

"A beneficiary of improved demand for pharmaceutical products"

Share price performance



	1M	3M	12M
Absolute (%)	5.6	9.4	29.6
Rel KLCI (%)	0.8	14.7	36.3

	BUY	HOLD	SELL
Consensus	2	1	-

Source: Bloomberg

Stock Data

Sector	Healthcare
Issued shares (m)	477.6
Mkt cap (RMm)/(US\$m)	1619/356.1
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	2.33-3.39
Est free float	19.9%
Stock Beta	0.54
Net cash/(debt) (RMm)	130.09
ROE (CY22E)	16.0%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good	No
Constituent	No
FBM EMAS (Top 200)	No
ESG Rank	
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: +15.0%

Price Target: RM3.90

Previous Target (Rating): RM3.50 (BUY)

The momentum continues

- Apex reported a strong set of results, as 9M22 earnings of RM65.3m (+71% YoY) tracked ahead at 92% of our previous forecast and the consensus for the full year
- YTD profits were up YoY on the back of improvements in all operating segments from stronger demand, alongside improved associate contributions as production had been interrupted back in 2021
- Given the stronger-than-expected performance, we raise our EPS forecasts for FY22/23/24 by 20.8% / 11.8% / 9.7%. Reiterate BUY with a higher TP at RM3.90 based on 22x 2023E PER. Analyst briefing to be held on 17 Nov.

Earnings came in above expectations

3Q22 earnings of RM27m (+14% QoQ, +95% YoY) brought 9M22 earnings to RM65m (+71%), which formed 92% of our previous estimate and the consensus for the full year. The results came in above expectations due to stronger-than-expected growth from the manufacturing and marketing segment (particularly for respiratory medications) as well as its associate, Straits Apex (manufactures orthopaedic devices and components).

Efforts to address improved market demand

Apex remains a beneficiary of resilient demand for OTC medicines given the increase in health awareness amidst the continued prevalence of Covid19 and influenza cases. To address market demand, the company: i) launched two paracetamol products; ii) increased its annual production capacity for tablets and capsules by 36%; and iii) commenced a high-capacity liquid production line to double its annual production capacity for liquids (e.g. cough and cold syrups). It also sees growth in demand in its Orthopaedic segment (via its associate, Straits Apex) and may expand production space by 30%.

Reiterate BUY with a higher 12-month TP at RM3.90

We raise our earnings estimates for FY22/23/24 by 20.8% / 11.8% / 9.7% respectively after incorporating the latest earnings performance. Our FY23E earnings reflect a marginal decline YoY as we expect margins to be impacted by cost pressures. We maintain our Buy call with a higher fair value at RM3.90 based on an unchanged 22x 2023E PER. We remain positive on the company's prospects as stronger demand for its products is sufficient to compensate for lower demand for Covid19-related products, and given the resilient demand for its medical products. Key downside risks are: 1) supply chain uncertainties, and 2) shortage of raw material for its manufacturing arm.

Earnings & Valuation Summary

FYE 31 Dec	2020	2021	2022E	2023E	2024E
Revenue (RMm)	698.7	770.8	853.5	893.9	930.0
EBITDA (RMm)	76.6	82.9	102.0	99.2	101.1
Pretax profit (RMm)	70.2	75.4	107.7	104.0	106.4
Net profit (RMm)	56.0	59.4	86.2	83.2	85.1
EPS (sen)	11.8	12.5	18.2	17.6	18.0
PER (x)	28.6	27.0	18.6	19.3	18.9
Core net profit (RMm)	55.3	58.6	86.2	83.2	85.1
Core EPS (sen)	11.7	12.4	18.2	17.6	18.0
Core EPS growth (%)	5.7	6.0	47.0	-3.4	2.3
Core PER (x)	29.0	27.4	18.6	19.3	18.9
Net DPS (sen)	4.5	11.5	6.4	6.1	6.3
Dividend Yield (%)	1.3	3.4	1.9	1.8	1.9
EV/EBITDA	19.0	17.2	14.1	14.2	13.6

Chg in EPS (%)	+20.8	+11.8	+9.7
Affin/Consensus (x)	1.2	1.1	1.1

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results Comparison

FYE Dec (RMm)	3Q21	2Q22	3Q22	QoQ % chg	YoY % chg	9M21	9M22	YoY %chg	Comments
Revenue	211.1	209.2	232.1	10.9	10.0	573.1	657.2	14.7	Stronger demand for pharmaceuticals, medical devices and consumer healthcare products
Op costs	-189.3	-185.3	-203.8	10.0	7.7	-513.3	-583.0	13.6	
EBITDA	21.7	23.9	28.2	17.9	30.0	59.8	74.2	24.1	Improved margin as Apex was able to raise prices to pass on the higher production cost
<i>EBITDA margin (%)</i>	10.3	11.4	12.2	0.7ppt	1.9ppt	10.4	11.3	0.9ppt	
Depn and amort	-4.1	-3.6	-4.0	11.8	-3.1	-12.3	-11.4	-6.9	
EBIT	17.6	20.4	24.2	19.0	37.8	47.5	62.8	32.1	
<i>EBIT margin (%)</i>	8.3	9.7	10.4	0.7ppt	2.1ppt	8.3	9.6	1.3ppt	
Int expense	-0.2	-0.2	-0.2	2.8	-12.1	-0.6	-0.5	-14.6	
Int and other inc	0.4	0.4	1.1	200.8	213.3	1.2	1.9	56.1	
Associates	0.5	7.2	7.0	-3.1	1382.6	1.5	15.1	918.2	Recovery from low base, with uninterrupted production since 2Q22
Exceptional items	0.3	0.1	0.2	257.1	-39.6	0.5	0.8	63.9	
Pretax Profit	18.6	27.9	32.4	16.3	74.6	50.1	80.1	59.8	
Tax	-4.5	-4.4	-5.5	26.3	21.3	-11.4	-13.9	22.1	
<i>Tax rate (%)</i>	24.5	15.7	17.0	1.4ppt	-7.5ppt	22.8	17.4	-5.4ppt	Lower effective tax rate from larger net of tax associate contributions
MI	0.0	0.0	0.0	-66.7	-83.3	0.0	0.0	-63.6	
Net profit	14.0	23.5	26.9	14.4	91.9	38.7	66.1	70.8	
EPS (sen)	3.0	5.0	5.7	14.4	91.5	8.2	14.0	70.6	
Core net profit	13.7	23.4	26.7	13.9	95.1	38.2	65.3	70.9	Above 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

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