



AmInvestment Bank

## Company Report

# APEX HEALTHCARE

(APEX MK EQUITY, APER.KL)

30 Nov 2023

3Q revenue rebounded, outlook remains uncertain

## HOLD

(Maintained)

Chee Kok Siang

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03-20362294

Rationale for Report: Company Result

Price	RM2.39
Fair Value	RM2.64
52-week High/Low	RM2.77/RM2.19

## Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY22	FY23F	FY24F	FY25F
Revenue (RMmil)	877.7	904.8	970.5	1,039.8
Core net profit (RMmil)	96.4	94.0	94.7	102.7
FD Core EPS (Sen)	13.4	13.1	13.2	14.3
FD Core EPS growth (%)	58.5	(2.6)	0.8	8.3
Consensus Net Profit (RMmil)	-	90.4	95.4	104.8
DPS (Sen)	5.7	5.5	5.5	6.0
PE (x)	17.8	18.3	18.1	16.7
EV/EBITDA (x)	14.4	12.5	11.6	10.5
Div yield (%)	2.4	2.3	2.3	2.5
ROE (%)	19.0	54.0	10.0	10.2
Net Gearing (%)	nm	nm	nm	nm

## Stock and Financial Data

Shares Outstanding (million)	718.3
Market Cap (RM mil)	1,716.7
Book Value (RM/share)	0.78
P/BV (x)	3.1
ROE (%)	19.0
Net Gearing (%)	nm

Major Shareholders	Apex Pharmacy Holdings Sdn Bhd (39.7%) Washington H. Soul Pattinson and Company Ltd. (29.6%)
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Free Float (%)	21.3
Avg Daily Value (RM mil)	0.2

Price performance	3mth	6mth	12mth
Absolute (%)	(6.6)	(6.9)	7.6
Relative (%)	(6.1)	(9.5)	9.9



— APEX MK — FBMKLCI Index

## Investment Highlights

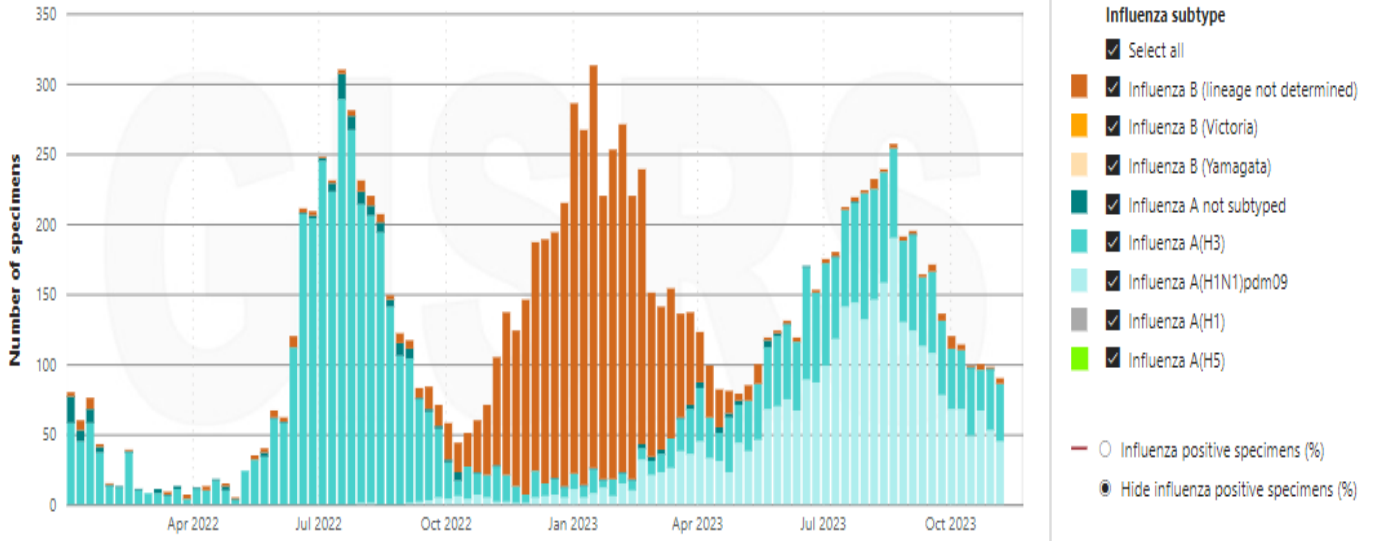
- We reiterate **HOLD** on Apex Healthcare (Apex) with an unchanged fair value (FV) of RM2.64/share, based on FY24F target PE of 20x, at parity to its 5-year average. No ESG-related adjustments based on our neutral 3-star rating.
- Apex's 9MFY23 core net profit of RM74mil came in within our expectation, accounting for 79% of our FY23F earnings, but beat the street's at 87%.
- Historically, 9M accounted for 65%-74% of FY18-22 core net profit. However, we expect 2HFY23 to be weaker than 1HFY23 as a result of weaker demand for both consumer healthcare products and flu-related medications, as well as the partial divestment of the group's orthopaedic business in May 2023, reducing Apex's effective stake to 16% from 40%.
- Hence, we maintain FY23F-25F earnings. In our core profit calculation, we excluded a 2QFY23 one-off gain of RM304mil from a partial divestment of the group's orthopaedic business, Straits Apex.
- No dividend was declared in 3QFY23 as expected given that Apex usually declares dividends in 2Q and 4Q results.
- On a YoY basis, Apex's 9MFY23 core earnings rose by 14% on the back of a revenue growth of 5.9% and 1%-point improvement in EBITDA margin to 12.8%, partly offset by the reduced stake in 16%-owned associate Straits Apex.
- On a QoQ basis, Apex's 3QFY23 core earnings decreased by 5%, despite a 9% improvement in revenue as a result of Apex's recent more aggressive sales and marketing initiatives for consumer healthcare products. However, the weaker earnings was mainly due to lower share of earnings from the reduced stake in 16%-owned associate Straits Apex.
- Going into 4QFY23, we expect revenue and earnings to be lower QoQ due to uncertain demand outlook for consumer healthcare products in the face of slowing economic growth and weakening consumer sentiments. Furthermore, the decline in flu cases in Malaysia could dampen sales of flu-related medications in 4QFY23 (Exhibit 2).
- The stock currently trades at a fairly-valued FY24F PE of 18x, 10% discount to its 5-year average of 20x. Also, Apex offers a slight dividend yield of 2.3%.

## EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	232.1	215.0	235.3	9.4	1.4	657.2	696.2	5.9
<b>Gross profit</b>	<b>53.2</b>	<b>52.2</b>	<b>55.5</b>	<b>6.4</b>	<b>4.3</b>	<b>146.5</b>	<b>163.2</b>	<b>11.4</b>
<b>EBITDA</b>	<b>29.8</b>	<b>28.3</b>	<b>31.5</b>	<b>11.4</b>	<b>5.7</b>	<b>77.6</b>	<b>89.4</b>	<b>15.1</b>
<b>EBIT</b>	<b>25.6</b>	<b>23.8</b>	<b>27.0</b>	<b>13.3</b>	<b>5.5</b>	<b>65.5</b>	<b>76.0</b>	<b>16.0</b>
Share of associates	7.0	310.9	3.6	(98.8)	(48.0)	15.1	319.1	>100
Profit before tax	32.4	334.5	30.5	(90.9)	(5.9)	80.1	394.7	>100
Tax	(5.5)	(5.0)	(6.3)	(25.3)	(14.5)	(13.9)	(16.7)	(20.2)
<b>Net profit</b>	<b>26.9</b>	<b>329.5</b>	<b>24.2</b>	<b>(92.7)</b>	<b>(10.1)</b>	<b>66.1</b>	<b>377.9</b>	<b>&gt;100</b>
Eis	(0.3)	(304.4)	(0.3)	99.9	5.8	(1.0)	(303.9)	(>100)
<b>Core net profit</b>	<b>26.6</b>	<b>25.0</b>	<b>23.9</b>	<b>(4.6)</b>	<b>(10.2)</b>	<b>65.2</b>	<b>74.0</b>	<b>13.6</b>
FD EPS (sen)	5.6	3.5	3.3	(4.6)	(40.4)	13.7	10.4	(24.6)
Gross DPS (sen)	0.0	2.5	0.0	(100.0)	n/a	3.0	2.5	(16.7)
Gross margin (%)	22.9	24.3	23.6	-0.7ppt	0.7ppt	22.3	23.4	1.2ppt
EBITDA margin (%)	12.8	13.1	13.4	0.2ppt	0.5ppt	11.8	12.8	1.0ppt
Pretax margin (%)	14.0	155.6	12.9	-142.6ppt	-1.0ppt	12.2	56.7	44.5ppt
Core net profit margin (%)	11.5	11.6	10.2	-1.5ppt	-1.3ppt	9.9	10.6	0.7ppt
Effective tax rate (%)	17.0	1.5	20.7	19.2ppt	3.7ppt	17.4	4.2	-13.2ppt
<b>Segmental Revenue (RMmil)</b>								
Manufacturing	62.8	65.1	69.9	7.4	11.3	171.4	202.8	18.3
Wholesale & Distribution	209.6	197.7	209.1	5.8	(0.2)	595.5	627.6	5.4
Corporate	11.0	39.1	14.8	(62.1)	34.4	17.6	55.3	>100
<b>Segmental PBT (RMmil)</b>								
Manufacturing	17.7	18.4	20.4	10.8	15.3	45.7	57.6	26.1
Wholesale & Distribution	10.1	7.6	8.9	17.5	(12.1)	27.7	26.4	(4.8)
Corporate	5.6	309.7	2.0	(99.3)	(63.8)	9.7	313.6	>100
<b>Pretax margin (%)</b>								
Manufacturing	28.2	28.3	29.2	0.9ppt	1.0ppt	26.7	28.4	1.8ppt
Wholesale & Distribution	4.8	3.8	4.2	0.4ppt	-0.6ppt	4.7	4.2	-0.4ppt

