"3Q23 supported by strong manufacturing contributions"

Share price performance

	1M	3M	12M
Absolute (%)	-1.6	-6.6	7.6
Rel KLCI (%)	-1.9	-6.1	9.9

	BUY	HOLD	SELL
Consensus	-	4	1

Source: Bloomberg

Stock Data

Sector	Healthcare
Issued shares (m)	718.3
Mkt cap (RMm)/(US$m)	1716.8/369.2
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	2.19-2.77
Est free float	21.3%
Stock Beta	0.59
Net cash/(debt) (RMm)	363.70
ROE (CY24E)	10.7%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200) ESG Rank	N/a
ESG Risk Rating	14.9 (-2.3 yoy)

Key Shareholders

Apex Pharmacy Holding	39.7%
Washington H Soul	29.6%

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

Andrew Lim
T (603) 2146 7586
E andrew.lim@affingroup.com

Apex Healthcare (APEX MK)

HOLD (maintain)
Up/Downside: +0.4%

Price Target: RM2.40
Previous Target (Rating): RM2.40 (HOLD)

2024 should see a slight dip in manufacturing

- **3Q23 earnings came in above expectations from strong sales of its manufacturing arm. We raise our FY23E estimates accordingly**
- **We expect FY24E to see a decline yoy as demand normalises, though still being well above the pre-pandemic average**
- **Maintain HOLD with an unchanged TP of RM2.40**

Earnings came in above expectations

3Q23 earnings of RM24.2m (-3.7% qoq, -9.4% yoy) brought 9M23 earnings to RM74.5m (+14.1% yoy), forming 82% of our (and consensus) full-year estimates. The results were above expectations due to stronger-than-expected sales from its consumer healthcare products due to increased sales and marketing efforts. Note that we had initially anticipated sales to decline due to slowing market demand after coming off from a high base of post-pandemic demand.

2024 should see a dip from weaker demand, albeit stabilising at a high base

Following the stronger-than-expected momentum seen in the manufacturing segment for consumer healthcare products, we raise our FY23E estimates by 8%. Our FY24-25E estimates are kept unchanged as we expect demand for consumer healthcare to normalise from the high base brought about by the post-pandemic demand, e.g. cough syrups. Nevertheless, we note that its FY24-25E earnings base is still much higher relative to the pre-pandemic average of c.RM50m per annum. Over the long run, the company will tap into the sector's natural growth in demand, given the previous expansion efforts carried out: i) doubling the production capacity of liquids, and ii) a 36% capacity expansion for the Oral Solid Dosage manufacturing plant. On the distribution segment (which is primarily based in Malaysia), long-term growth will be supported by the recent 40:60 JV with Shanghai Pharmaceutical, whereby the JV intends to introduce new products in Singapore and other foreign markets.

Maintain HOLD with an unchanged TP of RM2.40

Our PE-derived TP is based on an unchanged 19x on 2024E EPS, in line with its 5-year mean. We believe the stock is fairly valued as demand for its pharmaceutical products is expected to normalise ahead coupled with the company not being able to meaningfully tap into the growth prospects of its associate (due to the recent stake divestment). Key upside/downside risks include: i) stronger/weaker demand for pharmaceutical products; and ii) raw material price fluctuations.

Earnings & Valuation Summary

FYE 31 Dec	2021	2022	2023E	2024E	2025E
Revenue (RMm)	770.8	877.7	953.7	940.7	964.5
EBITDA (RMm)	82.9	102.2	114.4	108.7	111.6
Pretax profit (RMm)	75.4	120.4	116.6	111.3	114.8
Net profit (RMm)	59.4	101.0	96.4	91.2	94.3
EPS (sen)	8.3	14.0	13.4	12.7	13.1
PER (x)	28.9	17.0	17.8	18.8	18.2
Core net profit (RMm)	58.6	96.8	96.4	91.2	94.3
Core EPS (sen)	8.2	13.5	13.4	12.7	13.1
Core EPS growth (%)	6.0	65.1	-0.4	-5.3	3.4
Core PER (x)	29.3	17.8	17.8	18.8	18.2
Net DPS (sen)	11.5	8.5	8.1	7.7	7.9
Dividend Yield (%)	4.8	3.6	3.4	3.2	3.3
EV/EBITDA	18.6	15.2	11.5	12.0	11.6
Chg in EPS (%)			+7.9	-	-
Affin/Consensus (x)			1.0	1.0	0.9

