Apex Healthcare (APEX MK)

SELL (downgrade)
Up/Downside: -20.2%

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

"4Q23 impacted by weaker manufacturing and associate contributions"

Hit by lower margins and weaker associates

- **4Q23 earnings came in below expectations due to weaker-than-expected manufacturing margins and lower associate contributions**
- **Special dividends worth 20 sen per share and final dividends worth 2.5 sen per share were declared (ex-date 15 May 2024)**
- **We lower our FY24E earnings. Downgrade to SELL with unchanged TP of RM2.40 given sharp 20% rise YTD**

Earnings came in below expectations

4Q23 earnings of RM17.2m (-29% qoq, -46% yoy) brought FY23 earnings to RM91.7m (-5.3% yoy), forming 95% of our full-year estimate (90% of consensus). The company also declared a 20 sen per share special dividend and a 2.5 sen per share final dividend. The results were below expectations due to weaker-than-expected margins from the manufacturing segment and associates contribution. Note that this is despite that we were already anticipating sales to decline due to slowing market demand after coming off the high base of post-pandemic demand.

2024 to see a slight decline yoy on normalized earnings

Following the weaker-than-expected margins seen in the manufacturing segment, we lower our FY24E estimate by 6%. We introduce FY26E earnings at RM96m. On the flip side, the company will tap into the sector's natural growth in demand over the long run, 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.

Downgrade to SELL with an unchanged TP of RM2.40

Following our earnings revision, we update our mean PE to 20x (in line with its 5-year mean; from 19x) on FY24E EPS to derive our TP of RM2.40. Given the 20% rise in share price YTD despite no improvements in the outlook so far, coupled with the recent disappointing results, we believe it is a good time for investors to take profit. Furthermore, we expect demand for its pharmaceutical products 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 risks include: i) stronger demand for pharmaceutical products; and ii) raw material price fluctuations.

Earnings & Valuation Summary

FYE 31 Dec	2022	2023	2024E	2025E	2026E
Revenue (RMm)	877.7	936.2	940.7	964.5	989.4
EBITDA (RMm)	101.4	98.8	101.5	111.7	114.8
Pretax profit (RMm)	120.4	420.4	104.2	114.8	116.6
Net profit (RMm)	101.0	395.0	85.5	94.3	95.8
EPS (sen)	11.8	54.9	11.9	13.1	13.3
PER (x)	25.4	5.5	25.3	23.0	22.6
Core net profit (RMm)	96.8	91.7	85.5	94.3	95.8
Core EPS (sen)	11.7	12.8	11.9	13.1	13.3
Core EPS growth (%)	43.3	9.1	-11.3	10.3	1.6
Core PER (x)	25.8	23.6	25.3	23.0	22.6
Net DPS (sen)	8.5	25	7.2	7.9	8.1
Dividend Yield (%)	2.8	8.3	2.4	2.6	2.7
EV/EBITDA	19.6	17.8	17.2	15.6	15.1
Chg in EPS (%)			-6.3	-	new
Affin/Consensus (x)			0.9	1.0	-

Source: Company, Bloomberg, Affin Hwang forecasts

Share price performance

	1M	3M	12M
Absolute (%)	15.8	21.9	31.9
Rel KLCI (%)	10.8	14.9	25.3

	BUY	HOLD	SELL
Consensus	1	4	1

Source: Bloomberg

Stock Data

Sector	Healthcare
Issued shares (m)	718.6
Mkt cap (RMm)/(US$m)	2162.9/450.8
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	2.24-3.16
Est free float	21.3%
Stock Beta	0.59
Net cash/(debt) (RMm)	369.09
ROE (CY24E)	10.0%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200) ESG Rank	Na
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

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Fig 1: Results Comparison

FYE Dec (RMm)	4Q22	3Q23	4Q23	QoQ % chg	YoY % chg	FY22	FY23	YoY %chg	Comments
Revenue	**220.5**	**235.3**	**240.0**	**2.0**	**8.8**	**877.7**	**936.2**	**6.7**	Qoq increase from stronger distribution segment
Op costs	-194.1	-206.7	-227.1	9.8	17.0	-776.4	-837.4	7.9	
EBITDA	**26.4**	**28.6**	**12.9**	**-54.9**	**-51.0**	**101.4**	**98.8**	**-2.5**	
EBITDA margin (%)	12.0	12.2	5.4	-6.8ppt	-6.6ppt	11.5	10.6	-1ppt	Margin squeeze due to higher cost of sales and one-off costs (stripped off as exceptionals)
Depn and amort	-4.2	-4.3	-4.5	3.6	6.9	-15.6	-17.2	10.0	
EBIT	22.2	24.3	8.5	-65.2	-61.9	85.7	81.6	-4.8	
EBIT margin (%)	10.1	10.3	3.5	-6.8ppt	-6.5ppt	9.8	8.7	-1.1ppt	
Int expense	-0.2	-0.1	-0.1	-9.0	-43.0	-0.8	-0.6	-26.2	
Int income	0.5	2.7	3.0	13.2	524.6	1.6	6.9	324.2	Improved given its stronger cash pile from the stake divestment of its associate
Associates	14.5	3.6	17.3	375.3	19.3	29.6	32.0	8.2	
Exceptional items	3.3	0.0	-2.9	nm	-186.9	4.2	300.5	nm	
Pretax Profit	**40.3**	**30.5**	**25.7**	**-15.6**	**-36.1**	**120.4**	**420.4**	**249.3**	
Tax	-5.5	-6.3	-8.6	35.8	57.2	-19.4	-25.3	30.6	
Tax rate (%)	13.5	20.7	33.3	12.6ppt	19.8ppt	16.1	6.0	-10.1ppt	
Net profit	**34.8**	**24.2**	**17.2**	**-29.0**	**-50.7**	**101.0**	**395.0**	**291.2**	
EPS (sen)	7.3	5.1	3.6	-29.0	-50.7	21.3	83.3	291.2	
Core net profit	**31.5**	**24.2**	**17.2**	**-29.0**	**-45.5**	**96.8**	**91.7**	**-5.3**	Below 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

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