.4	21.4	12.6	-0.1	0.0
Kotra Industries	MA	06/2024	147.5	4.67	10.1	11.1	10.5	4.8	75.1	7.2	-0.1	0.1
Duopharma Biotech	MA	12/2023	260.2	1.27	16.3	18.0	14.0	1.7	74.8	12.2	-0.1	0.3
Pharmaniaga	MA	12/2023	132.0	0.43	n.a.	n.a.	n.a.	0.0	21.4	24.1	-1.0	-6.7
Beshom Holdings	MA	04/2024	61.4	0.96	16.8	18.3	34.2	4.2	21.2	7.5	-0.1	-0.5
YSP Southeast Asia Holding	MA	12/2023	69.5	2.30	8.9	n.a.	n.a.	0.0	0.0	n.a.	0.0	0.0
Nova Wellness Group	MA	06/2024	43.1	0.64	12.9	11.2	9.9	5.5	21.5	7.6	0.1	0.1
Market cap weighted average			**164.4**		**11.1**	**11.1**	**10.8**	**2.3**	**49.9**	**11.5**	**-0.2**	**-1.2**
Simple average			**118.9**		**13.0**	**14.7**	**17.1**	**2.7**	**35.7**	**11.7**	**-0.2**	**-1.1**

Source: Bloomberg, RHB

Company Overview

APEX is a leading Malaysia-based healthcare group and was first founded in 1962. The group, through its subsidiaries, focuses on the manufacturing, marketing, and distribution of pharmaceutical, consumer healthcare products, and medical devices. It operates through three segments: Manufacturing, distribution, and corporate, in which the last segment also engages in the contract manufacturing of orthopaedic devices. APEX now has operating subsidiaries in both Malaysia and Singapore, as well as a commercial presence in over 20 countries worldwide.

As mentioned above, its business segments can be divided into:

i. **Manufacturing (10% of FY22 revenue).** The key business in the manufacturing segment is Xepa, comprising two wholly owned subsidiary companies, ie Xepa-Soul Pattinson in Malaysia and Xepa-Soul Pattison in Singapore. Xepa manufactures and markets its branded healthcare products, including cough and cold medicines, OSD forms, as well as cream and ointments. It also markets its products globally, where it exported its first manufactured product in Australia in 1Q21. This was followed by drugs for the central nervous system and Alzheimer's in 1Q22. In the same year, the business exported its Eye-Mo eye drops to Mexico for the first time, marking its maiden foray into Latin America;

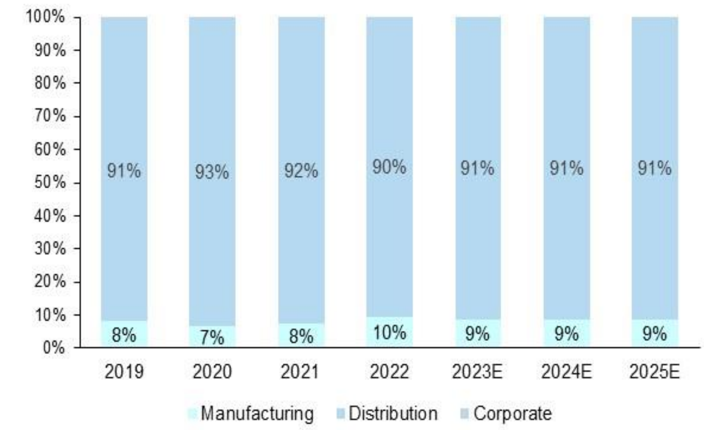
ii. **Distribution (90% of FY22 revenue).** APEX and ABio Marketing (ABIO) make up for the main businesses in this segment. The former is a service provider, offering seamless specialist services, which include wholesaling, sales, and distribution of pharmaceutical products to major companies such as Nestle Group, 3M, and Rigel Pharma. ABIO develops and commercialises the group's portfolio of branded healthcare products. This includes the top two pharmaceutical products, ie Clavomax (antibiotic) and Avorius (allergy medicine). In 2022, ABIO also succeeded in commencing sales of Avofer Injection, which is used for iron deficiency treatments, in Singapore;

iii. **Corporate (<1% of FY22 revenue).** The corporate segment mainly consists of the group's investments in 40% associate SAG, a leading ASEAN contract manufacturer of orthopaedic devices. The latter operates its primary production facility at Prai Industrial Estate and Penang Science Park. In 4Q22, the leased production space in Penang Science Park was increased by 30% to meet forecast volumes for 2023.