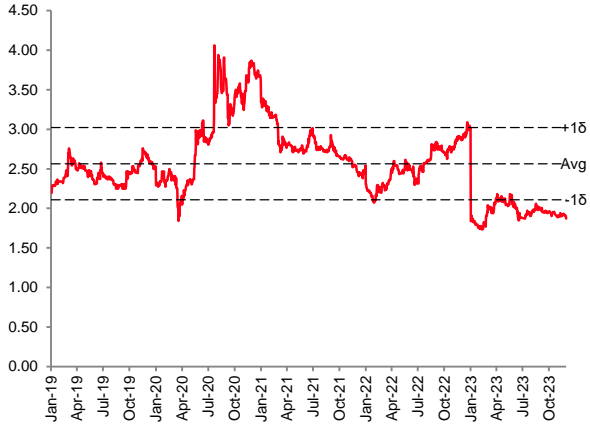
Source: AmlInvestment Bank/Apex Healthcare Bhd

EXHIBIT 2: NUMBER OF MALAYSIAN SPECIMENS POSITIVE FOR INFLUENZA BY SUBTYPES SINCE JAN 2022 TO NOW

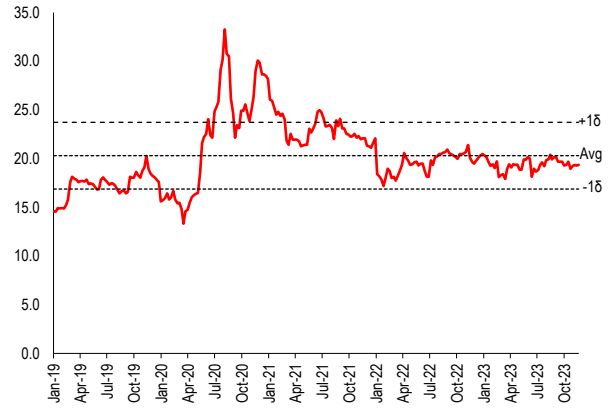


Source: AmInvestment Bank/World Health Organisation (WHO)

**EXHIBIT 3: PB BAND CHART**



**EXHIBIT 4: PE BAND CHART**



**EXHIBIT 5: ESG RATING**

Overall	★	★	★		
Waste management	★	★			
Natural resource conservation	★	★	★		
Occupational safety + health	★	★	★	★	
Workplace diversity	★	★	★		
Employee training + wellbeing	★	★	★		
Quality assurance + safety	★	★	★	★	
Communal efforts	★	★	★	★	
Corruption-free pledge	★	★	★		
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

