



AmInvestment Bank

Company Report

APEX HEALTHCARE

(APEX MK EQUITY, APER.KL)

10 Jan 2024

Xepa's long-term expansion plans

HOLD

(Maintained)

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Rationale for Report: Company Update

Price	RM2.54
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)	-	95.7	96.6	105.5
DPS (Sen)	5.7	5.5	5.5	6.0
PE (x)	19.1	19.6	19.4	17.9
EV/EBITDA (x)	15.5	13.6	12.6	11.4
Div yield (%)	2.2	2.1	2.2	2.3
ROE (%)	19.0	54.0	10.0	10.2
Net Gearing (%)	nm	nm	nm	nm

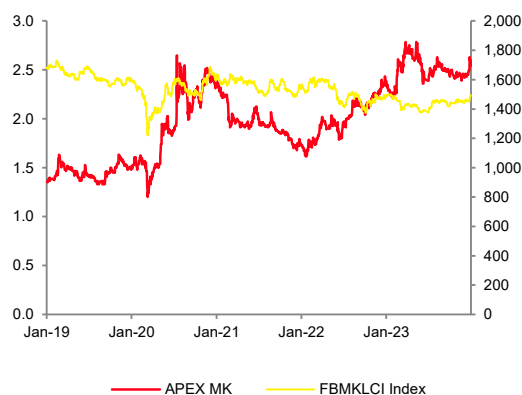
Stock and Financial Data

Shares Outstanding (million)	718.3
Market Cap (RM mil)	1,824.5
Book Value (RM/share)	0.78
P/BV (x)	3.3
ROE (%)	19.0
Net Gearing (%)	nm

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

Price performance	3mth	6mth	12mth
Absolute (%)	4.1	6.3	7.6
Relative (%)	(1.4)	(2.1)	6.5

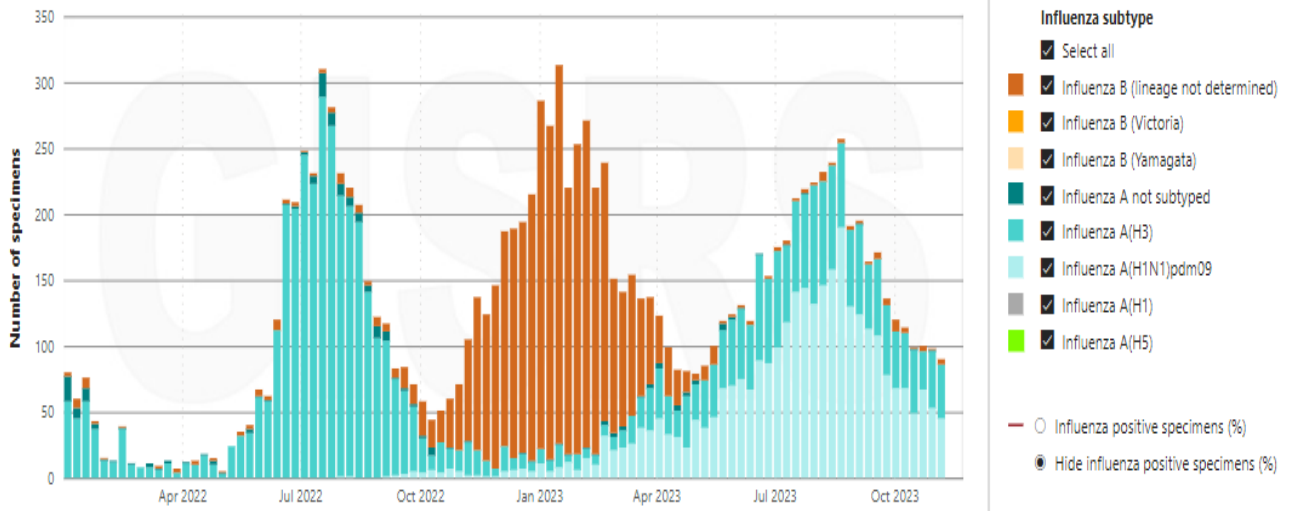


Investment Highlights

- 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.
- After our recent plant visit at Xepa-Soul Pattinson (Malaysia) (Xepa), we maintain our FY23F-25F earnings as Xepa's guidance remains in line with our assumptions. Nevertheless, we have a better understanding of Xepa's operations and insights on its long-term expansion plans.
- Xepa is involved in the development, manufacturing and marketing of off-patent/generic pharmaceutical products and medical devices. The Xepa campus is situated in Cheng Industrial Estate, Melaka, encompassing a 10-acre site with a built-up area of 38,249 sq metres.
- The campus consists of 7 facilities including laboratories, a liquids production plant (LPP), 3 solids production plants (SPP Novo, SPP 1 and SPP 2), a warehouse and offices. The campus is equipped with 550 employees and serve over 3,500 clinics, 2,000 pharmacies and 1,000 hospitals. Additionally, Xepa, which has a presence in over 22 countries, derives 25%–30% of 9MFY23 revenue from export markets.
- Xepa has an annual installed capacity of 200mil units and offers over 150 product types under its own brand, including tablets, capsules, powder for oral suspensions, liquids, creams/ointments and sterile eye drops. The majority of the products are prescription medications which focus on various therapeutic areas such as respiratory, alimentary, cardiovascular, dermatological and ophthalmology.
- The latest plant utilisation rates for SPP Novo, SPP 1 & 2, and LPP at the campus are 70%, which is the optimal rate. The reasons for not running at 100% are:
 - (a) to reserve a buffer for spot orders, and
 - (b) for maintenance purpose.
 Notably, SPP Novo still has space for 4 additional blistering lines for expansion until FY30F, which could double current capacity for tables and capsules, based on our estimate.
- However, as LPP is being optimally utilised, Xepa intends to retrofit existing plants for expansion on a 20.7-acre land. The land was recently acquired in Dec 2023 and is situated 400 metres from the Xepa campus. For now, Xepa has not provided the exact timeline for the LPP expansion.
- Despite recent rise in Covid cases, Xepa anticipates that demand for flu-related medication in 4QCY23 will not increase materially, possibly due to milder symptoms. As a result, we adhere to our view that revenue and earnings could be lower QoQ given demand for pharmaceutical products (especially flu-related medications) could experience moderation, in tandem with declining Malaysian flu cases in 4QCY23 (Exhibit 1).

