



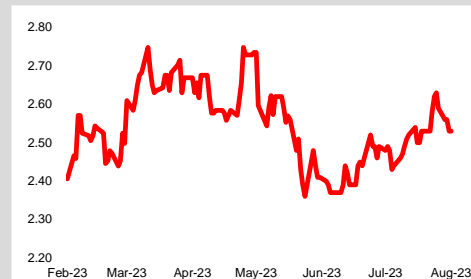
#### DESCRIPTION

An investment holding company involved in the development, manufacturing, marketing and distribution of pharmaceuticals, diagnostics, consumer healthcare products and orthopaedic devices.

12-Month Target Price	RM2.41
Current Price	RM2.53
Expected Return	-4.74%

Market	Main
Sector	Healthcare
Bursa Code	7090
Bloomberg Ticker	APEX MK
Shariah-Compliant	Yes

#### SHARE PRICE CHART



52 Week Range (RM)	2.02 – 2.77
3-Month Average Vol ('000)	130.1

#### SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	1.6	-7.5	6.6
Relative Returns	0.1	-10.1	5.5

#### KEY STOCK DATA

Market Capitalisation (RMm)	1,816.6
No. of Shares (m)	718.0

#### MAJOR SHAREHOLDERS

	%
Apex Pharmacy Holdings Sdn Bhd	39.9
Washington H Soul Pattinson	29.7
Lim Teh Realty Sdn Bhd	1.4

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## Challenges Ahead

Apex Healthcare's (ApexH) 2QFY23 net profit increased to RM329.5m, mainly due to total of RM304.4m one-off gain from the divestment of Straits Apex SB to Quadria Capital through its 40% associate Straits Apex (SAG). After stripping off the non-operating items, ApexH's 2QFY23 core net profit increased by 7% YoY to RM25.1m. The results beat both our and consensus estimates at 65% and 57% of full year forecast respectively. The discrepancy in our forecasts was mainly due its lower-than-expected operating costs on selling and marketing expenses. We maintain our FY23-25F earnings as we expect demand for Covid related products would continue to normalise in 2HFY23. All told, we maintain our **Neutral** call on ApexH, with a revised TP of RM2.41 (from RM3.81) due to the 1:2 bonus issue, based on 19x (from 20x previously) 5-year historical mean on FY24F EPS. On a side note, ApexH have also declared an interim dividend of 2.5sen per share.

§ **Revenue.** ApexH's revenue stood at RM215m (+2.8% YoY) in 2QFY23, mainly attributed by a stronger sales volume in pharmaceuticals, consumer healthcare products and medical devices for both private and public sector customers. ApexH's wholesale and distribution segment increased by 4.9% YoY to RM17.4m while the manufacturing and marketing segment recorded a decline of 16.4% YoY to RM197.6m.

§ **Net profit.** ApexH's 2QFY23 net profit jumped to RM329.5m, mainly due to a total of RM304.4m non-recurring gain recognized by SAG. Stripping off the non-operating items, core net profit was at RM25.1m in 2QFY23 (+7% YoY). The increase in net profit was due to the spillover effect from the strong demand for pharmaceuticals, consumer healthcare products and medical devices following the reopening of the economy in 2022. In addition, PBT margin (after excluding non-recurring gain) dropped by 2.3ppt to 11%, mainly due to higher operating cost as a result of inflationary pressure.

§ **Outlook.** We believe demand for ApexH's key brand products will remain intact attributed to the group's continuous commitment in brand management. However, we are cautious on the normalisation of demand for Covid-related products, as well as escalating cost due to rising imported raw material prices caused by supply chain disruption and inflationary pressure in the near term.

#### KEY FORECAST TABLE

FYE Dec (RM m)	2021A	2022A	2023F	2024F	2025F	CAGR
Revenue	770.8	877.7	972.8	1,143.3	1,262.1	17.9%
Pre-tax Profit	75.4	120.4	92.3	108.3	132.2	20.6%
Net Profit	59.4	101.0	77.4	90.9	110.9	23.1%
Core Net Profit	59.4	96.8	77.4	90.9	110.9	23.1%
EPS (Sen)	8.3	14.1	10.8	12.7	15.4	23.1%
P/E (x)	30.6	18.0	23.5	20.0	16.4	
DPS (Sen)	7.6	5.6	3.6	4.2	5.1	
Dividend Yield (%)	3.0	2.2	1.4	1.7	2.0	

