



AmInvestment Bank

## Company Report

## APEX HEALTHCARE

(APEX MK EQUITY, APER.KL)

22 Feb 2024

Record FY23 revenue with special dividend of 20 sen

**HOLD**

(Maintained)

Chee Kok Siang

chee.kok-siang@ambankgroup.com

03-20362294

Rationale for Report: Company Result

Price	RM3.01
Fair Value	RM2.64
52-week High/Low	RM2.86/RM2.19

## Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY23	FY24F	FY25F	FY26F
Revenue (RMmil)	936.2	1,001.6	1,074.7	1,151.8
Core net profit (RMmil)	92.8	94.3	102.6	111.3
FD Core EPS (Sen)	12.9	13.1	14.3	15.5
FD Core EPS growth (%)	(3.7)	1.6	8.8	8.5
Consensus Net Profit (RMmil)	-	96.6	105.5	n/a
DPS (Sen)	25.0	5.5	6.0	6.5
PE (x)	23.3	22.9	21.1	19.4
EV/EBITDA (x)	16.9	15.8	14.2	12.9
Div yield (%)	8.3	1.8	2.0	2.2
ROE (%)	53.9	10.9	12.2	12.3
Net Gearing (%)	nm	nm	nm	nm

## Stock and Financial Data

Shares Outstanding (million)	718.6
Market Cap (RM mil)	2,055.2
Book Value (RM/share)	1.28
P/BV (x)	2.2
ROE (%)	53.9
Net Gearing (%)	nm

Major Shareholders	Apex Pharmacy Holdings Sdn Bhd (39.7%) Washington H. Soul Pattinson and Company Ltd. (29.6%)
--------------------	---

Free Float (%)	21.3
Avg Daily Value (RM mil)	0.3

Price performance	3mth	6mth	12mth
Absolute (%)	18.2	13.5	26.8
Relative (%)	13.0	8.2	24.6



— APEX MK — FBMKLCI Index

## Investment Highlights

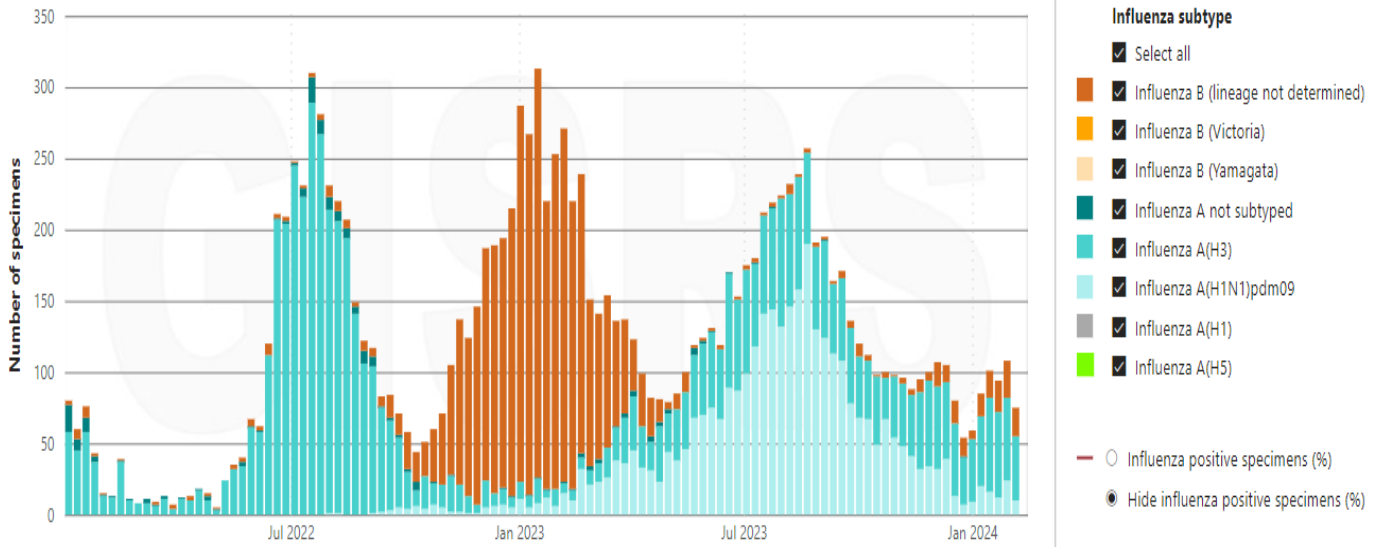
- We reiterate HOLD on Apex Healthcare (Apex) with an unchanged ex-dividend fair value (FV) of RM2.64/share (ex-date on 15 May 2024), based on a FY24F target PE of 20x, at parity to its 5-year average. No ESG-related adjustments based on our neutral 3-star rating.
- We maintain FY24F-25F earnings as Apex's FY23 core net profit of RM93mil generally came in within expectations, coming in 1% below our forecast and 3% of street's. In our core profit calculation, we excluded the revised one-off gain of RM322mil from a partial divestment of the group's orthopaedic business, Straits Apex (SA).
- In addition, we introduce FY26F earnings with a 8.5% YoY growth, underpinned by an ageing population, public health education advancement and continuously expanding healthcare expenditure.
- The group declared a final dividend of 2.5 sen/share and special dividend of 20 sen/share in 4QFY23, bringing FY23 total dividend to 25 sen/share (implying a payout of 193%). As a comparison, our FY23F DPS of 5.5 sen/share excludes Apex's partial distribution of the cash proceeds received from 40%-owned Strait Apex Group (SAG). Hence, we maintain FY24F-25F DPS and introduce FY26F dividend of 6.5 sen.
- On a YoY basis, Apex's 4QFY23 core earnings deteriorated by 40% despite a 9% revenue growth. This was primarily attributed to: (a) lower contribution from 16%-owned SA as a result of reduced equity stake and higher amortisation expenses as well as (b) higher tax expenses.
- On a QoQ basis, Apex's 4QFY23 core earnings decreased by 21% despite a flattish 2% improvement in revenue. The weaker earnings were mainly impacted by (a) lower gross profit margin of 21.5% (-2.1%-point QoQ) as a result of lower revenue share from higher-margin manufacturing segment, (b) lower contribution from SA as a result of higher amortisation costs, and (c) higher tax expenses.
- Going into FY24F, we expect Apex to register a 7% revenue growth albeit a flattish earnings growth following the lower effective equity stake in SA from 40% to 16% since May 2023. In addition, Apex plans to submit applications to relevant authorities this year for the expansion of warehouses and liquid production facilities in a newly acquired 20.7-acre land. Nevertheless, the earnings contribution from this initiative may materialise beyond 2025.
- The stock currently trades at a fairly-valued FY24F PE of 21x, 5% premium to its 5-year average of 20x. Also, Apex offers a slight dividend yield of 1.8%.

## EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)
Revenue	220.5	235.3	240.0	2.0	8.8	877.7	936.2	6.7
<b>Gross profit</b>	<b>51.1</b>	<b>55.5</b>	<b>51.6</b>	<b>(7.0)</b>	<b>1.0</b>	<b>197.6</b>	<b>214.8</b>	<b>8.7</b>
<b>EBITDA</b>	<b>30.4</b>	<b>31.5</b>	<b>16.2</b>	<b>(48.6)</b>	<b>(46.7)</b>	<b>108.0</b>	<b>105.5</b>	<b>(2.3)</b>
<b>EBIT</b>	<b>26.0</b>	<b>27.0</b>	<b>11.5</b>	<b>(57.5)</b>	<b>(55.9)</b>	<b>91.5</b>	<b>87.5</b>	<b>(4.4)</b>
Share of associates	14.5	3.6	17.3	>100	19.3	29.6	336.4	>100
Profit before tax	40.3	30.5	28.6	(6.0)	(28.9)	120.4	423.3	>100
Tax	(5.5)	(6.3)	(8.6)	35.8	57.2	(19.4)	(25.3)	30.6
<b>Net profit</b>	<b>34.8</b>	<b>24.2</b>	<b>20.1</b>	<b>(17.0)</b>	<b>(42.4)</b>	<b>101.0</b>	<b>398.0</b>	<b>&gt;100</b>
Eis	(3.3)	(0.3)	(1.3)	>100	(61.6)	197.6	214.8	8.7
<b>Core net profit</b>	<b>31.5</b>	<b>23.9</b>	<b>18.8</b>	<b>(21.4)</b>	<b>(40.4)</b>	<b>96.7</b>	<b>92.8</b>	<b>(4.0)</b>
FD EPS (sen)	6.6	3.3	2.6	(21.4)	(60.4)	20.4	13.0	(36.3)
Gross DPS (sen)	5.5	0.0	22.5	n/a	309.1	8.5	25.0	>100
Gross margin (%)	23.2	23.6	21.5	-2.1ppt	-1.7ppt	22.5	22.9	0.4ppt
EBITDA margin (%)	13.8	13.4	6.7	-6.6ppt	-7.0ppt	12.3	11.3	-1.0ppt
Pretax margin (%)	18.3	12.9	11.9	-1.0ppt	-6.3ppt	13.7	45.2	31.5ppt
Core net profit margin (%)	14.3	10.2	7.8	-2.3ppt	-6.5ppt	11.0	9.9	-1.1ppt
Effective tax rate (%)	13.5	20.7	29.9	9.2ppt	16.4ppt	16.1	6.0	-10.1ppt
<b>Segmental Revenue (RMmil)</b>								
Manufacturing	61.6	69.9	61.4	(12.2)	(0.4)	233.0	264.1	13.4
Wholesale & Distribution	198.2	209.1	219.8	5.1	10.9	793.7	847.4	6.8
Corporate	11.6	14.8	19.9	34.5	71.0	29.3	75.3	156.9
<b>Segmental PBT (RMmil)</b>								
Manufacturing	18.2	20.4	15.3	(25.2)	(16.2)	63.9	72.9	14.0
Wholesale & Distribution	8.5	8.9	10.8	21.4	26.8	36.2	37.2	2.6
Corporate	15.3	2.0	20.7	>100	35.3	24.9	334.3	>100
<b>Pretax margin (%)</b>								
Manufacturing	29.6	29.2	24.9	-4.3ppt	-4.7ppt	27.4	27.6	0.2ppt
Wholesale & Distribution	4.3	4.2	4.9	0.7ppt	0.6ppt	4.6	4.4	-0.2ppt