## EXHIBIT 6: FINANCIAL DATA

Income Statement (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	770.8	877.7	904.8	970.5	1,039.8
EBITDA	85.5	108.0	108.1	116.0	127.3
Depreciation	(16.3)	(16.5)	(16.6)	(17.9)	(19.2)
Operating income (EBIT)	69.2	91.5	91.5	98.1	108.1
Other income & associates	7.1	29.6	328.3	18.6	18.6
Net interest	1.0	0.9	3.0	2.7	2.5
Exceptional items	1.4	(4.5)	(304.4)	-	-
<b>Pretax profit</b>	<b>75.4</b>	<b>120.4</b>	<b>419.0</b>	<b>115.6</b>	<b>125.2</b>
Taxation	(16.0)	(19.4)	(20.6)	(20.8)	(22.5)
Minorities/pref dividends	-	-	-	-	-
<b>Net profit</b>	<b>59.4</b>	<b>101.0</b>	<b>398.4</b>	<b>94.7</b>	<b>102.7</b>
Core net profit	60.9	96.4	94.0	94.7	102.7
<b>Balance Sheet (RM mil, YE 31 Dec)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23F</b>	<b>FY24F</b>	<b>FY25F</b>
Fixed assets	172.8	195.4	210.7	227.0	244.4
Intangible assets	2.6	4.0	3.6	3.2	2.9
Other long-term assets	53.3	81.1	191.5	210.0	228.6
<b>Total non-current assets</b>	<b>228.7</b>	<b>280.5</b>	<b>405.8</b>	<b>440.3</b>	<b>475.9</b>
Cash & equivalent	194.1	174.5	377.8	390.3	402.9
Stock	95.4	110.5	113.9	120.9	130.0
Trade debtors	158.8	178.2	203.0	221.1	234.5
Other current assets	3.2	1.6	2.6	4.6	6.6
<b>Total current assets</b>	<b>451.4</b>	<b>464.8</b>	<b>697.3</b>	<b>737.0</b>	<b>774.0</b>
Trade creditors	143.3	160.4	157.9	172.2	181.8
Short-term borrowings	5.9	5.9	5.9	7.1	7.4
Other current liabilities	2.8	4.3	5.3	7.3	9.3
<b>Total current liabilities</b>	<b>151.9</b>	<b>170.6</b>	<b>169.2</b>	<b>186.6</b>	<b>198.6</b>
Long-term borrowings	9.5	3.6	3.9	4.8	5.0
Other long-term liabilities	11.9	12.6	12.9	13.2	13.5
<b>Total long-term liabilities</b>	<b>21.4</b>	<b>16.2</b>	<b>16.8</b>	<b>18.0</b>	<b>18.5</b>
<b>Shareholders' funds</b>	<b>506.8</b>	<b>558.4</b>	<b>917.3</b>	<b>972.3</b>	<b>1,031.8</b>
Minority interests	0.1	-	-	-	-
BV/share (RM)	0.71	0.78	1.28	1.35	1.44
<b>Cash Flow (RM mil, YE 31 Dec)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23F</b>	<b>FY24F</b>	<b>FY25F</b>
Pretax profit	75.4	120.4	419.0	115.6	125.2
Depreciation	16.0	16.2	16.3	17.5	18.9
Net change in working capital	(9.8)	(17.6)	(30.7)	(10.9)	(12.8)
Others	(19.7)	(46.8)	(348.4)	(39.0)	(40.7)
<b>Cash flow from operations</b>	<b>61.8</b>	<b>72.1</b>	<b>56.1</b>	<b>83.2</b>	<b>90.6</b>
Capital expenditure	(13.1)	(34.2)	(31.3)	(33.5)	(35.9)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(1.8)	82.2	217.0	-	-
<b>Cash flow from investing</b>	<b>(14.9)</b>	<b>48.0</b>	<b>185.7</b>	<b>(33.5)</b>	<b>(35.9)</b>
Debt raised/(repaid)	(5.9)	(5.9)	0.3	2.0	0.5
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(25.2)	(57.3)	(39.5)	(39.8)	(43.1)
Others	-	0.6	0.6	0.6	0.6
<b>Cash flow from financing</b>	<b>(31.1)</b>	<b>(62.5)</b>	<b>(38.5)</b>	<b>(37.2)</b>	<b>(42.0)</b>
<b>Net cash flow</b>	<b>15.8</b>	<b>57.5</b>	<b>203.3</b>	<b>12.5</b>	<b>12.6</b>
<b>Net cash/(debt) b/f</b>	<b>86.6</b>	<b>103.9</b>	<b>164.5</b>	<b>367.8</b>	<b>380.3</b>
<b>Net cash/(debt) c/f</b>	<b>103.8</b>	<b>164.5</b>	<b>367.8</b>	<b>380.3</b>	<b>393.0</b>
<b>Key Ratios (YE 31 Dec)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23F</b>	<b>FY24F</b>	<b>FY25F</b>
Revenue growth (%)	10.3	13.9	3.1	7.3	7.1
EBITDA growth (%)	8.1	26.3	0.1	7.3	9.8
Pretax margin (%)	9.8	13.7	46.3	11.9	12.0
Net profit margin (%)	7.7	11.5	44.0	9.8	9.9
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	21.2	16.1	4.9	18.0	18.0
Dividend payout (%)	91.9	40.2	9.9	42.0	42.0
Debtors turnover (days)	68	70	77	80	80
Stock turnover (days)	44	43	45	44	44
Creditors turnover (days)	62	63	64	62	62

Source: Company, AmlInvestment Bank Bhd estimates

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