



AmInvestment Bank

## Company Report

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## APEX HEALTHCARE

(APEX MK EQUITY, APER.KL)

16 May 2024

*Dented by mild associate loss***HOLD**

(Maintained)

*Rationale for report: Company Result*

Price	RM3.07
Fair Value	RM2.95
52-week High/Low	RM3.42/RM2.34

**Key Changes**

Fair value	<span style="color: blue;">↑</span>
EPS	<span style="color: red;">↓</span>

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)	-	93.7	104.3	111.5
DPS (Sen)	24.9	4.9	5.6	6.2
PE (x)	23.7	26.5	22.9	20.7
EV/EBITDA (x)	17.3	16.2	14.5	13.1
Div yield (%)	8.1	1.6	1.8	2.0
ROE (%)	53.9	9.6	11.5	11.9
Net Gearing (%)	nm	nm	nm	nm

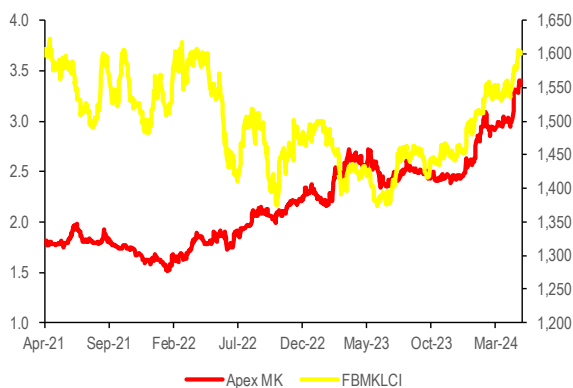
**Stock and Financial Data**

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%)
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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 a higher fair value (FV) of RM2.95/share (from an earlier RM2.64/share), based on a rolled-forward FY25F target PE of 22x, at 1 standard deviation above to its 5-year average of 18x. No ESG-related adjustments based on our neutral 3-star rating.
- We lowered FY24F-26F earnings by 5%-10% due to reduced associate contribution assumptions as Apex's 1QFY24 core net profit of RM20mil generally came in below expectations, accounting for 21%-22% of our earlier full-year forecast and street's.
- As a comparison, 1Q accounted for 25%-27% of the full-year core net profit for FY22-FY23. No interim dividend was declared as expected.
- On a YoY basis, Apex's 1QFY24 core earnings decreased by 21% despite a flattish revenue mainly due to the drop in Straits Apex Group's associate contribution as Apex's effective stake fell to 16% from 40% in 1H2023.
- The group recorded an associate loss of RM0.5mil vs. a positive contribution of RM5mil in 1QFY23, further exacerbated by financing costs and amortisation of identified intangible assets for Next Ortho Investment Holdings amounting to RM2mil.
- Sequentially, Apex's 1QFY24 core earnings rose by 6% amid a mild revenue increase of 3% as a 3%-point rise in manufacturing margin to 28% was partly offset by a 1%-point decline in wholesale/distribution margin to 3.7%.
- Pending further clarity from an analyst briefing later today, we maintain Apex's FY24F-FY26F revenue growth of 7.0%-7.3% albeit with a slightly faster core earnings expansion on higher economies of scale.
- Apex plans to submit applications to relevant authorities this year for the expansion of warehouses and second liquid production facilities in a newly-acquired industrial property on a 20.7-acre land in Cheng Industrial Estate, Melaka. Nevertheless, the earnings contribution from this initiative may only materialise beyond 2025.
- The stock currently trades at a fully-valued FY25F PE of 23x, 27% premium to its 5-year average of 18x. Also, Apex offers a slight dividend yield of 1.6%.

## EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)
Revenue	245.8	240.0	248.2	3.4	1.0
<b>Gross profit</b>	<b>55.6</b>	<b>51.6</b>	<b>55.8</b>	8.1	0.4
<b>EBITDA</b>	<b>29.6</b>	<b>16.2</b>	<b>31.8</b>	96.7	7.5
<b>EBIT</b>	<b>25.2</b>	<b>11.5</b>	<b>26.9</b>	134.8	6.8
Share of associates	4.6	17.3	(0.5)	(<100)	(<100)
Profit before tax	29.7	28.6	26.3	(8.2)	(11.4)
Tax	(5.4)	(8.6)	(5.1)	(40.7)	(5.6)
<b>Net profit</b>	<b>24.3</b>	<b>20.1</b>	<b>21.2</b>	5.7	(12.7)
Exceptional items	0.8	(1.3)	(1.3)	n/a	(<100)
<b>Core net profit</b>	<b>25.1</b>	<b>18.8</b>	<b>19.9</b>	6.0	(20.7)
FD EPS (sen)	3.5	2.6	3.0	12.7	(15.7)
Gross DPS (sen)	0.0	22.5	0.0	n/a	n/a
Gross margin (%)	22.6	21.5	22.5	1.0ppt	-0.1ppt
EBITDA margin (%)	12.1	6.7	12.8	6.1ppt	0.8ppt
Pretax margin (%)	12.1	11.9	10.6	-1.3ppt	-1.5ppt
Core net profit margin (%)	10.2	7.8	8.0	0.2ppt	-2.2ppt
Effective tax rate (%)	18.2	29.9	19.3	-10.6ppt	1.2ppt
<b>Segmental Revenue (RMmil)</b>					
Manufacturing	67.8	61.4	70.8	15.4	4.5
Wholesale & Distribution	220.8	219.8	222.4	1.2	0.7
Corporate	1.4	19.9	1.6	(92.1)	9.9
<b>Segmental PBT (RMmil)</b>					
Manufacturing	18.8	15.3	20.0	30.9	6.3
Wholesale & Distribution	10.0	10.8	8.2	(23.8)	(17.7)
Corporate	1.9	20.7	(0.1)	(<100)	(105.7)
<b>Pretax margin (%)</b>					
Manufacturing	27.7	24.9	28.2	3.3ppt	0.5ppt
Wholesale & Distribution	4.5	4.9	3.7	-1.2ppt	-0.8ppt

Source: Company

EXHIBIT 2: 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.
<b>Weighted score for environmental assessment</b>			<b>100%</b>	*	*	*		
<b>Social assessment</b>								
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.
<b>Weighted score for social assessment</b>			<b>100%</b>	*	*	*		
<b>Governance assessment</b>								
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%	*	*	*		30% - independent non-exec
5	Remuneration to directors	% of total staff costs	20%	*	*	*		RM18mil - 20% of 2023 staff costs
6	Corruption investigations	Confirmed incidents	20%	*	*	*	*	zero cases
<b>Weighted score for governance assessment</b>			<b>100%</b>	*	*	*		
<b>Environmental score</b>			<b>40%</b>	*	*	*		
<b>Social score</b>			<b>30%</b>	*	*	*		
<b>Governance score</b>			<b>30%</b>	*	*	*		
<b>Overall ESG Score</b>			<b>100%</b>	*	*	*		

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 3: PB BAND CHART



EXHIBIT 4: PE BAND CHART



## EXHIBIT 5: 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)	-	-	-
<b>Pretax profit</b>	<b>120.4</b>	<b>423.3</b>	<b>105.3</b>	<b>121.9</b>	<b>134.9</b>
Taxation	(19.4)	(25.3)	(22.1)	(25.6)	(28.3)
Minorities/pref dividends	-	-	-	-	-
<b>Net profit</b>	<b>101.0</b>	<b>398.0</b>	<b>83.2</b>	<b>96.3</b>	<b>106.6</b>
Core net profit	96.4	92.8	83.2	96.3	106.6
<b>Balance Sheet (RMmil, 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	204.8	210.8	218.7
<b>Total non-current assets</b>	<b>280.5</b>	<b>416.8</b>	<b>431.6</b>	<b>456.1</b>	<b>483.7</b>
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
<b>Total current assets</b>	<b>464.8</b>	<b>705.8</b>	<b>562.0</b>	<b>599.8</b>	<b>651.9</b>
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
<b>Total current liabilities</b>	<b>170.6</b>	<b>190.6</b>	<b>177.1</b>	<b>183.2</b>	<b>200.8</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>805.8</b>	<b>861.7</b>	<b>923.5</b>
Minority interests	-	-	-	-	-
BV/share (RM)	0.78	1.28	1.12	1.20	1.29
<b>Cash Flow (RMmil, 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	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)
<b>Cash flow from operations</b>	<b>72.1</b>	<b>64.7</b>	<b>65.8</b>	<b>95.7</b>	<b>105.4</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)	(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	-	-	-
<b>Cash flow from financing</b>	<b>(62.5)</b>	<b>(48.9)</b>	<b>(208.1)</b>	<b>(46.3)</b>	<b>(42.4)</b>
<b>Net cash flow</b>	<b>57.5</b>	<b>214.3</b>	<b>(176.8)</b>	<b>12.3</b>	<b>23.2</b>
<b>Net cash/(debt) b/f</b>	<b>103.9</b>	<b>164.5</b>	<b>380.3</b>	<b>203.5</b>	<b>215.8</b>
<b>Net cash/(debt) c/f</b>	<b>164.5</b>	<b>380.3</b>	<b>203.5</b>	<b>215.8</b>	<b>239.0</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)	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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