



AmInvestment Bank

## Company report

## APEX HEALTHCARE

(APEX MK EQUITY, APER.KL)

25 May 2023

Lower share from orthopaedics business in future

**HOLD**

(Downgraded)

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03-20362294

Rationale for Report: Company result

Price	RM4.16
Fair Value	RM3.90
52-week High/Low	RM4.18/RM2.65

## Key Changes

Fair value	⬇️
EPS	⬇️

YE to Dec	FY22	FY23F	FY24F	FY25F
Revenue (RM mil)	877.7	904.8	970.5	1,039.8
Core net profit (RM mil)	96.4	93.3	92.1	100.1
FD Core EPS (sen)	20.1	19.5	19.2	20.9
FD Core EPS growth (%)	58.5	(3.2)	(1.3)	8.7
Consensus Net Profit (RM mil)	-	99.1	106.0	112.6
DPS (sen)	8.5	7.4	7.3	7.9
PE (x)	20.7	21.3	21.6	19.9
EV/EBITDA (x)	17.0	17.7	16.4	14.8
Div yield (%)	2.0	1.8	1.8	1.9
ROE (%)	19.0	53.3	9.7	10.0
Net Gearing (%)	nm	nm	nm	nm

## Stock and Financial Data

Shares Outstanding (million)	478.7
Market Cap (RM mil)	1,991.4
Book Value (RM/share)	1.17
P/BV (x)	3.6
ROE (%)	19.0
Net Gearing (%)	nm

Major Shareholders	Apex Pharmacy Holdings (39.8%) Washington H. Soul Pattinson and Company (29.6%)
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Free Float (%)	20.0
Avg Daily Value (RM mil)	0.7

Price performance	3mth	6mth	12mth
Absolute (%)	13.7	23.1	45.4
Relative (%)	17.5	31.1	58.0



## Investment Highlights

- We downgraded Apex Healthcare (Apex) to HOLD from BUY previously after a strong 45% share price increase over the past 1 year together with a lower fair value (FV) of RM3.90/share (from RM4.21/share previously) to account for lower earnings contribution from 40%-owned associate Straits Apex Group (SAG). The FV is based on FY23F target PE of 20x, at parity to its 5-year average. No ESG-related adjustments based on our 3-star rating.
- Apex's 1QFY23 core net profit of RM25mil generally came in within expectations, accounting for 25% of our forecast and the street's. As a comparison, 1Q accounted for 15%-26% of FY18-22 core net profit.
- However, we reduced FY23F-25F forecasts by 7%/15%/14% to account for Apex's lower effective equity stake in Straits Apex (SA) (an orthopaedics business) from 40% to 16%. The divestment was completed on 11 May 2023 (Exhibit 2). Notably, there will be a one-off RM300mil disposal gain in 2QFY23F.
- We may revise forecasts again if Apex's management discloses new alternative investments with the divestment proceeds of US\$215mil (RM949mil) that can offset the decline in later result briefing.
- No interim dividend has been declared in this quarter as Apex historically declares dividend in 2Q and 4Q over the past 5 financial years.
- On a YoY basis, Apex's 1QFY23 core earnings soared 68% to RM25mil, spurred by a:
  - record revenue of RM246mil (+14% YoY) mainly driven by strong demand for flu-related medication in Malaysia, owing to the prevalence of Covid-19 and increased flu cases (Exhibit 3);
  - surge in associate contribution to RM4.6mil (+5.4x) from the group's 40%-owned SAG as production capacity was impacted by Covid-19 infections and persistent supply chain disruptions in 1QFY22.
- On a QoQ basis, Apex's 1QFY23 core earnings declined by 20%, despite an 11% increase in revenue. The weaker earnings was mostly related to a 55% decrease in SAG's contribution to RM4.6mil from RM10.3mil (including post-adjustment of a one-off RM4.2mil impairment loss reversal). This was primarily due to robust fulfilment of backlog orders in 4QFY22.
- To recap, Apex guided in Feb 2023 result briefing that robust demand for flu-related medications resulting from restocking activities could persist until 1H2023F, before normalising in 2H2023F due to declining flu cases in Malaysia (Exhibit 3).

