



AmInvestment Bank

Company report

APEX HEALTHCARE

(APEX MK EQUITY, APER.KL)

18 May 2022

Improving visibility from YoY earnings growth

BUY

(Maintained)

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Rationale for report: Company result

Price	RM3.05
Fair Value	RM3.45
52-week High/Low	RM3.20/RM2.38

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	770.8	815.7	851.8	889.9
Core net profit (RM mil)	59.4	71.5	74.9	79.3
FD Core EPS (sen)	12.5	15.0	15.7	16.7
FD Core EPS growth (%)	5.9	19.7	4.8	5.9
Consensus Net Profit (RM mil)	-	66.1	69.5	73.5
DPS (sen)	11.5	5.7	6.0	6.3
PE (x)	24.3	20.3	19.4	18.3
EV/EBITDA (x)	15.0	14.8	13.8	12.8
Div yield (%)	4.5	2.2	2.3	2.5
ROE (%)	12.2	13.5	13.0	12.8
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	476.3
Market Cap (RMmil)	1,452.7
Book Value (RM/share)	1.07
P/BV (x)	2.9
ROE (%)	12.2
Net Gearing (%)	-
Major Shareholders	Apex Pharmacy Holdings Sdn Bhd (40.0%) Washington H. Soul Pattinson and Company Ltd. (30.0%)
Free Float	92.0
Avg Daily Value (RMmil)	0.2

Price performance	3mth	6mth	12mth
Absolute (%)	15.5	13.4	4.5
Relative (%)	19.1	11.1	6.9



Investment Highlights

- We maintain BUY on Apex Healthcare (Apex) with an unchanged fair value (FV) of RM3.45, based on a rolled-forward FY23F PE of 22x – 0.5 standard deviation above its 4-year average of 20x, with a neutral rating of 3 stars.
- Our forecasts are maintained as 1QFY22 net profit of RM16mil was largely in line with expectations, accounting for 22% of our FY22F earnings and 24% of consensus. No interim dividend was declared as expected.
- YoY, 1QFY22 net profit rose 33%, largely driven by a 20% increase in revenue to RM216mil as Covid-19 movement restrictions were lifted amid mild Omicron symptoms, underpinned by stronger market demand for pharmaceuticals, consumer healthcare products and medical devices.
- However, on a QoQ comparison, 1QFY22 net profit decreased 24% despite a 9% revenue increase driven partly from a single-digit product price hikes early this year. The sequential earnings contraction stemmed from:
 - 85% associate pretax plunge to RM1mil from 40%-owned Straits Apex Straits, which benefited from an usually high recognition of backlogged orders in 4QFY21. This was also impacted by dampened production output as its workforce as impacted by Covid 19 infections and delays in component deliveries amid ongoing supply chain disruptions.
 - 36% surge in selling and marketing expenses to RM16mil, partly driven by higher commission on increased sales and normalising travel expenditures.
 - 8%-point decline in manufacturing margin to 70% from a seasonally higher 78% in 4QFY21.
- Apex, which will not be impacted by the prosperity tax, is positioned to benefit from an ageing population, public health education advancement and steady healthcare expenditure increase.
- While the company does not have a dividend policy at this juncture, we highlight that its dividend payout ratio can be easily higher than our FY22F-FY24F assumption of 38% given the group's substantive net cash of RM170mil (12% of market cap). Assuming a special dividend of 6 sen as in FY21, we estimate that the yield that can be raised from 2% to a more attractive 5%.
- Against the backdrop of a stable and more visible FY23F-24F earnings growth of 5%-6%, the stock currently trades at a compelling FY23F PE of 19x, below its 4-year average of 20x (Exhibit 3).

EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	1QFY21	2QFY21	3QFY21	4FYQ21	1QFY22	QoQ (%)	YoY (%)
Revenue	179.5	182.6	211.1	197.7	215.9	9.2	20.3
Gross profit	37.8	37.3	44.3	41.5	46.0	10.8	21.7
EBITDA	19.4	19.6	22.4	23.9	23.0	(3.8)	18.7
EBIT	15.3	15.7	18.3	19.9	19.2	(3.8)	25.0
Share of associates	0.3	0.7	0.5	5.6	0.9	(84.7)	>100
Profit before tax	15.4	16.1	18.6	25.3	19.8	(21.7)	28.4
Tax	(3.6)	(3.3)	(4.5)	(4.6)	(4.0)	(11.4)	13.7
Net profit	11.9	12.8	14.0	20.7	15.8	(23.8)	32.8
Core net profit	11.9	12.8	14.0	20.7	15.8	(23.8)	32.8
FD EPS (sen)	2.5	2.7	3.0	4.4	3.3	(23.8)	32.9
Gross DPS (sen)	0.0	2.5	0.0	9.0	0.0	n/a	n/a
Gross margin (%)	21.0	20.4	21.0	21.0	21.3	0.3ppt	0.3ppt
EBITDA margin (%)	10.8	10.7	10.6	12.1	10.7	-1.4ppt	-0.1ppt
Pretax margin (%)	8.6	8.8	8.8	12.8	9.2	-3.6ppt	0.6ppt
Core net profit margin (%)	6.6	7.0	6.6	10.5	7.3	-3.2ppt	0.7ppt
Effective tax rate (%)	23.1	20.5	24.5	18.1	20.4	2.4ppt	-2.6ppt
Segmental Revenue (RMmil)							
Manufacturing	15.1	11.7	16.6	15.2	18.4	21.0	22.2
Wholesale & Distribution	164.3	170.7	194.2	182.3	197.5	8.3	20.2
Corporate	0.1	0.2	0.2	0.1	0.0	(93.2)	(92.6)
Segmental PBT (RMmil)							
Manufacturing	9.1	9.0	11.5	11.9	13.0	8.7	43.1
Wholesale & Distribution	7.5	7.5	9.8	8.4	9.2	10.1	23.6
Corporate	(0.5)	0.2	(1.2)	5.9	(1.5)	(>100)	>100
Pretax margin (%)							
Manufacturing	60.0	77.4	69.5	78.3	70.3	-8.0ppt	10.3ppt
Wholesale & Distribution	4.5	4.4	5.0	4.6	4.7	0.1ppt	0.1ppt

