Apex Healthcare (APEX MK)

HOLD (upgrade)
Up/Downside: -5.5%

Price Target: RM2.90
Previous Target (Rating): RM2.40 (SELL)

"FY25E earnings to improve from the natural increase in healthcare demand"

FY24 to see a dip in earnings before improving ahead

- **1Q24 earnings came in within our expectations**
- **Earnings improved qoq primarily from stronger manufacturing contributions**
- **Upgrade to HOLD with a higher TP of RM2.90**

Earnings came in within our expectations

1Q24 earnings of RM19.9m (+16% qoq, -21% yoy) formed 23% and 21% of our and consensus expectations, respectively. The quarter saw an improvement qoq primarily from lower tax expenses despite its associates causing a drag. On its core operations, improvements in manufacturing operations were slightly offset by lower contributions from its distribution operations. To recap, 4Q23 manufacturing operations had been impacted by production disruptions and maintenance works. Meanwhile, its associates are now facing higher operating costs from financing costs and amortisation costs.

FY24E to see a dip in earnings before recovering

Our conservatism on FY24 estimates primarily stems from our anticipation of lower sales after coming off the high base of post-pandemic demand coupled with weaker associate contributions post-stake divestment. However, we expect the subsequent years to see earnings growth from the natural increase in demand for healthcare products. In fact, we understand that the company is currently carrying out design works to build a second liquid production plant and advanced pharmaceutical warehousing at Cheng 2 to cater to future demand. Recall that the company had recently carried out expansion efforts including: 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.

Upgrade to HOLD with a higher TP of RM2.90 (from RM2.40)

We roll over our PE-derived TP valuation base year to FY25E, while updating our mean PE to 22x (in line with its 5-year mean; from 20x). Subsequently, we upgrade our rating to HOLD as our TP is raised to RM2.90. We turn less bearish on the company's prospects, given its ongoing efforts to cater to future demand growth, resulting in our higher target PER. However, we believe the share price reflects its near-term prospects for now as earnings are expected to trend sideways for the rest of the year. Key downside/upside risks include: i) weaker/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	1,004.3	1,036.3	1,059.1
EBITDA (RMm)	102.2	95.9	104.7	111.7	114.0
Pretax profit (RMm)	120.4	423.3	99.7	109.5	111.2
Net profit (RMm)	101.0	398.0	85.5	94.3	95.8
EPS (sen)	14.0	55.4	11.9	13.1	13.3
PER (x)	21.9	5.5	25.8	23.4	23.0
Core net profit (RMm)	96.8	94.6	85.5	94.3	95.8
Core EPS (sen)	13.5	13.2	11.9	13.1	13.3
Core EPS growth (%)	65.1	-2.2	-9.7	10.3	1.6
Core PER (x)	22.8	23.3	25.8	23.4	23.0
Net DPS (sen)	8.5	22.5	4.8	5.3	5.4
Dividend Yield (%)	2.8	7.3	1.6	1.7	1.8
EV/EBITDA	20.0	19.1	17.1	15.7	15.0
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			0.9	0.9	0.9

Source: Company, Bloomberg, Affin Hwang forecasts

Share price performance

	1M	3M	12M
Absolute (%)	2.7	0.7	18.4
Rel KLCI (%)	-1.3	-4.1	4.6

	BUY	HOLD	SELL
Consensus	2	2	2

Source: Bloomberg

Stock Data

Sector	Healthcare
Issued shares (m)	719.7
Mkt cap (RMm)/(US$m)	2209.3/469.7
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	2.34-3.42
Est free float	21.1%
Stock Beta	0.60
Net cash/(debt) (RMm)	372.44
ROE (CY25E)	9.5%
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: Affin Hwang, Bloomberg

Andrew Lim
T (603) 2146 7586
E andrew.lim@affingroup.com

Fig 1: Results Comparison

FYE Dec (RMm)	1Q23	4Q24	1Q24	QoQ % chg	YoY % chg	Comments
Revenue	**245.8**	**240.0**	**248.2**	**3.4**	**1.0**	
Op costs	-215.9	-210.1	-220.7	5.1	2.2	
EBITDA	**29.9**	**29.9**	**27.5**	**-8.2**	**-8.2**	
EBITDA margin (%)	12.2	12.5	11.1	-1.4ppt	-1.1ppt	
Depn and amort	-4.2	-4.5	-4.7	4.7	11.4	
EBIT	25.7	25.5	22.8	-10.5	-11.4	
EBIT margin (%)	10.5	10.6	9.2	-1.4ppt	-1.3ppt	
Int expense	-0.2	-0.1	-0.1	-4.9	-27.5	
Int income	0.5	3.0	2.8	-5.7	463.2	Improved yoy given its stronger cash pile from the stake divestment of its associate
Associates	4.6	0.3	-0.5	-282.9	-111.3	Associate contributions impacted by higher finance cost and amortisation costs
Exceptional items	-1.0	-2.9	1.3	-144.7	-229.6	
Pretax Profit	**29.7**	**25.7**	**26.3**	**2.2**	**-11.4**	
Tax	-5.4	-8.6	-5.1	-40.7	-5.6	
Tax rate (%)	18.2	33.3	19.3	-14ppt	1.2ppt	
Net profit	**24.3**	**17.2**	**21.2**	**23.6**	**-12.7**	
EPS (sen)	5.1	3.6	4.5	23.7	-12.7	
Core net profit	**25.3**	**17.2**	**19.9**	**16.0**	**-21.2**	Within our but below 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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Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

Level 32, Menara AFFIN,
Lingkaran TRX,
55188 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
F : + 603 2146 7630
ahib.researchteam@affingroup.com

www.affinhwang.com