"The lower contribution from associates was due to production disruptions in Jan and Feb"

Share price performance

	1M	3M	12M
Absolute (%)	2.7	15.5	4.5
Rel KLCI (%)	4.4	19.1	6.9

	BUY	HOLD	SELL
Consensus	1	2	-

Stock Data

Sector	Healthcare & Pharmaceutical
Issued shares (m)	477.0
Mkt cap (RMm)/(US$m)	1454.9/330.8
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	2.38-3.2
Est free float	19.9%
Stock Beta	0.58
Net cash/(debt) (RMm)	172.64
ROE (CY22E)	12.0%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200) ESG Rank	NA
ESG Risk Rating	18.4

Key Shareholders

Apex Pharmacy Holding	39.9%
Washington H Soul	29.7%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

Ng Chi Hoong
T (603) 2146 7470
E chihoong.ng@affinhwang.com

Apex Healthcare (APEX MK)

HOLD (maintain)
Up/Downside: +9.8%

Price Target: RM3.35
Previous Target (Rating): RM2.80 (HOLD)

Production disruption ruined a good start

- **Apex Healthcare (APEX) reported a decent set of results, as we believe that 1Q22 core-profit of RM15.2m (+29.8% yoy) is tracking ahead of our expectation but within consensus**
- **Although profits were down by 25.6% qoq, it was mainly due to the lower contribution from its associate, as production output was capped again due to an outbreak in their factory for most of the quarter**
- **We have raised our target price to RM3.35, as we roll forward our valuation base and raised our EPS forecast for 2022-24E by 7.8%-12.8%. However, we maintain our HOLD rating as we believe that stock is fairly valued**

Stronger demand due to higher social activities

The distribution business, recorded a 24% qoq increase in PBT to RM13.0m, as demand continued to grow for its flu product, given that social activities have increased since the relaxation of Covid19 restrictions in both Malaysia and Singapore. The improvement however, was stronger than we initially expected. The 43% qoq increase in PBT to RM9.2m for the manufacturing segment, was supported by the delivery of new products from its contract manufacturing. Given that overall demand for healthcare products is on the rise, we believe that the current performance should be sustainable moving forward.

Lower associate income due to production disruption

Contribution from Apex's associates have decline by 85% qoq to RM0.9m, which was a negative surprise to us, as we had previously forecasted a full year contribution of RM9.0m. The sharp decline was due to a Covid19 outbreak at its production facility, which forced the factory to operate at a reduce capacity in Jan and Feb. Apart from that, the lack of certain components and services due to supply chain disruption have also worsened the issue. Management indicated that production output has improved since, and we are expecting stronger contribution in 2Q22, as Apex would likely have ramped up production to fulfil the order backlog.

Maintain HOLD with a higher TP of RM3.35

We raised our 2022-24E EPS forecasts by 7.8%-12.8% after incorporating the latest earnings performance. We have also raised our TP to RM3.35, based on 22x 2023 PER, but maintained our HOLD call, as we believe that the stock is fairly valued. Upside risks are strong earnings growth and major manufacturing contract wins; key downside risk is earnings disappointments.

Earnings & Valuation Summary

FYE 31 Dec	2020	2021	2022E	2023E	2024E
Revenue (RMm)	698.7	770.8	841.2	880.9	922.3
EBITDA (RMm)	76.6	82.9	97.6	101.4	105.1
Pretax profit (RMm)	70.2	75.4	90.9	94.6	98.4
Net profit (RMm)	56.0	59.4	69.0	71.9	74.8
EPS (sen)	11.8	12.5	14.6	15.2	15.8
PER (x)	25.8	24.3	20.9	20.1	19.3
Core net profit (RMm)	55.3	58.6	69.0	71.9	74.8
Core EPS (sen)	11.7	12.4	14.6	15.2	15.8
Core EPS growth (%)	5.7	6.0	17.8	4.1	4.1
Core PER (x)	26.1	24.6	20.9	20.1	19.3
Net DPS (sen)	4.5	11.5	5.8	6.1	6.3
Dividend Yield (%)	1.5	3.8	1.9	2.0	2.1
EV/EBITDA	16.9	15.3	13.1	12.3	11.5
Chg in EPS (%)			+12.8	+9.1	+7.8
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE Dec (RMm)	1Q21	4Q21	1Q22	QoQ % chg	YoY % chg	Comments
Revenue	179.5	197.7	215.9	9.2	20.3	Driven by higher demand healthcare products, and rising contract manufacturing orders
Op costs	-160.7	-174.6	-193.9	11.0	20.6	
EBITDA	18.8	23.1	22.1	-4.3	17.4	
EBITDA margin (%)	10.5	11.7	10.2	-1.5 ppt	-0.3 ppt	
Depn and amort	-4.1	-4.0	-3.9	-3.9	-4.8	
EBIT	14.7	19.0	18.2	-4.4	23.5	
EBIT margin (%)	8.2	9.6	8.4	-1.2 ppt	+0.2 ppt	
Int expense	-0.2	-0.2	-0.2	-12.3	-14.7	
Int and other inc	0.4	0.6	0.4	-35.3	-7.1	
Associates	0.3	5.6	0.9	-84.7	153.1	Decline in contribution qoq, due to production disruption in the plant in Jan and Feb
Exceptional items	0.2	0.3	0.6	106.3	221.3	
Pretax Profit	**15.4**	**25.3**	**19.8**	-21.7	28.4	
Tax	-3.6	-4.6	-4.0	-11.4	13.7	
Tax rate (%)	23.1	18.1	20.4	2.4 ppt	-2.6 ppt	
MI	0.0	0.0	0.0	-100.0	-100.0	
Net profit	**11.9**	**20.7**	**15.8**	-23.8	32.8	
EPS (sen)	2.5	4.4	3.3	-23.9	32.6	
Core net profit	**11.7**	**20.4**	**15.2**	**-25.6**	**29.8**	Above ours but within consensus

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 intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable and is not to be taken in substitution for the exercise of your judgment. You should obtain independent financial, legal, tax or such other professional advice, when making your independent appraisal, assessment, review and evaluation of the company/entity covered in this report, and the extent of the risk involved in doing so, before investing or participating in any of the securities or investment strategies or transactions discussed in this report. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (expressed or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, estimates, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel and the same are subject to change without notice. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest. Under no circumstances shall the Company, be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company its directors, its employees and their respective associates may have positions or financial interest in the securities mentioned therein. The Company, its directors, its employees and their respective associates may further act as market maker, may have assumed an underwriting commitment, deal with such securities, may also perform or seek to perform investment banking services, advisory and other services relating to the subject company/entity, and may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. The Company, its directors, its employees and their respective associates, may provide, or have provided in the past 12 months investment banking, corporate finance or other services and may receive, or may have received compensation for the services provided from the subject company/entity covered in this report. No part of the research analyst's compensation or benefit was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. Employees of the Company may serve as a board member of the subject company/entity covered in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

This report contains information developed by Sustainalytics. Such information and data are proprietary of Sustainalytics and/or its third-party suppliers (Third-Party Data) and are provided for informational purposes only. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at https://www.sustainalytics.com/legal-disclaimers.

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com