



AmInvestment Bank

Company Report

APEX HEALTHCARE

(APEX MK EQUITY, APER.KL)

17 May 2024

Moderating pharmaceutical/healthcare demand

HOLD

(Maintained)

Alex Goh

alexgoh@ambankgroup.com

03-2036 2280

Rationale for report: Company Update

| | |
|------------------|---------------|
| Price | RM2.93 |
| Fair Value | RM2.95 |
| 52-week High/Low | RM3.42/RM2.34 |

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 | 83.2 | 96.3 | 106.6 |
| FD Core EPS (Sen) | 12.9 | 11.6 | 13.4 | 14.8 |
| FD Core EPS growth (%) | (3.7) | (10.4) | 15.8 | 10.7 |
| Consensus Net Profit (RMmil) | - | 90.9 | 102.7 | 110.5 |
| DPS (Sen) | 24.9 | 4.9 | 5.6 | 6.2 |
| PE (x) | 22.7 | 25.3 | 21.8 | 19.7 |
| EV/EBITDA (x) | 16.4 | 15.4 | 13.7 | 12.4 |
| Div yield (%) | 8.5 | 1.7 | 1.9 | 2.1 |
| ROE (%) | 53.9 | 9.6 | 11.5 | 11.9 |
| Net Gearing (%) | nm | nm | nm | nm |

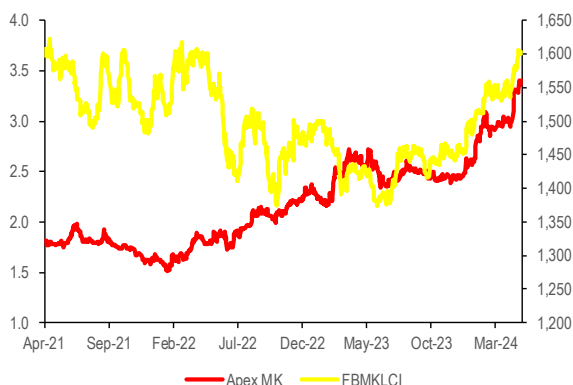
Stock and Financial Data

| | |
|------------------------------|---------|
| Shares Outstanding (million) | 718.6 |
| Market Cap (RMmil) | 2,206.1 |
| Book Value (RM/Share) | 1.28 |
| P/BV (x) | 2.4 |
| ROE (%) | 53.9 |
| Net Gearing (%) | - |

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

| | |
|-------------------------|------|
| Free Float | 21.3 |
| Avg Daily Value (RMmil) | 0.6 |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|-------|------|-------|
| Absolute (%) | 0.7 | 25.3 | 18.4 |
| Relative (%) | (4.0) | 14.6 | 4.7 |



Investment Highlights

- We reiterate **HOLD** on Apex Healthcare (Apex) with an unchanged fair value (FV) of RM2.95/share, based on FY25F target PE of 22x, at 1 standard deviation above its 5-year average of 18x. No ESG-related adjustments based on our neutral 3-star rating.
- We maintain our forecasts following an analyst briefing yesterday with these salient highlights:
 - Demand for the group's pharmaceutical and consumer healthcare products are starting to moderate post-1QFY24 amid slowing consumption trends and economic uncertainties. Hence, management expects a softer 2HFY24 revenue trajectory.
 - Sales for group brands slid 2% YoY to RM78.3mil, comprising a share of 31.5% of 1QFY24 revenue (vs. 32.6% in 1QFY23). This stemmed from some delays in export orders while 1QFY23 benefited from competitors running out of Covid-related stock.
 - The group's 16%-owned Straits Apex Group is expected to struggle to breakeven for the rest of the year due to amortisation charges and finance costs for Next Ortho Investment Holdings which amounted to RM2mil per quarter.
 - Wholesale/distribution pretax margin slid 0.8%-point YoY to 3.7% in 1QFY24 due to higher share of low-margin products while 1QFY23 enjoyed a temporary boost for own brands as competitors were out of stock. Going forward, management expects some margin recovery with the normalisation of sales mix over the rest of the current year.
 - The state authorities have approved the RM66.5mil acquisition of industrial property, which includes a 20.7-acre land in Cheng Industrial Estate, Melaka, from Panasonic Appliances Refrigeration Devices Malaysia. Management plans to initially utilise the premises for warehousing purposes by consolidating from other properties which are being leased for storage by the group.