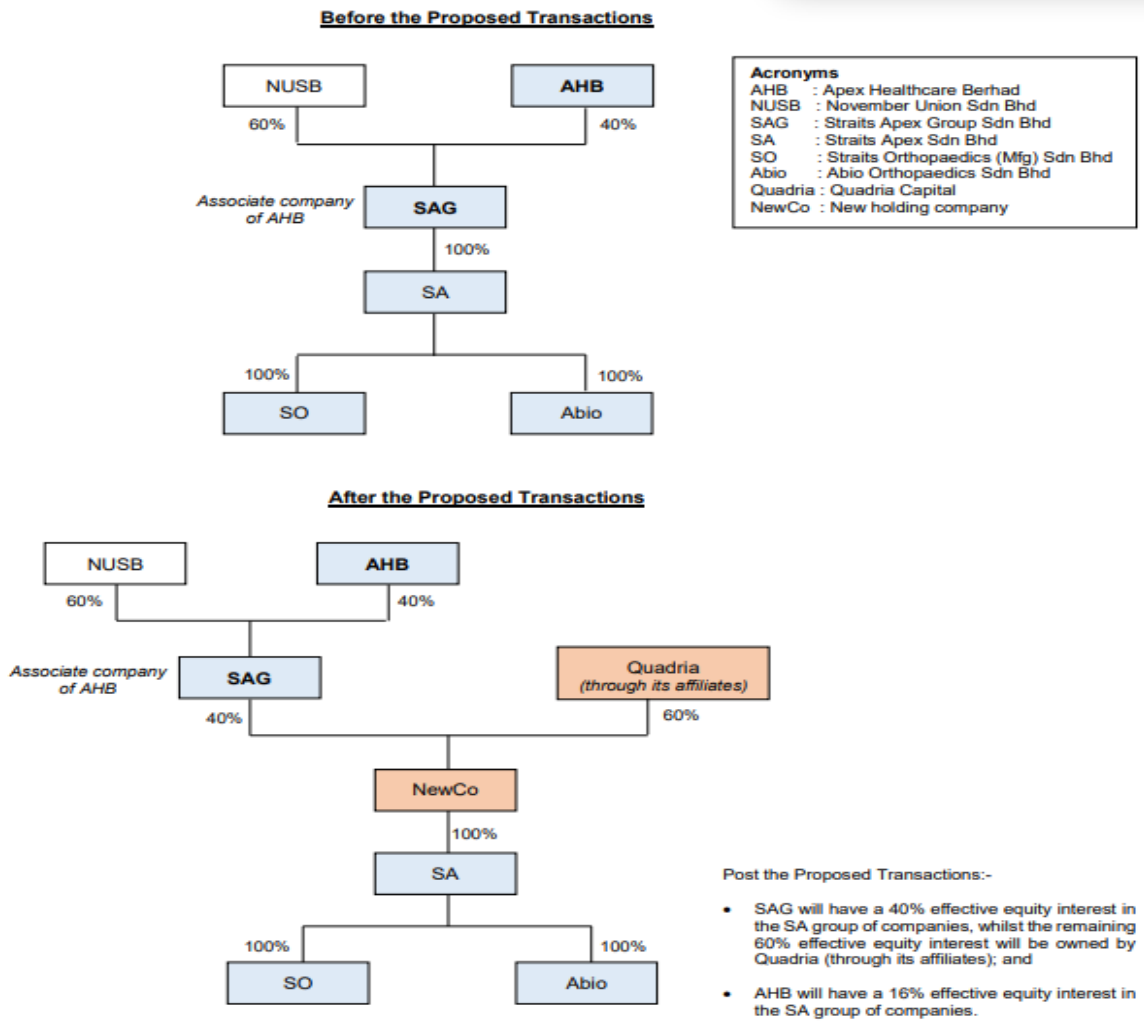
- Notably, SAG has commenced construction on a 237k square foot campus, consisting of 4 buildings, located in Batu Kawan Industrial Park, Penang, for its upcoming lease to SA. The site is anticipated to be fully operational by the first quarter of 2024. The quantum of contribution and lease payments that Apex will receive will be guided by management in a subsequent results briefing. As for now, these contributions have not been factored in FY24F-FY25F earnings.
- As the stock currently trades at a fairly valued FY23F PE of 21x, near its 5-year average of 20x. Also, Apex offers a slight dividend yield of 2%.
- On a positive note, Apex's 1-for-2 bonus issue proposal was approved on 17 May 2023. The ex-date is 8 Jun 2023. We continued to view this positively as this could increase trading liquidity and improve the affordability of the stock, hence potentially broadening its shareholder base. Our ex-date FV translates to RM2.60/share.

## EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)
Revenue	215.9	209.2	232.1	220.5	245.8	11.5	13.8
<b>Gross profit</b>	<b>46.0</b>	<b>47.3</b>	<b>53.2</b>	<b>51.1</b>	<b>55.6</b>	<b>8.8</b>	<b>20.9</b>
<b>EBITDA</b>	<b>23.0</b>	<b>24.8</b>	<b>29.8</b>	<b>30.4</b>	<b>29.6</b>	<b>(2.5)</b>	<b>28.6</b>
<b>EBIT</b>	<b>19.2</b>	<b>20.8</b>	<b>25.6</b>	<b>26.0</b>	<b>25.2</b>	<b>(3.1)</b>	<b>31.7</b>
Share of associates	0.9	7.2	7.0	14.5	4.6	(68.2)	>100
Profit before tax	19.8	27.9	32.4	40.3	29.7	(26.4)	49.7
Tax	(4.0)	(4.4)	(5.5)	(5.5)	(5.4)	1.2	(33.2)
<b>Net profit</b>	<b>15.8</b>	<b>23.5</b>	<b>26.9</b>	<b>34.8</b>	<b>24.3</b>	<b>(30.3)</b>	<b>54.0</b>
Eis	(0.8)	0.1	(0.3)	(3.3)	0.8	>100	>100
<b>Core net profit</b>	<b>15.0</b>	<b>23.6</b>	<b>26.6</b>	<b>31.5</b>	<b>25.1</b>	<b>(20.2)</b>	<b>68.0</b>
FD EPS (sen)	3.2	5.0	5.6	6.6	5.3	(20.3)	67.7
Gross DPS (sen)	0.0	3.0	0.0	5.5	0.0	(100.0)	n/a
Gross margin (%)	21.3	22.6	22.9	23.2	22.6	-0.6ppt	1.3ppt
EBITDA margin (%)	10.7	11.9	12.8	13.8	12.1	-1.7ppt	1.4ppt
Pretax margin (%)	9.2	13.3	14.0	18.3	12.1	-6.2ppt	2.9ppt
Core net profit margin (%)	6.9	11.3	11.5	14.3	10.2	-4.1ppt	3.3ppt
Effective tax rate (%)	20.4	15.7	17.0	13.5	18.2	4.6ppt	-2.3ppt
<b>Segmental Revenue (RMmil)</b>							
Manufacturing	50.8	57.8	62.8	61.6	67.8	10.0	33.3
Wholesale & Distribution	197.5	188.5	209.6	198.2	220.8	11.4	11.8
Corporate	1.3	5.3	11.0	11.6	1.4	(87.6)	9.2
<b>Segmental PBT (RMmil)</b>							
Manufacturing	13.0	15.0	17.7	18.2	18.8	3.2	45.0
Wholesale & Distribution	9.2	8.4	10.1	8.5	10.0	17.3	8.2
Corporate	(1.5)	5.5	5.6	15.3	1.9	(87.8)	>100
<b>Pretax margin (%)</b>							
Manufacturing	25.5	26.0	28.2	29.6	27.7	-1.8ppt	2.2ppt
Wholesale & Distribution	4.7	4.5	4.8	4.3	4.5	0.2ppt	-0.2ppt