Operational track record. Ever since the listing, APEX has established a successful track record of more than 20 years in the manufacturing of healthcare products and devices that are used by physicians and pharmaceutical companies to treat infections, cardiovascular issues, rheumatic conditions, and more. The group's main market is in Malaysia, where it distributes its products to clinics, pharmacies, and supermarkets by leveraging on a distribution network of more than 10,000 customers. APEX also has a notable presence in Singapore and now is marking its products and services in Australia and Latin America.

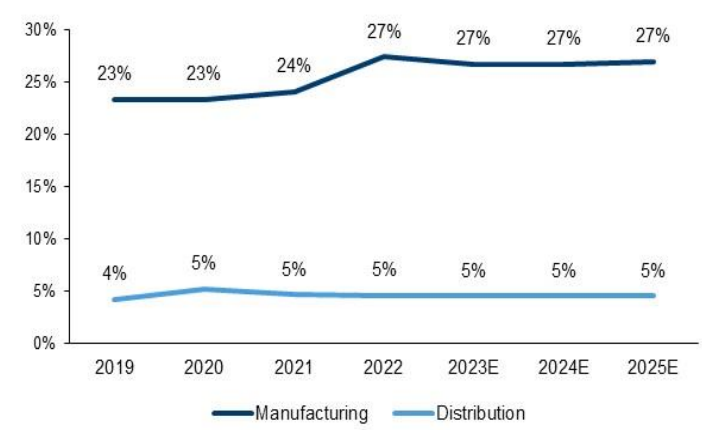
Strong management team. APEX is helmed by chairman and CEO Dr Kee Kirk Chin, 61. He obtained a MBBS back in 1987 and has been a medical practitioner with General Medical Council, UK. Dr Kee also has over 20 years of experience in the healthcare industry. He is supported by Robert Dobson Millner, who has over 30 years of experience in wholesaling and manufacturing of pharmaceutical products. Other important people within the group are Datuk Noharuddin Bin Nordin @ Harun who has vast working experience with Ministry of International Trade and Industry and was the CEO of Malaysian Investment Development Authority (MIDA) in 2011. Financial Controller Chiew Woon Wui backs the group with her 20 years of experience in accounting and finance-related functions.

Figure 11: Revenue breakdown by segment



Source: Company data

Figure 12: PBT margins by segment



Source: Company data

Key Risks

FX risks. The depreciation of the MYR will have a negative impact on the generic drug makers under our coverage, as the majority of their production costs (active pharmaceutical ingredients) are denominated in USD terms.

Regulatory risk. There was previous talk of the Health Ministry regulating medicine prices in the private healthcare sector by using an external reference pricing mechanism to cap wholesale prices. Subsequently, there would be the setting up of a ceiling for the retail prices of prescription drugs in private hospitals, clinics, and pharmacies – based on regressive mark-ups from the wholesale ceiling price. Under the previous administration, former Health Minister Khairy Jamaluddin's called for a direct federal control of drug prices as a "last resort" on Jul 2022. Meanwhile, the National Action Council on Cost of Living meeting (chaired by Prime Minister Dato' Seri Anwar Ibrahim) has agreed to implement a drug pricing transparency mechanism with price displays indicated to the public.

Loss of key principals. Risks associated with high dependency on revenue contributions from key external principals. This is given the high competition in the pharmaceutical distribution sector with aggressive margins pressure from competitors.

Higher-than-expected operating costs. We see risks arising from the surge in utility costs (as a result of higher fuel costs) and staff wages (minimum wage policy), which can result in margins compression.

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2017-02-14	Not Rated	na	0.80

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
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