There is no visibility yet on the plans to construct the second liquid production facility on this land, which may hinge upon plant utilisation rates reaching above 75% targeted threshold vs. 66% for the group's current solid capacity and 61% for liquid. At this stage, we have not projected any significant revenue contribution from this investment in our forecasts.
- The stock currently trades at a fully-valued FY25F PE of 22x, 21% premium to its 5-year average of 18x. Also, Apex offers a slight dividend yield of 1.7%.

EXHIBIT 1: ESG MATRIX

| | Environmental assessment | Parameters | Weightage | Rating | | | | Rationale |
|--|---|--|-------------|--------|---|---|---|--|
| 1 | Carbon emissions reduction | 45% CO2 reduction by 2030 | 15% | * | * | * | | Achieved CO2 avoidance of 543 tCo2e, translates to fossil fuel avoidance of 80 tons and trees equivalent of 13,579 trees. |
| 2 | Scope 1 GHG Emissions | tCo2e reduction | 15% | * | * | * | | Total mobile combustion emissions of 90.9 tCo2e. (established 2023 as the baseline year for data collection) |
| 3 | Scope 2 GHG Emissions | tCo2e reduction | 15% | * | * | * | | Total mobile combustion emissions of 9,761 tCo2e. (established 2023 as the baseline year for data collection) |
| 4 | Scope 3 GHG Emissions | tCo2e reduction | 15% | * | * | * | | Total mobile combustion emissions of 1,802 tCo2e. (established 2023 as the baseline year for data collection) |
| 5 | Water usage | % reduction in water withdrawal from municipal suppliers | 20% | * | * | * | | 109.6ml of water withdrawal broken down by source. (established 2023 as the baseline year for data collection) |
| 6 | Waste generation | Minimise waste generation | 20% | * | * | * | * | (i) Recycled 153.7 Metric tons (Mt) of non-scheduled waste. ii) 97.2 Metrics tons (Mt) of scheduled waste disposed by incineration and landfill. |
| Weighted score for environmental assessment | | | 100% | * | * | * | | |
| Social assessment | | | | | | | | |
| 1 | Health, safety & well-being | Recorded injuries | 20% | * | * | * | * | Recorded zero work-related fatalities and zero Lost Time Incident Rate (LTIR). |
| 2 | Women in workforce | % of total workforce | 20% | * | * | * | | 54% in workforce & 33% in senior management |
| 3 | Investment in employee training | Hours | 20% | * | * | * | | Total training hours of 45,520 |
| 4 | CSR programmes | Contribution | 20% | * | * | * | * | Contributed total of RM397,995 to charitable causes, with 44 organisations and an estimated of 32,885 individuals benefiting from the investment in communities. |
| 5 | Procurement sourcing from local vendors | % of total procurement | 20% | * | * | * | | 86% of the total procurement spending. |
| Weighted score for social assessment | | | 100% | * | * | * | | |
| Governance assessment | | | | | | | | |
| 1 | Board age diversity | % under 60 years old | 15% | * | * | * | | 25% |
| 2 | Board women representation | % of total board directors | 15% | * | * | * | | 13% representation |
| 3 | Directors with tenure below 6 years | % below 6 years category | 15% | * | * | * | | 38% |
| 4 | Independent board directors | % of total board directors | 15% | * | * | * | * | 62.5% |
| 5 | Remuneration to directors | % of total staff costs | 20% | * | * | * | | RM 18mil - 20% of 2023 staff costs |
| 6 | Corruption investigations | Confirmed incidents | 20% | * | * | * | * | zero cases |
| Weighted score for governance assessment | | | 100% | * | * | * | | |
| Overall ESG Score | | | | | | | | |
| | Environmental score | | 40% | * | * | * | | |
| | Social score | | 30% | * | * | * | | |
| | Governance score | | 30% | * | * | * | | |
| | Overall ESG Score | | 100% | * | * | * | | |

