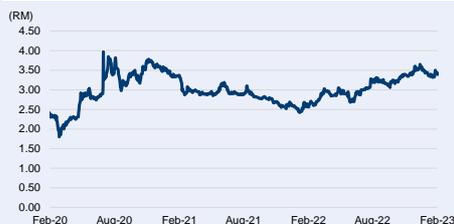


"FY22 above expectations due to stronger-than-expected associate contribution"

### Share price performance



	1M	3M	12M
Absolute (%)	-1.5	0.0	34.6
Rel KLCI (%)	1.0	-1.6	45.0

	BUY	HOLD	SELL
Consensus	2	1	1

Source: Bloomberg

### Stock Data

Sector	Healthcare
Issued shares (m)	477.6
Mkt cap (RMm)/(US\$m)	1619.1/364.6
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	2.51-3.69
Est free float	19.9%
Stock Beta	0.57
Net cash/(debt) (RMm)	136.14
ROE (CY23E)	17.0%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good	No
Constituent	
FBM EMAS (Top 200)	
ESG Rank	na
ESG Risk Rating	17.2 (+0.4 yoy)

### Key Shareholders

Apex Pharmacy Holding	39.8%
Washington H Soul	29.7%

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

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## Apex Healthcare (APEX MK)

### BUY (maintain)

Up/Downside: +23.9%

### Price Target: RM4.20

Previous Target (Rating): RM3.90 (BUY)

### Ending the year strongly

- FY22 earnings came in above consensus and our expectations from stronger contributions from its associate (Straits Apex). The Group proposed a 1-for-2 bonus issue
- We raise our FY23-24 earnings by 20%-22% to factor in stronger associate contributions. Our revision may possibly be deemed on the conservative side, as we take a cautious stance from the lack of disclosures
- Maintain BUY with a higher TP of RM4.20

### Earnings came in above expectations

4Q22 earnings of RM31.5m (+18% QoQ, +95% YoY) brought FY22 earnings to RM96.8m (+65% YoY), which represented 112% of our previous full-year estimate (119% of consensus). The results came in above expectations due to a stronger-than-expected contribution from its 40%-owned associate (Straits Apex) due to the fulfilment of backlog as well as new orders. Dividends of 5.5 sen per share was declared, bringing FY22 dividends to 8.5 sen per share. Separately, the Group proposed a 1-for-2 bonus issue, to be completed by 2Q23.

### We expect FY23-24 to remain resilient

To recap, Straits Apex manufactures Orthopaedic devices, components and surgical instruments. We gather that the additional 30% production floor space, which was completed in 4Q22, will commence production in 1Q23 upon receiving the necessary approvals. Whilst we were previously expecting a dip in FY23 earnings, we now believe Apex's FY23 earnings will see growth from stronger contribution by Straits Apex. We raise our FY23-24 earnings by +20%/22%, respectively, as we factor in higher associate contributions and introduce our FY25 estimates. Due to the lack of disclosures, we have applied a more conservative growth assumption for Straits Apex as opposed to annualising its 4Q22 momentum, pending further updates from the analyst briefing slated for 23<sup>rd</sup> Feb.

### Maintain BUY with a higher TP of RM4.20 (from RM3.90)

Post our earnings revisions, our PE-derived TP is raised to RM4.20, based on a 20x 2023E PER (from 22x as we update our forward mean PE). Our Buy call is premised on our optimism about the company's prospects as stronger demand for its products is sufficient to compensate for lower demand for Covid19-related products. Key downside risks are: i) supply chain uncertainties, ii) shortage of raw materials for its manufacturing arm, and iii) uncertainties in Straits Apex due to lack of disclosures.

### Earnings & Valuation Summary

FYE 31 Dec	2021	2022	2023E	2024E	2025E
Revenue (RMm)	770.8	877.7	894.6	934.7	972.0
EBITDA (RMm)	82.9	101.4	106.0	110.7	114.4
Pretax profit (RMm)	75.4	120.4	122.2	126.5	129.8
Net profit (RMm)	59.4	101.0	100.0	103.5	106.2
EPS (sen)	12.5	21.3	21.1	21.9	22.4
PER (x)	27.0	15.9	16.1	15.5	15.1
Core net profit (RMm)	58.6	96.8	100.0	103.5	106.2
Core EPS (sen)	12.4	20.4	21.1	21.9	22.4
Core EPS growth (%)	6.0	65.1	3.3	3.5	2.6
Core PER (x)	27.4	16.6	16.1	15.5	15.1
Net DPS (sen)	11.5	8.5	8.4	8.7	8.9
Dividend Yield (%)	3.4	2.5	2.5	2.6	2.6
EV/EBITDA	17.2	13.6	13.5	12.8	12.3

Chg in EPS (%)		+20.2	+21.6	new
Affin/Consensus (x)		1.2	1.2	-

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results Comparison

FYE Dec (RMm)	4Q21	3Q22	4Q22	QoQ % chg	YoY % chg	FY21	FY22	YoY %chg	Comments
Revenue	197.7	232.1	220.5	-5.0	11.6	770.8	877.7	13.9	Stronger demand for pharmaceuticals, medical devices and consumer healthcare products
Op costs	-174.6	-203.1	-194.1	-4.4	11.2	-687.9	-776.4	12.9	
EBITDA	23.1	29.0	26.4	-9.1	14.3	82.9	101.4	22.3	Improved margin as Apex was able to raise prices by passing on the higher production cost
<i>EBITDA margin (%)</i>	<i>11.7</i>	<i>12.5</i>	<i>12.0</i>	<i>-0.5ppt</i>	<i>0.3ppt</i>	<i>10.8</i>	<i>11.5</i>	<i>0.8ppt</i>	
Depn and amort	-4.0	-4.0	-4.2	4.3	3.2	-16.3	-15.6	-4.4	
EBIT	19.0	25.0	22.2	-11.3	16.7	66.6	85.7	28.8	
<i>EBIT margin (%)</i>	<i>9.6</i>	<i>10.8</i>	<i>10.1</i>	<i>-0.7ppt</i>	<i>0.4ppt</i>	<i>8.6</i>	<i>9.8</i>	<i>1.1ppt</i>	
Int expense	-0.2	-0.2	-0.2	18.2	-2.3	-0.9	-0.8	-11.5	
Int and other inc	0.6	0.4	0.5	32.3	-20.3	1.8	1.6	-11.4	
Associates	5.6	7.0	14.5	107.1	158.0	7.1	29.6	316.7	Uninterrupted production since 2Q22, 4Q22 fulfilled backlog and new orders
Exceptional items	0.3	0.2	3.3	1569.5	1071.6	0.8	4.2	422.9	
Pretax Profit	25.3	32.4	40.3	24.4	59.2	75.4	120.4	59.6	
Tax	-4.6	-5.5	-5.5	-1.1	19.4	-16.0	-19.4	21.3	
<i>Tax rate (%)</i>	<i>18.1</i>	<i>17.0</i>	<i>13.5</i>	<i>-3.5ppt</i>	<i>-4.5ppt</i>	<i>21.2</i>	<i>16.1</i>	<i>-5.1ppt</i>	Lower effective tax rate from larger net of tax associate contributions
MI	0.0	0.0	0.0	-100.0	-83.3	0.0	0.0	-122.2	
Net profit	20.7	26.9	34.8	29.6	91.9	59.4	101.0	69.9	
EPS (sen)	4.4	5.7	7.3	29.6	91.5	12.5	21.3	69.8	
Core net profit	20.4	26.7	31.5	18.0	95.1	58.6	96.8	65.1	Above our and consensus estimates

Source: Affin Hwang, Company

## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	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.*

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