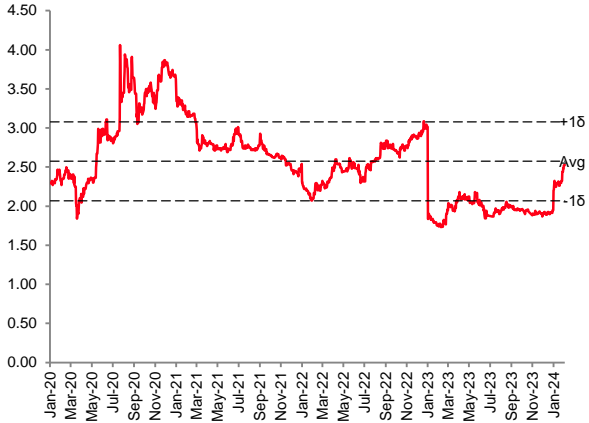
Source: AmlInvestment Bank/Apex Healthcare Bhd

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

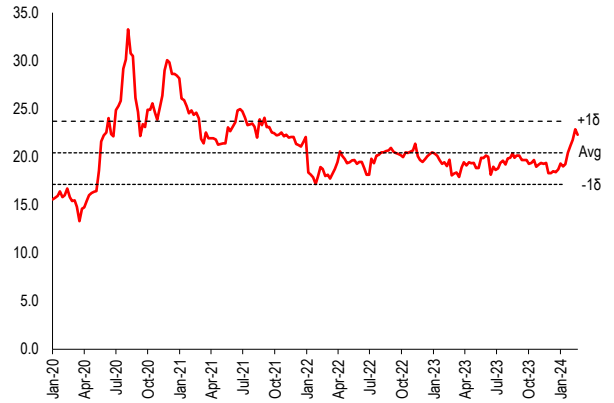


Source: AmInvestment Bank/World Health Organisation (WHO)