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

Source: AmlInvestment Bank

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART



EXHIBIT 4: FINANCIAL DATA

| Income Statement (RMmil, 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 | 123.2 | 136.3 | 148.9 |
| Depreciation | (16.5) | (18.1) | (17.5) | (18.9) | (20.5) |
| Operating income (EBIT) | 91.5 | 87.5 | 105.7 | 117.4 | 128.4 |
| Other income & associates | 29.6 | 336.4 | 0.7 | 6.0 | 8.0 |
| Net interest | 0.9 | 6.3 | 2.5 | 2.4 | 2.8 |
| Exceptional items | (4.5) | (305.2) | - | - | - |
| Pretax profit | 120.4 | 423.3 | 105.3 | 121.9 | 134.9 |
| Taxation | (19.4) | (25.3) | (22.1) | (25.6) | (28.3) |
| Minorities/pref dividends | - | - | - | - | - |
| Net profit | 101.0 | 398.0 | 83.2 | 96.3 | 106.6 |
| Core net profit | 96.4 | 92.8 | 83.2 | 96.3 | 106.6 |
| Balance Sheet (RMmil, YE 31 Dec) | FY22 | FY23 | FY24F | FY25F | FY26F |
| 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 | 204.8 | 210.8 | 218.7 |
| Total non-current assets | 280.5 | 416.8 | 431.6 | 456.1 | 483.7 |
| Cash & equivalent | 174.5 | 383.0 | 206.1 | 218.4 | 241.6 |
| Stock | 110.5 | 127.0 | 124.2 | 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 |
| Total current assets | 464.8 | 705.8 | 562.0 | 599.8 | 651.9 |
| Trade creditors | 160.4 | 179.9 | 176.9 | 186.9 | 200.1 |
| Short-term borrowings | 5.9 | 3.6 | (8.8) | (14.7) | (12.4) |
| Other current liabilities | 4.3 | 7.0 | 9.0 | 11.0 | 13.0 |
| Total current liabilities | 170.6 | 190.6 | 177.1 | 183.2 | 200.8 |
| Long-term borrowings | 3.6 | - | - | - | - |
| Other long-term liabilities | 12.6 | 13.7 | 14.1 | 14.4 | 14.8 |
| Total long-term liabilities | 16.2 | 13.7 | 14.1 | 14.4 | 14.8 |
| Shareholders' funds | 558.4 | 918.3 | 805.8 | 861.7 | 923.5 |
| Minority interests | - | - | - | - | - |
| BV/share (RM) | 0.78 | 1.28 | 1.12 | 1.20 | 1.29 |
| Cash Flow (RMmil, YE 31 Dec) | FY22 | FY23 | FY24F | FY25F | FY26F |
| Pretax profit | 120.4 | 423.3 | 105.3 | 121.9 | 134.9 |
| Depreciation | 16.2 | 17.7 | 17.1 | 18.6 | 20.2 |
| Net change in working capital | (17.6) | (15.6) | (34.1) | (13.5) | (13.6) |
| Others | (46.8) | (360.7) | (22.5) | (31.3) | (36.0) |
| Cash flow from operations | 72.1 | 64.7 | 65.8 | 95.7 | 105.4 |
| Capital expenditure | (34.2) | (28.2) | (34.6) | (37.1) | (39.8) |
| Net investments & sale of fixed assets | - | - | - | - | - |
| Others | 82.2 | 226.7 | - | - | - |
| Cash flow from investing | 48.0 | 198.4 | (34.6) | (37.1) | (39.8) |
| Debt raised/(repaid) | (5.9) | (5.9) | (12.4) | (5.9) | 2.3 |
| Equity raised/(repaid) | - | - | - | - | - |
| Dividends paid | (57.3) | (44.3) | (195.6) | (40.4) | (44.8) |
| Others | 0.6 | 1.2 | - | - | - |
| Cash flow from financing | (62.5) | (48.9) | (208.1) | (46.3) | (42.4) |
| Net cash flow | 57.5 | 214.3 | (176.8) | 12.3 | 23.2 |
| Net cash/(debt) b/f | 103.9 | 164.5 | 380.3 | 203.5 | 215.8 |
| Net cash/(debt) c/f | 164.5 | 380.3 | 203.5 | 215.8 | 239.0 |
| Key Ratios (YE 31 Dec) | FY22 | FY23 | FY24F | FY25F | FY26F |
| Revenue growth (%) | 13.9 | 6.7 | 7.0 | 7.3 | 7.2 |
| EBITDA growth (%) | 26.3 | (2.3) | 16.7 | 10.7 | 9.2 |
| Pretax margin (%) | 13.7 | 45.2 | 10.5 | 11.3 | 11.7 |
| Net profit margin (%) | 11.5 | 42.5 | 8.3 | 9.0 | 9.3 |
| 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, AMINVESTMENT BANK BHD ESTIMATES

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