Source: Company, PublicInvest Research estimates



**Table 1: Results Summary**

<u>FYE Dec (RM m)</u>	<u>2Q23</u>	<u>2Q22</u>	<u>1Q23</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>YTD FY23</u>	<u>YTD FY22</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	215.0	209.2	245.8	2.8	-12.5	460.8	425.2	8.4	
Cost of Sales	-162.9	-161.9	-190.2	-0.6	14.4	-353.1	-331.9	6.4	
<b>Gross Profit</b>	<b>52.2</b>	<b>47.3</b>	<b>55.6</b>	<b>10.2</b>	<b>-6.1</b>	<b>107.7</b>	<b>93.3</b>	<b>15.5</b>	
Other operating income/ (expenses)	2.0	0.9	2.0	>100	0.7	4.0	2.6	50.6	
<b>Operating profit/ (loss)</b>	<b>24.2</b>	<b>20.8</b>	<b>25.2</b>	<b>16.1</b>	<b>-4.2</b>	<b>49.4</b>	<b>40.0</b>	<b>23.6</b>	
Finance income/ (costs)	-0.3	-0.2	-0.2	-92.0	>-100	-0.5	-0.4	-35.3	
Other income/ (expenses)	-0.1	7.2	4.6	>-100	>-100	4.5	8.1	-44.7	
<b>Profit/ (Loss) before tax</b>	<b>334.5</b>	<b>27.9</b>	<b>29.7</b>	<b>&gt;100</b>	<b>&gt;100</b>	<b>364.2</b>	<b>47.7</b>	<b>&gt;100</b>	
Taxation	-5.0	-4.4	-5.4	-15.5	6.5	-10.4	-8.4	-24.0	
<b>Net Profit</b>	<b>329.5</b>	<b>23.5</b>	<b>24.3</b>	<b>&gt;100</b>	<b>&gt;100</b>	<b>353.8</b>	<b>39.3</b>	<b>&gt;100</b>	
Non-controlling interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>PATAMI</b>	<b>329.5</b>	<b>23.5</b>	<b>24.3</b>	<b>&gt;100</b>	<b>&gt;100</b>	<b>353.8</b>	<b>39.3</b>	<b>&gt;100</b>	Non-recurring gain of RM304.4m from SAG.
<b>Core PATAMI</b>	<b>25.1</b>	<b>23.5</b>	<b>25.3</b>	<b>7.0</b>	<b>-0.7</b>	<b>50.4</b>	<b>39.3</b>	<b>28.4</b>	
Operating Margin (%)	11.2%	9.9%	10.3%			10.7%	9.4%		
Pre-tax Margin (%)	155.6%	13.3%	12.1%			79.0%	11.2%		
Net Margin (%)	11.7%	11.2%	10.3%			10.9%	9.2%		
<b>Segment Revenue</b>									
Manufacturing and Marketing	17.4	20.8	25.0	-16.4	-30.5	42.4	39.2	8.0	
Wholesale and Distribution	197.6	188.4	220.8	4.9	-10.5	418.4	385.9	8.4	
Corporate	0.01	0.01	0.01	-9.1	0.0	0.0	0.0	-4.8	
<b>Segment EBIT</b>									
Manufacturing and Marketing	18.4	15.0	18.8	22.4	-2.1	37.2	28.0	32.9	
Wholesale and Distribution	7.6	8.4	10.0	-10.2	-24.2	17.5	17.6	-0.6	
Corporate	309.7	5.5	1.9	>100	>100	311.6	4.1	>100	

Source: Company

## KEY FINANCIAL DATA

### INCOME STATEMENT

FYE Dec (RM m)	2021A	2022A	2023F	2024F	2025F
Revenue	770.8	877.7	972.8	1,143.3	1,262.1
Operating Profit	69.2	91.5	73.0	85.7	107.3
Other Gains/(Losses)	7.1	29.6	19.5	22.9	25.2
Finance Costs	-0.9	-0.8	-0.2	-0.3	-0.3
Pre-tax Profit	75.4	120.4	92.3	108.3	132.2
Income Tax	-16.0	-19.4	-14.9	-17.4	-21.3
Effective Tax Rate (%)	21.2	16.1	16.1	16.1	16.1
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>59.4</b>	<b>101.0</b>	<b>77.4</b>	<b>90.9</b>	<b>110.9</b>
<b>Core Net Profit</b>	<b>59.4</b>	<b>96.8</b>	<b>77.4</b>	<b>90.9</b>	<b>110.9</b>
<b>Growth</b>					
Revenue (%)	10.3	13.9	10.8	17.5	10.4
Operating Profit (%)	10.4	32.3	-20.3	17.5	25.1
Net Profit (%)	6.1	69.9	-23.3	17.4	22.0

Source: Company, PublicInvest Research estimates

### BALANCE SHEET

FYE Dec (RM m)	2021A	2022A	2023F	2024F	2025F
Property, Plant & Equipment	167.1	189.3	191.7	191.6	190.8
Cash and Cash Equivalents	93.4	105.2	210.5	261.2	332.2
Receivables	158.8	178.2	191.9	219.3	235.1
Other Assets	260.9	272.6	223.5	254.3	273.2
<b>Total Assets</b>	<b>680.1</b>	<b>745.3</b>	<b>817.6</b>	<b>926.3</b>	<b>1,031.3</b>
Payables	144.1	160.4	185.6	212.3	238.0
Borrowings	9.5	9.5	15.5	26.7	31.6
Deferred Tax	8.6	6.8	10.4	10.4	10.4
Other Liabilities	11.1	10.1	-4.2	5.8	5.8
<b>Total Liabilities</b>	<b>173.3</b>	<b>186.8</b>	<b>207.3</b>	<b>255.1</b>	<b>285.8</b>
Total Equity	506.9	558.4	610.3	671.2	745.5
<b>Total Equity and Liabilities</b>	<b>680.1</b>	<b>745.3</b>	<b>817.6</b>	<b>926.3</b>	<b>1,031.3</b>

Source: Company, PublicInvest Research estimates

### PER SHARE DATA & RATIOS

FYE Dec	2021A	2022A	2023F	2024F	2025F
Book Value Per Share	0.7	0.8	0.8	0.9	1.0
EPS (Sen)	12.5	21.3	10.8	12.7	15.4
DPS (Sen)	7.6	5.6	3.6	4.2	5.1
Payout Ratio	92.3%	39.9%	33.0%	33.0%	33.0%
ROA	8.7%	13.5%	9.5%	9.8%	10.8%
ROE	11.7%	18.1%	12.7%	13.5%	14.9%

Source: Company, PublicInvest Research estimates

## **RATING CLASSIFICATION**

### STOCKS

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### SECTOR

<b>OVERWEIGHT</b>	The sector is expected to outperform a relevant benchmark over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform a relevant benchmark over the next 12 months.

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