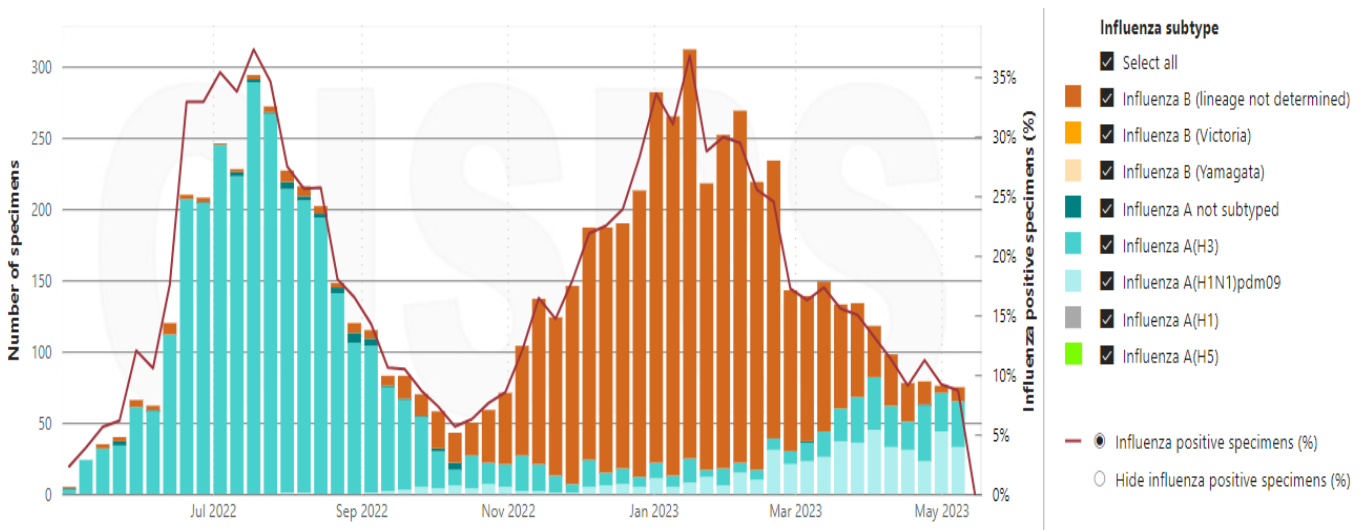
Source: AmlInvestment Bank/Apex Healthcare Bhd

EXHIBIT 2: CHANGES IN CORPORATE STRUCTURE OF SA GROUP OF COMPANIES



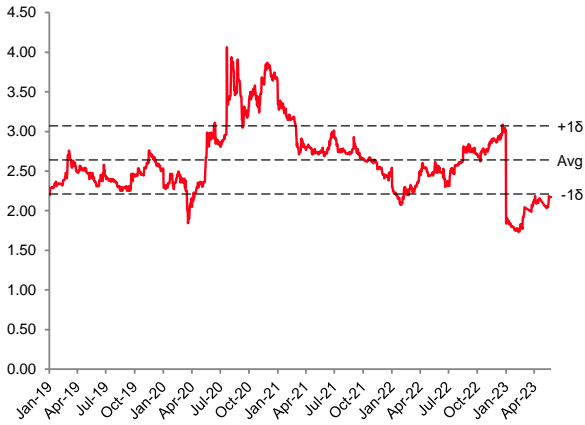
Source: AmlInvestment Bank/ Apex Healthcare

EXHIBIT 3: NUMBER OF MALAYSIAN SPECIMENS POSITIVE FOR INFLUENZA BY SUBTYPES



Source: AmlInvestment Bank/World Health Organisation (WHO)