**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)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	877.7	936.2	1,001.6	1,074.7	1,151.8
EBITDA	108.0	105.5	124.1	136.3	148.9
Depreciation	(16.5)	(18.1)	(17.5)	(18.9)	(20.5)
Operating income (EBIT)	91.5	87.5	106.6	117.4	128.4
Other income & associates	29.6	336.4	13.9	13.9	13.9
Net interest	0.9	6.3	2.6	2.5	3.0
Exceptional items	(4.5)	(305.2)	-	-	-
<b>Pretax profit</b>	<b>120.4</b>	<b>423.3</b>	<b>119.4</b>	<b>129.8</b>	<b>140.8</b>
Taxation	(19.4)	(25.3)	(25.1)	(27.3)	(29.6)
Minorities/pref dividends	-	-	-	-	-
<b>Net profit</b>	<b>101.0</b>	<b>398.0</b>	<b>94.3</b>	<b>102.6</b>	<b>111.3</b>
Core net profit	96.4	92.8	94.3	102.6	111.3
<b>Balance Sheet (RM mil, YE 31 Dec)</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>	<b>FY26F</b>
Fixed assets	195.4	205.7	223.5	242.4	262.3
Intangible assets	4.0	5.5	3.2	2.9	2.7
Other long-term assets	81.1	205.6	218.0	231.9	245.9
<b>Total non-current assets</b>	<b>280.5</b>	<b>416.8</b>	<b>444.8</b>	<b>477.3</b>	<b>510.8</b>
Cash & equivalent	174.5	383.0	208.5	223.3	249.5
Stock	110.5	127.0	124.1	133.6	142.7
Trade debtors	178.2	194.4	228.2	242.3	260.2
Other current assets	1.6	1.5	3.5	5.5	7.5
<b>Total current assets</b>	<b>464.8</b>	<b>705.8</b>	<b>564.3</b>	<b>604.7</b>	<b>659.8</b>
Trade creditors	160.4	179.9	176.7	186.9	200.1
Short-term borrowings	5.9	3.6	0.4	1.3	9.8
Other current liabilities	4.3	7.0	9.0	11.0	13.0
<b>Total current liabilities</b>	<b>170.6</b>	<b>190.6</b>	<b>186.1</b>	<b>199.2</b>	<b>223.0</b>
Long-term borrowings	3.6	-	-	-	-
Other long-term liabilities	12.6	13.7	14.1	14.4	14.8
<b>Total long-term liabilities</b>	<b>16.2</b>	<b>13.7</b>	<b>14.1</b>	<b>14.4</b>	<b>14.8</b>
<b>Shareholders' funds</b>	<b>558.4</b>	<b>918.3</b>	<b>812.3</b>	<b>871.8</b>	<b>936.3</b>
Minority interests	-	-	-	-	-
BV/share (RM)	0.78	1.28	1.13	1.21	1.30
<b>Cash Flow (RM mil, YE 31 Dec)</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>	<b>FY26F</b>
Pretax profit	120.4	423.3	119.4	129.8	140.8
Depreciation	16.2	17.7	17.1	18.6	20.2
Net change in working capital	(17.6)	(15.6)	(34.1)	(13.4)	(13.6)
Others	(46.8)	(360.7)	(38.7)	(40.9)	(43.2)
<b>Cash flow from operations</b>	<b>72.1</b>	<b>64.7</b>	<b>63.7</b>	<b>94.1</b>	<b>104.2</b>
Capital expenditure	(34.2)	(28.2)	(34.6)	(37.1)	(39.8)
Net investments & sale of fixed assets	-	-	-	-	-
Others	82.2	226.7	-	-	-
<b>Cash flow from investing</b>	<b>48.0</b>	<b>198.4</b>	<b>(34.6)</b>	<b>(37.1)</b>	<b>(39.8)</b>
Debt raised/(repaid)	(5.9)	(5.9)	(3.3)	0.9	8.5
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(57.3)	(44.3)	(200.3)	(43.1)	(46.7)
Others	0.6	1.2	-	-	-
<b>Cash flow from financing</b>	<b>(62.5)</b>	<b>(48.9)</b>	<b>(203.6)</b>	<b>(42.2)</b>	<b>(38.2)</b>
<b>Net cash flow</b>	<b>57.5</b>	<b>214.3</b>	<b>(174.5)</b>	<b>14.8</b>	<b>26.2</b>
<b>Net cash/(debt) b/f</b>	<b>103.9</b>	<b>164.5</b>	<b>380.3</b>	<b>205.9</b>	<b>220.7</b>
<b>Net cash/(debt) c/f</b>	<b>164.5</b>	<b>380.3</b>	<b>205.9</b>	<b>220.7</b>	<b>246.8</b>
<b>Key Ratios (YE 31 Dec)</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>	<b>FY26F</b>
Revenue growth (%)	13.9	6.7	7.0	7.3	7.2
EBITDA growth (%)	26.3	(2.3)	17.5	9.9	9.2
Pretax margin (%)	13.7	45.2	11.9	12.1	12.2
Net profit margin (%)	11.5	42.5	9.4	9.5	9.7
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	16.1	6.0	21.0	21.0	21.0
Dividend payout (%)	40.2	44.9	42.0	42.0	42.0
Debtors turnover (days)	70	73	77	80	80
Stock turnover (days)	43	46	46	44	44
Creditors turnover (days)	63	66	65	62	61

Source: Company, AmlInvestment Bank Bhd estimates

**DISCLOSURE AND DISCLAIMER**

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation, or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures, or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal, or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete, or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees, and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect, or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.