

"3Q21 core profit grew by 7% qoq to RM13.7m on record revenue that more than offset weaker associate earnings"

Share price performance



	1M	3M	12M
Absolute (%)	-4.3	-7.9	-23.9
Rel KLCI (%)	0.3	-8.0	-19.7

	BUY	HOLD	SELL
Consensus	1	2	1

Stock Data

Sector	Healthcare & Pharmaceutical
Issued shares (m)	476.2
Mkt cap (RMm)/(US\$m)	1,271.5/304.5
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	2.65 – 3.81
Est free float	19.4%
Stock Beta	0.74
Net cash/(debt) (RMm)	151.7
ROE (CY21E)	11.2%
Derivatives	Nil
Shariah Compliant	No
FTSE4Good Constituent	No
FBM EMAS (Top 200)	NA
ESG Rank	
ESG Risk Rating	17.6

Key Shareholders

Apex Pharmacy Holding	40.0%
Washington H Soul	29.8%
EPF	9.5%

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

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Apex Healthcare (APEX MK)

HOLD (maintain)

Up/Downside: +4.9%

Price Target: RM2.80

Previous Target (Rating): RM2.80 (HOLD)

Strong revenue, associate earnings should rebound in 4Q

- Apex reported a modest set of results – 3Q21 core net profit grew by 7% qoq to RM13.7m on record quarterly revenue that more than offset lower associate earnings (due to Covid-19 infections and resulting quarantine of workers)
- Cumulatively, 9M21 core net profit of RM38.2m (-6.8% yoy) was within market and our expectations. We anticipate its associate earnings to rebound strongly during 4Q21 in view of its strong order book and ramp-up in operation
- Maintain HOLD with an unchanged price target of RM2.80 based on 22x 2022E PER. While we like Apex for its solid long-term business prospects and strong management team, we believe its valuation has reflected these positives

3Q21 core net profit grew by 6.7% qoq to RM13.7m on record revenue

Apex reported a modest set of results – 3Q21 core net profit grew by 6.7% qoq to RM13.7m driven by a record quarterly revenue that more than offset lower associate earnings. Apex's 3Q21 revenue hit a record quarterly high of RM211m (+15.6% qoq) on a strong increase in market demand, especially from private sector clinics and pharmacies due to improved consumer sentiment and activities attributable to higher vaccination rates. Revenue growth was also helped by robust demand for pulse oximeters, surgical masks, Covid-19 self-test kits in Malaysia, and SinoPharm and SinoVac Covid-19 vaccines in Singapore. On the other hand, associate contribution from Straits Apex Group Sdn Bhd ("SAG") was severely affected by Covid-19 infections and resulting quarantine of production staff during the quarter.

9M21 core net profit of RM38.2m (-6.8% yoy) within market and our expectations

Cumulatively, Apex's 9M21 core net profit slipped 6.8% yoy to RM38.2m. The yoy earnings decline was due to a relatively weak set of 1Q21 results, a higher effective tax rate in 9M21 and the high earnings base in 1Q20. Overall, the results were within market and our expectations. Apex's 9M21 core net profit accounted for 70% of the street's and our full-year earnings forecasts. We anticipate associate earnings to improve significantly in 4Q21, in view of the strong order book and resumption of full operations (SAG's workforce had reached 98% on 30 September 2021).

Maintain HOLD rating with an unchanged price target of RM2.80

We maintain our earnings forecasts, HOLD rating and 12-month price target of RM2.80 based on a 22x 2022E PER. Upside risks: strong quarterly earnings, major manufacturing contract wins; downside risks: earnings disappointment, severe operational disruption due to the pandemic.

Earnings & Valuation Summary

FYE 31 Dec	2019	2020	2021E	2022E	2023E
Revenue (RMm)	688.8	698.7	741.2	812.3	850.4
EBITDA (RMm)	74.1	76.6	80.4	85.9	92.4
Pretax profit (RMm)	66.3	70.2	71.8	79.5	85.8
Net profit (RMm)	52.8	56.0	54.6	60.4	65.2
EPS (sen)	11.2	11.8	11.5	12.8	13.8
PER (x)	23.9	22.5	23.1	20.9	19.4
Core net profit (RMm)	52.3	55.3	54.6	60.4	65.2
Core EPS (sen)	11.1	11.7	11.5	12.8	13.8
Core EPS growth (%)	-13.1	5.7	-1.3	10.7	7.9
Core PER (x)	24.1	22.8	23.1	20.9	19.4
Net DPS (sen)	3.7	4.5	3.8	4.2	4.5
Dividend Yield (%)	1.4	1.7	1.4	1.6	1.7
EV/EBITDA	15.7	14.5	13.9	12.7	11.5

Chg in EPS (%)	-	-	-	-	-
Affin/Consensus (x)			1.0	0.9	1.0

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE Dec (RMm)	3Q20	2Q21	3Q21	QoQ	YoY	9M20	9M21	YoY	Comments
				% chg	% chg			% chg	
Revenue	169.1	182.6	211.1	15.6	24.8	537.2	573.1	6.7	3Q21: record quarter revenue of RM211.1m driven by significant increase in market demand for pharmaceuticals, diagnostics and consumer products, especially from private sector clinics and pharmacies due to continued improvement in consumer confidence and activities as vaccination rates climbed
Op costs	-149.9	-163.2	-189.3	16.0	26.3	-478.9	-513.3	7.2	
EBITDA	19.2	19.3	21.7	12.4	13.2	58.3	59.8	2.7	
<i>EBITDA margin (%)</i>	11.3	10.6	10.3	-0.3 ppt	-1.1 ppt	10.9	10.4	-0.4 ppt	
Depn and amort	-4.0	-4.1	-4.1	0.6	2.7	-12.5	-12.3	-1.5	
EBIT	15.2	15.2	17.6	15.5	16.0	45.8	47.5	3.8	
<i>EBIT margin (%)</i>	9.0	8.3	8.3	0.0 ppt	-0.6 ppt	8.5	8.3	-0.2 ppt	3Q21 EBIT margin was unchanged qoq at 8.3%
Int expense	-0.3	-0.2	-0.2	-2.8	-18.6	-0.8	-0.6	-24.3	
Int and other inc	0.5	0.4	0.4	-16.8	-21.3	1.4	1.2	-12.4	
Associates	2.0	0.7	0.5	-29.6	-76.5	4.8	1.5	-68.9	Lower associate earnings during 3Q21 as production output and costs were severely impacted by Covid-19 infections and resulting quarantine of production staff in 3Q21
Exceptional items	0.1	0.0	0.3	na	na	0.7	0.5	na	
Pretax	17.5	16.1	18.6	15.1	6.1	51.8	50.1	-3.2	
Tax	-3.1	-3.3	-4.5	37.9	44.7	-10.1	-11.4	12.5	
<i>Tax rate (%)</i>	18.0	20.5	24.5	4.1 ppt	6.5 ppt	19.6	22.8	3.2 ppt	
MI	-0.1	0.0	0.0	na	na	0.0	0.0	na	
Net profit	14.2	12.8	14.0	9.2	-1.5	41.6	38.7	-7.0	
EPS (sen)	3.0	2.7	3.0	9.2	-1.5	8.8	8.2	-7.2	
Core net profit	14.1	12.8	13.7	6.7	-3.1	41.0	38.2	-6.8	Within market and our expectations

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

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