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results Comparison

FYE Dec (RMm)	3Q22	2Q23	3Q23	QoQ % chg	YoY % chg	9M22	9M23	YoY %chg	Comments
Revenue	**232.1**	**215.0**	**235.3**	**9.4**	**1.4**	**657.2**	**696.2**	**5.9**	Qoq increase from stronger sales in its manufacturing segment
Op costs	-203.1	-187.7	-206.7	10.2	1.8	-582.2	-610.3	4.8	
EBITDA	**29.0**	**27.4**	**28.6**	**4.5**	**-1.4**	**75.0**	**85.9**	**14.5**	
EBITDA margin (%)	12.5	12.7	12.2	-0.6ppt	-0.3ppt	11.4	12.3	0.9ppt	
Depn and amort	-4.0	-4.2	-4.3	1.7	7.6	-11.4	-12.7	11.1	
EBIT	25.0	23.1	24.3	5.1	-2.8	63.6	73.2	15.1	
EBIT margin (%)	10.8	10.8	10.3	-0.4ppt	-0.4ppt	9.7	10.5	0.8ppt	
Int expense	-0.2	-0.1	-0.1	-8.8	-26.0	-0.5	-0.4	-19.7	
Int income	0.4	0.7	2.7	296.6	630.1	1.1	3.8	238.8	Expect 3Q23 momentum to be the new norm given its stronger cash pile from the stake divestment of its associate
Associates	7.0	6.5	3.6	-43.7	-48.0	15.1	14.7	-2.4	
Exceptional items	0.2	304.4	0.0	-100.0	-100.0	0.8	303.4	nm	2Q23 saw RM304m worth of gains from its stake divestment in its associate
Pretax Profit	**32.4**	**334.5**	**30.5**	**-90.9**	**-5.9**	**80.1**	**394.6**	**392.9**	
Tax	-5.5	-5.0	-6.3	25.3	14.5	-13.9	-16.7	20.2	
Tax rate (%)	17.0	1.5	20.7	19.2ppt	3.7ppt	17.4	4.2	-13.2ppt	
Net profit	**26.9**	**329.4**	**24.2**	**-92.7**	**-10.1**	**66.1**	**377.9**	**471.3**	
EPS (sen)	5.7	69.5	5.1	-92.7	-10.1	14.0	79.7	471.2	
Core net profit	**26.7**	**25.1**	**24.2**	**-3.7**	**-9.4**	**65.3**	**74.5**	**14.1**	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

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable and is not to be taken in substitution for the exercise of your judgment. You should obtain independent financial, legal, tax or such other professional advice, when making your independent appraisal, assessment, review and evaluation of the company/entity covered in this report, and the extent of the risk involved in doing so, before investing or participating in any of the securities or investment strategies or transactions discussed in this report. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (expressed or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, estimates, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel and the same are subject to change without notice. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest. Under no circumstances shall the Company, be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company its directors, its employees and their respective associates may have positions or financial interest in the securities mentioned therein. The Company, its directors, its employees and their respective associates may further act as market maker, may have assumed an underwriting commitment, deal with such securities, may also perform or seek to perform investment banking services, advisory and other services relating to the subject company/entity, and may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. The Company, its directors, its employees and their respective associates, may provide, or have provided in the past 12 months investment banking, corporate finance or other services and may receive, or may have received compensation for the services provided from the subject company/entity covered in this report. No part of the research analyst's compensation or benefit was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. Employees of the Company may serve as a board member of the subject company/entity covered in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

Level 32, Menara AFFIN,
Lingkaran TRX,
55188 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
F : + 603 2146 7630
ahib.researchteam@affingroup.com

www.affinhwang.com