

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

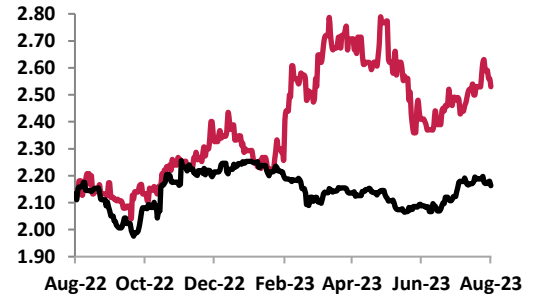
Share Price	RM2.53
Target Price	RM2.75 +8.87%

Within estimates

Apex Healthcare (Apex)'s 1HFY23 core net profit of RM51.1mn (YoY: +31.0%) was in line with ours but above consensus expectations accounting 50.8% and 57.3% of full year forecast respectively. Apex's top-line up by 8.4% YoY in 1H23 on the back of consistent demand for pharmaceuticals, consumer healthcare products, and medical devices. After stripping out a one-off gain of RM302.4mn from non-recurring gain on disposal recognized by its associate company Straits Apex Group Sdn Bhd (SAG), Apex recorded core earnings of RM51.1mn (+31.0%). Going ahead, we think that due to this stake divestment, Apex will deliver slower earnings growth as a result of dilution impact from Straits Apex Sdn Bhd. Maintain **HOLD** rating with a lower TP of RM2.75 (from RM3.01) pegged against lower PER of 19x (which is in-line with its mean of 5-year PER) to FY24 EPS of 14.5sen.

- **Within expectations.** 1HFY23 core net profit of RM51.1mn (YoY: +31.0%) was in line with ours but above consensus expectations accounting 50.8% and 57.3% of full year forecast respectively.
- **Dividend.** The group declared a DPS of 2.5sen which was lower than 1H22 DPS of 3sen. We are estimating a total FYE23 DPS of 6.3sen, which would result in a yield of 2.5%.
- **QoQ.** Apex's 2QFY23 revenue declined by 12.5% while its core net profit increased by 12.0% QoQ due to strong demand for XEPA products especially in Singapore. Note that manufacturing of in-house pharmaceutical products such as XEPA enjoys better margins than the wholesale and distribution division.
- **YTD.** Apex's top-line up by 8.4% YoY in 1H23 on the back of consistent demand for pharmaceuticals, consumer healthcare products, and medical devices. In tandem, the group recorded higher net profit of RM353.8mn (>100%) in 1HFY23. Nonetheless after stripping out a one-off gain of RM302.4mn from non-recurring gain on disposal recognized by SAG, Apex recorded core earnings of RM51.1mn (+31.0%). Following the divestment, SAG's equity interest in Straits Apex Sdn Bhd (SA) is reduced to 16% from 40%. Going ahead, we think Apex will deliver slower earnings growth as SA is one of its earnings growth driver of late.
- **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. Nonetheless, despite decent 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.
- **Our call.** No change to our earnings forecast. Maintain **HOLD** rating with a lower **TP** of **RM2.75** (from RM3.01) pegged against lower PER of 19x (which is in-line with its mean of 5-year PER) to FY24 EPS of 14.5sen. We think that the current valuation of the company is fair given the following factors namely (i) dilution impact from 26% equity disposal of SA, as well as (ii) inflationary pressure concern.

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	1.6	(7.5)	21.4
vs FBM KLCI	(0.3)	(10.1)	22.7

Stock Data

ESG Rating	Fair
Mkt Cap (RM)	1,816.6
Adjusted Beta	0.6
Free float (%)	29.3
Issued shares (m)	718.0
52w H/L (RM)	2.77 / 2.02
3m avg daily volume	132,572

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	
	2Q22	1Q23	2Q23	QoQ	YoY	6M22	6M23	%	FY23F	6M/F
Revenue	209.2	245.8	215.0	-12.5	2.8	425.2	460.8	8.4	890.4	52%
Operating costs	-184.5	-215.9	-186.8	-13.5	1.3	-377.3	-402.7	6.7	-779.3	52%
EBITDA	24.8	29.9	28.3	-5.5	13.9	47.8	58.1	21.6	111.1	52%
Depreciation & Amortisation	-4.0	-4.4	-4.4	0.7	11.2	-7.9	-8.8	12.4	-18.5	48%
EBIT	20.8	25.5	23.8	-6.5	14.5	40.0	49.3	23.4	129.6	38%
Finance cost	-0.2	-0.2	-0.1	-8.1	-16.5	-0.4	-0.3	-16.6	-0.8	40%
Interest income	0.4	-0.5	0.7	-233.1	78.2	0.8	0.2	-78.3	1.6	10%
Associate	7.2	4.6	310.9	>100	>100	8.1	315.5	>100	10.0	46%
Pretax profit	27.9	29.7	334.5	>100	>100	48.1	364.2	>100	129.1	282%
Income tax	-4.4	-5.4	-5.0	-6.5	15.5	-8.4	-10.4	24.0	-19.4	54%
Net profit	23.5	24.3	329.5	>100	>100	39.3	353.8	>100	100.7	351%
Core net profit	23.4	24.1	27.0	12.0	15.2	39.0	51.1	31.0	100.7	51%
EPS (sen)	3.27	3.38	45.89	>100	>100	5.5	49.3	>100		
Core EPS (sen)	3.26	3.36	3.76	12.0	15.2	5.4	7.1	31.0		
DPS declared (sen)	3.00	0	2.5	n.m.	-16.7	3	2.5	-16.7		
				Chg (ppts)				Chg (ppts)		
EBITDA margin (%)	11.9	12.2	13.1	1ppt	1.3ppt	11.2	12.6	1.4ppt		
EBIT margin (%)	9.9	10.4	11.1	0.8ppt	1.2ppt	9.4	10.7	1.3ppt		
Core profit margin (%)	11.2	9.8	12.6	2.8ppt	1.4ppt	9.2	11.1	2ppt		
Effective tax rate (%)	15.7	18.2	1.5	-16.7ppt	-14.2ppt	17.5	2.9	-14.7ppt		

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			89	95	105
EPS (sen)	8.2	13.8	14.0	14.5	15.1
PER (x)	31.0	18.3	18.0	17.5	16.7
DPS (sen)	11.5	8.5	6.3	6.5	6.8
Dividend Yield (%)	4.5	3.4	2.5	2.6	2.7
P/B (x)	3.6	3.3	3.0	2.8	2.5
Key Ratios (%)					
ROE	12	18	17	16	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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