

Apex Healthcare (APEX MK)**Inline****HOLD**

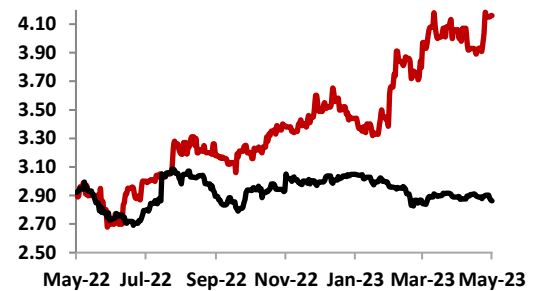
Share Price	RM4.16
Target Price	RM4.57 +9.86%

Anticipate resilient earnings but flattish margins

Apex Healthcare (Apex)'s 1Q23 core net profit was in line with our and consensus expectations, accounting 23.9% and 24.3% of full year estimates respectively. Net profit rose by 54.0% YoY to RM24.3mn thanks to higher demand for pharmaceutical, consumer healthcare products and medical devices. In tandem Apex recorded core net profit of 24.1mn (+58.8 YoY). Moving ahead, we think demand for overall healthcare industry to remain resilient. Nonetheless, despite resilient earnings growth, we anticipate Apex to record a flattish EBITDA margin of 12-13% in the near term on the back of higher raw material costs and prevailing inflationary pressure. Downgrade to a HOLD from a BUY due to price rally as Apex's share price has increased by 17.2% YTD. Unchanged TP of RM4.57 pegged at 22x PER (1-SD above mean of 5-year PER) to FY23 EPS of 21 sen.

- **Within expectations.** 1QFY23 core net profit of RM24.1mn (QoQ: -28.8%, YoY: +58.8%) was in line with ours and consensus expectations accounting 23.9% and 24.3% of full year forecast respectively.
- **Dividend.** No dividend declared in the current quarter.
- **QoQ.** Apex's 1QFY23 revenue up by 11.5% YoY boosted by continued demand for influenza (flu)-related medication. However, its core net profit decreased by 28.9% QoQ due to significant drop in contribution from associate company, Straits Apex of RM4.6mn in the 1Q22 (vs RM14.5mn in 4Q22). EBITDA margin shrank by 1.3ppts QoQ due to higher operating cost by 13% QoQ.
- **YoY/ YTD.** Top-line and bottom-line increased by 13.8% YoY and 58.8% YoY respectively, attributed to higher demand for pharmaceutical, consumer healthcare products and medical devices. Aside to that, it is worth to note that the construction of the two buildings at XEPA's Cheng campus, which will accommodate expanded Quality Control laboratories and staff service areas, is progressing well.
- **Outlook.** We like Apex due to the group's position as an important regional player in pharmaceutical industry and continuous expansion of the group's product. On a larger scope, we think demand for overall healthcare industry to remain resilient on the back of (i) uptrend in medical tourism, (ii) higher ageing population globally and (iii) growth in medical insurance. Nonetheless, despite resilient earnings growth, we anticipate Apex to record a flattish EBITDA margin of 12-13% in the near term on the back of higher raw material costs and global inflationary pressure.
- **Forecast:** Unchanged
- **Our call.** Downgrade to **HOLD** from **BUY** rating due to price rally. Note that Apex's share price has increased by 17.2% YTD. Unchanged **TP** of **RM4.57** pegged at 22x PER (1-SD above mean of 5-year PER) to FY23 EPS of 21 sen.

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	2.5	13.7	48.2
vs FBM KLCI	3.4	17.5	58.0

Stock Data

ESG Rating	Fair
Mkt Cap (RM)	1,991.3
Adjusted Beta	0.6
Free float (%)	29.3
Issued shares (m)	478.7
52w H/L (RM)	4.18 / 2.65
3m avg daily volume	170,788

Major Shareholders (%)

Apex Pharmacy Holding	39.8
Washington H Soul	29.6
Lim The Realty	1.4

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Table 1: Quarterly figures

Apex Healthcare FYE 31 Dec (RM m)	Quarterly			Change (%)		Cumulative		YTD	BIMB	
	1Q22	4Q22	1Q23	QoQ	YoY	1Q22	1Q23	%	FY23F	3M/F
Revenue	215.9	220.5	245.8	11.5	13.8	215.9	245.8	13.8	890.4	28%
Operating costs	-193.3	-190.6	-215.4	13.0	11.4	-193.3	-215.4	11.4	-779.7	28%
EBITDA	22.6	29.9	30.4	1.6	34.2	22.6	30.4	34.2	110.7	27%
Depreciation & Amortisation	-3.9	-4.4	-4.4	0.6	13.6	-3.9	-4.4	13.6	-18.5	24%
EBIT	18.8	25.5	26.0	1.8	38.5	18.8	26.0	38.5	129.2	20%
Finance cost	-0.2	-0.2	-0.2	-25.2	-16.7	-0.2	-0.2	-16.7	-0.8	21%
Interest income	0.4	0.5	-0.5	-204.6	-228.8	0.4	-0.5	-228.8	1.6	-31%
Pretax profit	19.8	40.3	29.7	-26.4	49.7	19.8	29.7	49.7	129.1	23%
Income tax	-4.0	-5.5	-5.4	-1.2	33.2	-4.0	-5.4	33.2	-19.4	28%
Net profit	15.8	34.8	24.3	-30.3	54.0	15.8	24.3	54.0	100.7	24%
Core net profit	15.2	33.8	24.1	-28.8	58.8	15.2	24.1	58.8	100.7	24%
EPS (sen)	3.21	7.14	5.07	-28.8	58.8	3.21	5.07	58.8		
				Chg (ppts)				Chg (ppts)		
EBITDA margin (%)	10.5	13.6	12.4	-1.3ppt	1.9ppt	10.5	12.4	1.9ppt		
EBIT margin (%)	8.7	11.6	10.6	-1.1ppt	1.9ppt	8.7	10.6	1.9ppt		
Core profit margin (%)	7.0	15.4	9.8	-5.6ppt	2.8ppt	7.0	9.8	2.8ppt		
Effective tax rate (%)	20.4	13.5	18.2	4.7ppt	-2.3ppt	20.4	18.2	-2.3ppt		

Source: BIMB Securities, Company

Table 2: Earnings forecast

FYE Dec (RMm)	2021	2022	2023F	2024F	2025F
Turnover	771	878	890	923	947
EBITDA	83	105	111	116	121
Pretax profit	75	120	129	133	139
Net Profit	59	101	101	104	109
Core Net Profit	59	99	101	104	109
Consensus			99	106	112
EPS (sen)	12	21	21	22	23
PER (x)	34	20	20	19	18
DPS (sen)	12	9	10	10	10
Dividend Yield (%)	4	2	2	2	2
Key Ratios (%)					
ROE	12	18	16	15	15
EBITDA margin	11	12	12	13	13
Pretax margin	10	14	14	14	15
Net margin	7	6	6	6	6

Source: Bloomberg, BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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