**EXHIBIT 4: PB BAND CHART**



**EXHIBIT 5: PE BAND CHART**



**EXHIBIT 6: ESG RATING**

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

## EXHIBIT 7: FINANCIAL DATA

Income Statement (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	770.8	877.7	904.8	970.5	1,039.8
EBITDA	85.5	108.0	110.3	117.3	127.9
Depreciation/Amortisation	(16.3)	(16.5)	(16.6)	(17.9)	(19.2)
Operating income (EBIT)	69.2	91.5	93.7	99.5	108.7
Other income & associates	7.1	29.6	320.7	13.0	13.0
Net interest	1.0	0.9	1.1	1.6	2.3
Exceptional items	1.4	(4.5)	(300.0)	-	-
<b>Pretax profit</b>	<b>75.4</b>	<b>120.4</b>	<b>413.8</b>	<b>112.3</b>	<b>122.0</b>
Taxation	(16.0)	(19.4)	(20.5)	(20.2)	(22.0)
Minorities/pref dividends	-	-	-	-	-
<b>Net profit</b>	<b>59.4</b>	<b>101.0</b>	<b>393.3</b>	<b>92.1</b>	<b>100.1</b>
<b>Core net profit</b>	<b>60.9</b>	<b>96.4</b>	<b>93.3</b>	<b>92.1</b>	<b>100.1</b>
Balance Sheet (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Fixed assets	172.8	195.4	210.4	226.4	243.4
Intangible assets	2.6	4.0	3.6	3.2	2.9
Other long-term assets	53.3	81.1	400.9	413.9	426.9
<b>Total non-current assets</b>	<b>228.7</b>	<b>280.5</b>	<b>614.9</b>	<b>643.5</b>	<b>673.2</b>
Cash & equivalent	194.1	174.5	168.7	179.1	188.8
Stock	95.4	110.5	113.6	120.7	129.9
Trade debtors	158.8	178.2	203.0	221.1	234.5
Other current assets	3.2	1.6	1.6	1.6	1.6
<b>Total current assets</b>	<b>451.4</b>	<b>464.8</b>	<b>486.9</b>	<b>522.6</b>	<b>554.8</b>
Trade creditors	143.3	160.4	157.4	171.9	181.7
Short-term borrowings	6.6	6.6	7.6	2.9	(3.4)
Other current liabilities	2.0	3.6	3.6	3.6	3.6
<b>Total current liabilities</b>	<b>151.9</b>	<b>170.6</b>	<b>168.6</b>	<b>178.3</b>	<b>181.8</b>
Long-term borrowings	14.8	9.4	10.3	7.2	3.0
Other long-term liabilities	6.6	6.8	6.8	6.8	6.8
<b>Total long-term liabilities</b>	<b>21.4</b>	<b>16.2</b>	<b>17.1</b>	<b>14.0</b>	<b>9.8</b>
<b>Shareholders' funds</b>	<b>506.8</b>	<b>558.4</b>	<b>916.3</b>	<b>973.4</b>	<b>1,035.4</b>
Minority interests	0.1	-	-	-	-
BV/share (RM)	1.06	1.17	1.91	2.03	2.16
Cash Flow (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	75.4	120.4	413.8	112.3	122.0
Depreciation/Amortisation	16.3	16.5	16.6	17.9	19.2
Net change in working capital	(9.8)	(17.6)	(30.8)	(10.9)	(12.7)
Others	(20.1)	(47.1)	(341.1)	(33.1)	(34.9)
<b>Cash flow from operations</b>	<b>61.8</b>	<b>72.1</b>	<b>58.5</b>	<b>86.2</b>	<b>93.6</b>
Capital expenditure	(13.1)	(34.2)	(31.2)	(33.5)	(35.9)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(1.8)	82.2	-	-	-
<b>Cash flow from investing</b>	<b>(14.9)</b>	<b>48.0</b>	<b>(31.2)</b>	<b>(33.5)</b>	<b>(35.9)</b>
Debt raised/(repaid)	(5.9)	(5.9)	1.9	(7.8)	(10.6)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(25.2)	(57.3)	(35.5)	(35.0)	(38.0)
Others	-	0.6	0.6	0.6	0.6
<b>Cash flow from financing</b>	<b>(31.1)</b>	<b>(62.5)</b>	<b>(33.0)</b>	<b>(42.2)</b>	<b>(48.0)</b>
<b>Net cash flow</b>	<b>15.8</b>	<b>57.5</b>	<b>(5.8)</b>	<b>10.4</b>	<b>9.7</b>
<b>Net cash/(debt) b/f</b>	<b>86.6</b>	<b>103.9</b>	<b>164.5</b>	<b>158.7</b>	<b>169.1</b>
<b>Net cash/(debt) c/f</b>	<b>103.8</b>	<b>164.5</b>	<b>158.7</b>	<b>169.1</b>	<b>178.8</b>
Key Ratios (YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	10.3	13.9	3.1	7.3	7.1
EBITDA growth (%)	8.1	26.3	2.2	6.4	9.0
Pretax margin (%)	9.8	13.7	45.7	11.6	11.7
Net profit margin (%)	7.7	11.5	43.5	9.5	9.6
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	21.2	16.1	5.0	18.0	18.0
Dividend payout (%)	91.9	40.2	9.0	38.0	38.0
Debtors turnover (days)	68	70	77	80	80
Stock turnover (days)	44	43	45	44	44
Creditors turnover (days)	62	63	64	62	62

Source: Company, AmlInvestment Bank Bhd estimates

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