25 May 2023

Outthink. Outperform.

AFFIN HWANG INVESTMENT BANK

Results Note | **RM4.16 @ 24 May 2023**

"Earnings fell qoq from lower associate contributions"

Share price performance

	1M	3M	12M
Absolute (%)	2.5	13.7	45.4
Rel KLCI (%)	3.5	17.6	58.2

	BUY	HOLD	SELL
Consensus	3	1	1

Source: Bloomberg

Stock Data

Sector	Healthcare
Issued shares (m)	478.7
Mkt cap (RMm)/(US$m)	1991.3/433.7
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	2.65-4.18
Est free float	20.0%
Stock Beta	0.60
Net cash/(debt) (RMm)	158.47
ROE (CY24E)	11.2%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200)	na
ESG Rank	
ESG Risk Rating	17.2 (-1.2 yoy)

Key Shareholders

Apex Pharmacy Holding	39.8%
Washington H Soul	29.6%

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

Andrew Lim
T (603) 2146 7586
E andrew.lim@affingroup.com

Apex Healthcare (APEX MK)

HOLD (maintain)
Up/Downside: +1.0%

Price Target: RM4.20
Previous Target (Rating): RM4.20 (HOLD)

Earnings to see a slight decline in 2023

- **1Q23 earnings came in within expectations. Earnings saw a decline qoq from lower associate contributions as 4Q22 saw the fulfilment of backlogs**
- **We expect FY23E to register a 3% decline in earnings as demand for its pharmaceutical products is unlikely to see meaningful growth from the high base in FY22, coupled with lower associate contributions expected**
- **Maintain HOLD with an unchanged TP of RM4.20**

Earnings came in within expectations

1Q23 earnings of RM25.3m (-20% QoQ, +67% YoY), forming 27%/26% of our/consensus full-year estimates. Apex's core business continued to improve from strong demand for pharmaceuticals and consumer healthcare products (particularly for respiratory illnesses). Earnings saw a dip qoq primarily due to weaker associate contributions as 4Q22 was supported by the fulfilment of backlog orders.

We expect earnings to remain flattish over the coming years

We expect FY23E to register a 3% decline in earnings yoy, due to demand for its pharmaceutical products likely normalising this year coupled with a decrease in contribution from its associate. Nonetheless, we note that this is coming off a high base in FY22, which registered a 65% yoy increase in earnings due to strengthened demand for its pharmaceutical products. Looking ahead, the company will be ready to tap into any increase in demand given its expansion efforts carried out back in 2022. This includes a 36% production capacity increase for tablets and capsules and a 100% production capacity increase for liquids.

Maintain HOLD with an unchanged TP of RM4.20

Our PE-derived TP is based on an unchanged 20x on 2024E EPS. We believe the stock is fairly valued for now, as demand for its pharmaceutical products is expected to normalise this year coupled with it not being able to meaningfully tap into the growth prospects of its associate (due to the recent stake divestment). On a more positive note, Apex's net cash is expected to increase to c.RM400m post-divestment. Management has yet to announce any intention of a special dividend, pending further updates from the analyst briefing slated for 25 May. Key upside/downside risks include: i) stronger/weaker demand for pharmaceutical products; and ii) raw material price fluctuations.

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	105.5	106.0	112.8	116.3
Pretax profit (RMm)	75.4	120.4	116.2	123.9	126.9
Net profit (RMm)	59.4	101.0	94.0	98.7	101.1
EPS (sen)	12.5	21.3	19.9	20.8	21.4
PER (x)	33.2	19.5	21.0	20.0	19.5
Core net profit (RMm)	58.6	96.8	94.0	98.7	101.1
Core EPS (sen)	12.4	20.4	19.9	20.8	21.4
Core EPS growth (%)	6.0	65.1	-2.8	5.0	2.4
Core PER (x)	33.6	20.4	21.0	20.0	19.5
Net DPS (sen)	11.5	8.5	7.9	8.3	8.5
Dividend Yield (%)	2.8	2.0	1.9	2.0	2.0
EV/EBITDA	21.6	17.1	14.7	13.6	13.0
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			0.9	0.9	0.9

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results Comparison

FYE Dec (RMm)	1Q22	4Q22	1Q23	QoQ % chg	YoY % chg	Comments
Revenue	215.9	220.5	245.8	11.5	13.8	Ongoing strong demand for pharmaceuticals, medical devices and consumer healthcare products
Op costs	-193.9	-194.1	-215.4	10.9	11.1	
EBITDA	22.1	26.4	30.4	15.4	37.9	
EBITDA margin (%)	*10.2*	*12.0*	*12.4*	*0.4ppt*	*2.2ppt*	Improved margin as Apex was able to raise prices by passing on the higher production cost
Depn and amort	-3.9	-4.2	-4.2	0.5	7.9	
EBIT	18.2	22.2	26.2	18.1	44.3	
EBIT margin (%)	*8.4*	*10.1*	*10.7*	*0.6ppt*	*2.3ppt*	
Int expense	-0.2	-0.2	-0.2	-25.2	-16.7	
Int and other inc	0.4	0.5	0.0	-100.0	-100.0	
Associates	0.9	14.5	4.6	-68.2	437.8	Lower contributions qoq as 4Q22 was supported by the fulfilment of backlog orders
EIs	0.6	3.3	-1.0	-129.9	-270.1	
Pretax Profit	19.8	40.3	29.7	-26.4	49.7	
Tax	-4.0	-5.5	-5.4	-1.2	33.2	
Tax rate (%)	*20.4*	*13.5*	*18.2*	*4.6ppt*	*-2.3ppt*	Higher/Lower effective tax rate from lower/larger net of tax associate contributions
Net profit	15.8	34.8	24.3	-30.3	54.0	
EPS (sen)	3.3	7.3	5.1	-30.2	54.0	
Core net profit	15.2	31.5	25.3	-19.7	66.5	Within our and consensus estimates

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 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