27 August 2020

Outthink. Outperform.

AFFIN HWANG CAPITAL

Results Note | **RM3.72 @ 26 August 2020**

Apex Healthcare (APEX MK)

SELL (maintain)
Up/Downside: -26%

Price Target: RM2.75
Previous Target (Rating): RM2.55 (SELL)

"Earnings holding up well but valuation looks rich"

Earnings holding up well

- **2Q20 core net profit slipped by 6.7% qoq / 1.8% yoy to RM12.7m due to lower revenue from the manufacturing segment, partly cushioned by higher contributions from the wholesale & distribution business.**
- **Cumulatively, 6M20 core net profit grew by 8.4% to RM26.2m on strong demand for pandemic-related products; above our expectations.**
- **We raised our 2020-22E EPS by 4-16% and increase our PT to RM2.75. Maintain SELL due to its rich valuations - at 29x 2021E PER, Apex is now trading at 5 standard deviations above its 5-year average PER of 14x.**

2Q20 earnings slipped by 6.7% qoq due to lower manufacturing revenue

Apex's 2Q20 revenue fell by 9.6% qoq due to lower demand from clinics and private hospitals where orders had declined after strong sales in 1Q20 when both stocked up their inventories. Elsewhere, demand for pandemic-related products (ie. face masks, thermometers, vitamin C and hand sanitisers) was strong during the early part of 2Q20 but has since moderated. Overall, the lower revenue led to a lower core net profit of RM12.7m (-6.8% qoq).

6M20 core net profit of RM26.2m (+8.4% yoy) was above expectations

Cumulatively, Apex's 6M20 core net profit grew by 8.4% yoy to RM26.2m on the back of higher revenue of RM368m (+9.0% yoy) and a higher EBITDA margin of 10.7% (+0.9 ppt), driven by strong demand from pandemic-related products. Overall, the results were above the market and our expectations – Apex's 6M20 core net profit account for 49% of consensus and 53% of our prior earnings forecasts for the year. The earnings beat was due to stronger-than-expected margin for the wholesale & distribution business and lower-than-expected disruption to its manufacturing segment during the MCO period.

Raising 2020-22E EPS by 4-16%, maintain SELL on rich valuation

We raise our 2020-22 EPS forecasts by 4-16% after incorporating: (i) higher revenue and profit margin assumptions for the wholesale & distribution segment in anticipation of firm demand for pandemic-related products; and (ii) higher 2020E revenue from the manufacturing segment due to limited disruption during the MCO period. In tandem, we raised our TP to RM2.75 (from RM2.55) based on an unchanged 21.5x 2021E EPS. Maintain SELL. At 29x 2021E PER, Apex is trading at 5 standard deviations above its 5-year average PER of 14x, and looks rich. Key risk: stronger-than-expected earnings.

Earnings & Valuation Summary

FYE 31 Dec	2018	2019	2020E	2021E	2022E
Revenue (RMm)	652.7	688.8	761.1	793.3	869.5
EBITDA (RMm)	71.0	76.1	82.4	86.2	104.4
Pretax profit (RMm)	69.3	66.3	74.9	78.7	97.4
Net profit (RMm)	58.6	52.8	56.9	59.8	74.0
EPS (sen)	12.5	11.2	12.1	12.7	15.7
PER (x)	29.8	33.2	30.7	29.3	23.7
Core net profit (RMm)	60.2	55.4	56.9	59.8	74.0
Core EPS (sen)	12.8	11.8	12.1	12.7	15.7
Core EPS growth (%)	33.9	-8.0	2.8	5.0	23.8
Core PER (x)	29.0	31.6	30.7	29.3	23.7
Net DPS (sen)	3.4	3.7	3.9	4.1	5.0
Dividend Yield (%)	0.9	1.0	1.0	1.1	1.4
EV/EBITDA	23.9	21.7	19.9	18.7	15.1
Chg in EPS (%)			+16.2	+7.7	+4.0
Affin/Consensus (x)			1.1	1.0	1.0

Source: Company, Affin Hwang estimates

Share price performance

	1M	3M	12M
Absolute (%)	14.1	35.3	83.3
Rel KLCI (%)	17.1	25.4	89.3

	BUY	HOLD	SELL
Consensus	-	1	1

Source: Bloomberg

Stock Data

Sector	Healthcare & Pharmaceuticals
Issued shares (m)	474.3
Mkt cap (RMm)/(US$m)	1,765/423
Avg daily vol - 6mth (m)	0.4
52-wk range (RM)	1.77-4.55
Est free float	19.2%
Stock Beta	0.84
Net cash/(debt) (RMm)	123.6
ROE (CY20E)	12.8%
Derivatives	No
Shariah Compliant	Yes

Key Shareholders

Apex Pharmacy Holding	40.1%
Washington H Soul	29.9%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE Dec (RMm)	2Q19	1Q20	2Q20	QoQ % chg	YoY % chg	6M19	6M20	YoY % chg	Comments
Revenue	159.3	193.3	174.7	-9.6	9.7	337.5	368.0	9.0	Higher 6M20 revenue due to a surge in the sales of pandemic-related products which more than offset the decline in the manufacturing segment.
Op costs	143.3	173.2	155.6	-10.2	8.6	304.5	328.8	8.0	
EBITDA	16.0	20.1	19.2	-4.6	19.9	33.0	39.3	19.0	
EBITDA margin (%)	*10.0*	*10.4*	*11.0*	0.6ppt	0.9ppt	*9.8*	*10.7*	0.9ppt	Higher 6M20 EBITDA margin due to better margin in the wholesale and distribution segment.
Depn and amort	3.7	4.3	4.2	-0.7	13.2	7.2	8.5	17.4	
EBIT	12.3	15.8	14.9	-5.6	21.9	25.8	30.8	19.4	
Int expense	-0.4	-0.3	-0.3	-16.0	-27.3	-0.7	-0.6	-14.5	
Int and other inc	0.6	0.5	0.4	-25.3	-38.3	1.1	0.9	-16.1	
Associates	3.3	1.1	1.7	52.6	-49.7	4.1	2.8	-32.9	
Exceptional items	0.3	0.8	0.4	-53.3	10.9	0.4	1.2	179.8	Gain on disposal of PPE, forex and fair value gain / (loss) on derivatives
Pretax	**16.2**	**17.9**	**16.3**	-8.9	1.0	**30.7**	**34.3**	11.6	
Tax	-3.0	-3.6	-3.4	-4.8	15.5	-6.1	-7.0	15.0	
Tax rate (%)	18.2	20.0	20.9	0.9ppt	2.6ppt	19.8	20.4	0.6ppt	
MI	0.0	0.0	0.1	>100	>100	0.0	0.1	-633.3	
Net profit	**13.2**	**14.4**	**13.0**	-9.3	-1.4	**24.6**	**27.4**	11.3	
EPS (sen)	2.8	3.0	2.8	-9.5	-1.7	5.2	5.8	11.0	
Core net profit	**12.9**	**13.6**	**12.7**	-6.7	-1.8	**24.2**	**26.2**	8.4	Above market and our expectations.

Source: Affin Hwang, Company

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

This report is printed and published by:
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