- Going into FY24F, we expect a flattish YoY net profit growth mainly due to lower earnings contribution from the group’s 16%-owned associate Straits Apex, an orthopaedic business, as a result of lower effective stake from 40% to 16% after a partial disposal back in May 2023.
- The stock currently trades at a fairly-valued FY24F PE of 19x, at a slight 5% discount to its 5-year average of 20x. Also, Apex offers a mild dividend yield of 2.2%.

EXHIBIT 1: NUMBER OF MALAYSIAN SPECIMENS POSITIVE FOR INFLUENZA BY SUBTYPES SINCE JAN 2022 TO NOW



Source: AmlInvestment Bank/World Health Organisation (WHO)

EXHIBIT 2: PB BAND CHART

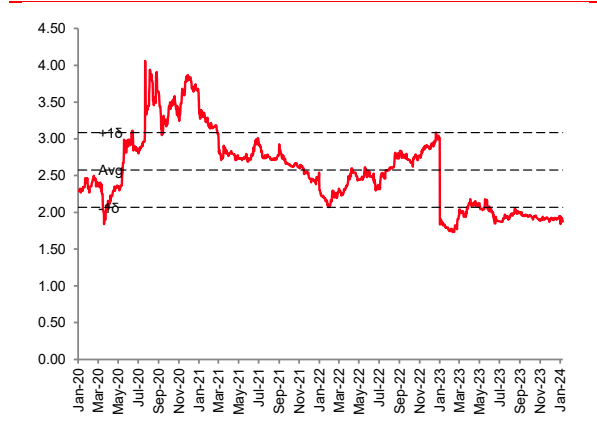


EXHIBIT 3: PE BAND CHART

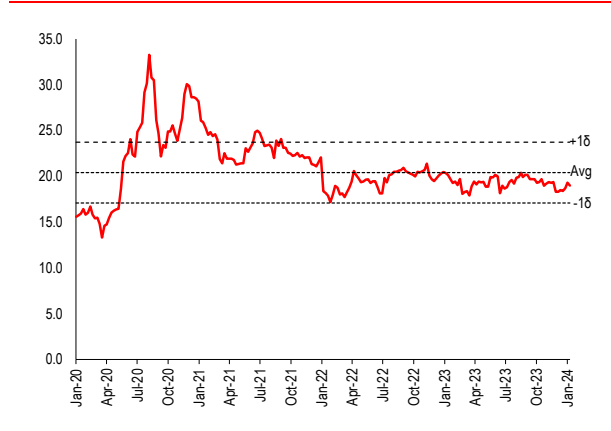


EXHIBIT 4: ESG RATING

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 5: 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)	-	-
Pretax profit	75.4	120.4	419.0	115.6	125.2
Taxation	(16.0)	(19.4)	(20.6)	(20.8)	(22.5)
Minorities/pref dividends	-	-	-	-	-
Net profit	59.4	101.0	398.4	94.7	102.7
Core net profit	60.9	96.4	94.0	94.7	102.7
Balance Sheet (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
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
Total non-current assets	228.7	280.5	405.8	440.3	475.9
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
Total current assets	451.4	464.8	697.3	737.0	774.0
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
Total current liabilities	151.9	170.6	169.2	186.6	198.6
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
Total long-term liabilities	21.4	16.2	16.8	18.0	18.5
Shareholders' funds	506.8	558.4	917.3	972.3	1,031.8
Minority interests	0.1	-	-	-	-
BV/share (RM)	0.71	0.78	1.28	1.35	1.44
Cash Flow (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
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)
Cash flow from operations	61.8	72.1	56.1	83.2	90.6
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	-	-
Cash flow from investing	(14.9)	48.0	185.7	(33.5)	(35.9)
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
Cash flow from financing	(31.1)	(62.5)	(38.5)	(37.2)	(42.0)
Net cash flow	15.8	57.5	203.3	12.5	12.6
Net cash/(debt) b/f	86.6	103.9	164.5	367.8	380.3
Net cash/(debt) c/f	103.8	164.5	367.8	380.3	393.0
Key Ratios (YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
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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