Source: Bursa Malaysia/AmlInvestment Bank

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART



EXHIBIT 4: ESG MATRIX

Overall	★	★	★		
Waste management	★	★			
Natural resource conservation	★	★	★		
Occupational safety + health	★	★	★	★	
Workplace diversity	★	★	★		
Employee training + wellbeing	★	★	★		
Quality assurance + safety	★	★	★	★	
Communal efforts	★	★	★	★	
Corruption-free pledge	★	★	★		
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmlInvestment Bank

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	698.7	770.8	815.7	851.8	889.9
EBITDA	79.1	85.5	95.8	100.8	106.5
Depreciation/Amortisation	(16.5)	(16.3)	(15.6)	(15.9)	(16.4)
Operating income (EBIT)	62.7	69.2	80.3	84.9	90.1
Other income & associates	8.7	7.1	7.2	7.4	7.5
Net interest	(1.1)	(0.9)	(0.9)	(0.9)	(0.9)
Exceptional items	-	-	(0.2)	-	-
Pretax profit	70.2	75.4	86.4	91.4	96.8
Taxation	(14.2)	(16.0)	(15.1)	(16.4)	(17.4)
Minorities/pref dividends	-	-	-	-	-
Net profit	56.0	59.4	71.3	74.9	79.3
Core net profit	56.0	59.4	71.5	74.9	79.3
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	176.9	172.8	168.4	164.7	160.0
Intangible assets	1.4	2.6	2.6	2.6	2.6
Other long-term assets	45.2	53.3	60.6	68.0	75.5
Total non-current assets	223.5	228.7	231.5	235.2	238.1
Cash & equivalent	172.9	194.1	53.4	72.2	102.0
Stock	92.1	95.4	102.1	105.3	110.7
Trade debtors	129.3	158.8	183.0	195.6	202.0
Other current assets	3.1	3.2	116.6	123.4	129.9
Total current assets	397.4	451.4	455.1	496.5	544.5
Trade creditors	117.7	143.3	141.5	152.0	156.5
Short-term borrowings	22.0	6.6	6.6	6.6	6.6
Other current liabilities	1.5	2.0	2.0	2.0	2.0
Total current liabilities	141.1	151.9	150.1	160.6	165.2
Long-term borrowings	5.8	14.8	15.3	5.3	5.3
Other long-term liabilities	6.0	6.6	6.6	6.6	6.6
Total long-term liabilities	11.8	21.4	21.9	11.9	11.9
Shareholders' funds	467.8	506.8	551.0	597.4	646.6
Minority interests	0.1	0.1	0.1	0.1	0.1
BV/share (RM)	0.99	1.07	1.16	1.25	1.36
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	70.2	75.4	86.4	91.4	96.8
Depreciation/Amortisation	16.5	16.3	15.6	15.9	16.4
Net change in working capital	20.4	(8.8)	(32.6)	(5.4)	(7.2)
Others	(21.5)	(21.1)	(20.9)	(22.8)	(24.1)
Cash flow from operations	85.5	61.9	48.5	79.1	81.8
Capital expenditure	(15.9)	(13.1)	(14.0)	(14.0)	(14.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(35.6)	(12.3)	(2.0)	(2.0)	(2.0)
Cash flow from investing	(51.5)	(25.4)	(16.0)	(16.0)	(16.0)
Debt raised/(repaid)	(2.9)	(5.9)	0.5	(10.0)	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(17.5)	(25.2)	(27.1)	(28.5)	(30.1)
Others	1.6	-	(5.9)	(5.9)	(5.9)
Cash flow from financing	(18.8)	(31.1)	(32.5)	(44.4)	(36.0)
Net cash flow	15.1	5.4	-	18.8	29.8
Net cash/(debt) b/f	71.5	86.6	93.4	93.4	112.2
Net cash/(debt) c/f	86.6	93.4	93.4	112.2	142.0
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	1.4	10.3	5.8	4.4	4.5
EBITDA growth (%)	7.6	8.1	12.1	5.2	5.6
Pretax margin (%)	10.0	9.8	10.6	10.7	10.9
Net profit margin (%)	8.0	7.7	8.7	8.8	8.9
Interest cover (x)	54.7	80.3	91.3	94.7	98.5
Effective tax rate (%)	20.2	21.2	17.5	18.0	18.0
Dividend payout (%)	38.2	91.9	38.0	38.0	38.0
Debtors turnover (days)	75	68	76	81	82
Stock turnover (days)	47	44	44	44	44
Creditors turnover (days)	62	62	64	63	63

Source: Company, AmlInvestment Bank Bhd estimates

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