



AmInvestment Bank

# APEX HEALTHCARE

(APEX MK EQUITY, APER.KL)

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## Company Report

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### Resilient manufacturing margins

## BUY

(Upgraded)

### Rationale for report: Company Result

Price	RM2.72
Fair Value	RM3.12
52-week High/Low	RM3.22/RM2.24

#### Key Changes

Fair value	<a href="#">↑</a>
EPS	<a href="#">↑</a>

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	89.3	101.3	112.1
FD Core EPS (Sen)	12.9	12.4	14.1	15.6
FD Core EPS growth (%)	(3.7)	(3.8)	13.5	10.6
Consensus Net Profit (RMmil)	-	74.5	83.9	110.5
DPS (Sen)	24.9	5.2	5.9	6.6
PE (x)	21.0	21.9	19.3	17.4
EV/EBITDA (x)	14.9	13.5	12.0	10.9
Div yield (%)	8.5	1.8	2.0	2.2
ROE (%)	53.9	10.3	12.1	12.4
Net Gearing (%)	nm	nm	nm	nm

#### Stock and Financial Data

Shares Outstanding (million)	718.6
Market Cap (RMmil)	1,954.6
Book Value (RM/Share)	1.28
P/BV (x)	2.1
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)	0.3

Price performance	3mth	6mth	12mth
Absolute (%)	(5.9)	(4.0)	12.9
Relative (%)	(6.6)	(8.9)	0.1



#### Investment Highlights

- We upgrade Apex Healthcare (Apex) to BUY from HOLD with a higher fair value (FV) of RM3.12/share (from an earlier RM2.95/share), based on 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 raise FY24F-26F earnings by 5%-7% due to a 2%-point increase in manufacturing margin assumptions as 1HFY24 core net profit of RM44mil came in above expectations, accounting for 53% of our earlier full-year forecast and 59% of street's.
- Apex declared a higher 2QFY24 dividend of 3 sen (+0.5 sen YoY), which translates to a payout ratio of 49% vs our current assumption of 42%.
- On a YoY basis, Apex's 1HFY24 core earnings decreased by 13% despite a 6% revenue increase mainly due to the negligible contribution by Straits Apex Group's associate as its effective stake fell to 16% from 40% in 1H2023, further exacerbated by financing costs and amortisation of identified intangible assets for Next Ortho Investment Holdings amounting to RM2mil.
- The manufacturing division accounted for 70% of 1HFY24 pretax profit, distribution 27% and corporate 3%.
- Sequentially, Apex's 2QFY24 core earnings rose by 19% notwithstanding a mild revenue decline of 3.8% due to a 1%-point improvement in gross margin to 23.5%, largely driven by a resilient manufacturing segment, coupled with a 7% reduction in selling & administration expenses.
- We expect 2HFY24 revenue trajectory to remain steady as the group has introduced 9 new products in branded probiotics, gastrointestinal medications, topical preparations for skin, nose and throat. Over the longer term, management expects improving economies of scale from the RM67mil acquisition of Cheng 2 industrial office and warehouse last month that could reduce rental charges while expanding capacity for the group's existing product lines.
- Hence, pending further clarity from an analyst briefing later today, we maintain Apex's FY24F-FY26F revenue growth of 7.0%-7.3%.
- The stock currently trades at a decent FY25F PE of 19x, below its 5-year peak of over 25x. Also, Apex offers a fair dividend yield of 2%.

## EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	1HFY23	1HFY24	YoY (%)
Revenue	215.0	248.2	238.7	(3.8)	11.0	460.8	486.9	5.7
<b>Gross profit</b>	<b>52.2</b>	<b>55.8</b>	<b>56.0</b>	0.5	7.4	<b>107.7</b>	<b>111.8</b>	3.8
<b>EBITDA</b>	<b>28.3</b>	<b>31.8</b>	<b>33.5</b>	5.4	18.7	<b>57.9</b>	<b>65.4</b>	13.0
<b>EBIT</b>	<b>23.8</b>	<b>26.9</b>	<b>28.2</b>	4.9	18.6	<b>49.0</b>	<b>55.2</b>	12.5
Share of associates	310.9	(0.5)	1.0	>100	(99.7)	315.5	0.5	(99.8)
Profit before tax	334.5	26.3	29.1	10.6	(91.3)	364.2	55.4	(84.8)
Tax	(5.0)	(5.1)	(5.4)	6.9	7.9	(10.4)	(10.5)	0.9
<b>Net profit</b>	<b>329.5</b>	<b>21.2</b>	<b>23.6</b>	11.5	(92.8)	<b>353.8</b>	<b>44.9</b>	(87.3)
Exceptional items	(304.4)	(1.3)	0.1	(107.1)	(100.0)	107.7	111.8	3.8
<b>Core net profit</b>	<b>25.0</b>	<b>19.9</b>	<b>23.7</b>	19.2	(5.2)	<b>50.2</b>	<b>43.6</b>	(13.0)
FD EPS (sen)	3.5	3.0	3.3	12.1	(5.2)	7.0	6.1	(13.0)
Gross DPS (sen)	2.5	0.0	3.0	n/a	20.0	2.5	3.0	20.0
Gross margin (%)	24.3	22.5	23.5	23.5ppt	-0.8ppt	23.4	23.0	-0.4ppt
EBITDA margin (%)	13.1	12.8	14.1	14.1ppt	0.9ppt	12.6	13.4	0.9ppt
Pretax margin (%)	155.6	10.6	12.2	12.2ppt	-143.4ppt	79.0	11.4	-67.7ppt
Core net profit margin (%)	11.6	8.0	9.9	9.9ppt	-1.7ppt	10.9	9.0	-1.9ppt
Effective tax rate (%)	1.5	19.3	18.7	18.7ppt	17.2ppt	2.9	19.0	16.1ppt
<b>Segmental Revenue (RMmil)</b>								
Manufacturing	65.1	70.8	68.7	(3.0)	5.6	132.9	139.6	5.0
Wholesale & Distribution	197.7	222.4	216.7	(2.5)	9.7	418.5	439.1	4.9
Corporate	39.1	1.6	8.7	446.6	(77.9)	40.5	10.2	(74.7)
<b>Segmental PBT (RMmil)</b>								
Manufacturing	18.4	20.0	19.8	(1.2)	7.3	37.2	39.7	6.8
Wholesale & Distribution	7.6	8.2	7.3	(10.9)	(3.3)	17.5	15.5	(11.4)
Corporate	309.7	(0.1)	1.9	(1,849.1)	(99.4)	311.6	1.7	(99.4)
<b>Pretax margin (%)</b>								
Manufacturing	28.3	28.2	28.7	0.5ppt	0.4ppt	28.0	28.5	0.5ppt
Wholesale & Distribution	3.8	3.7	3.4	-0.3ppt	-0.5ppt	4.2	3.5	-0.7ppt

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

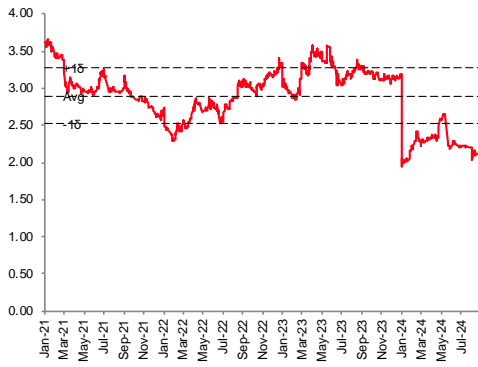


EXHIBIT 4: PE BAND CHART



## 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	128.9	142.7	155.9
Depreciation	(16.5)	(18.1)	(17.5)	(18.9)	(20.5)
Operating income (EBIT)	91.5	87.5	111.5	123.8	135.4
Other income & associates	29.6	336.4	2.7	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>113.1</b>	<b>128.3</b>	<b>141.9</b>
Taxation	(19.4)	(25.3)	(23.7)	(26.9)	(29.8)
Minorities/pref dividends	-	-	-	-	-
<b>Net profit</b>	<b>101.0</b>	<b>398.0</b>	<b>89.3</b>	<b>101.3</b>	<b>112.1</b>
Core net profit	96.4	92.8	89.3	101.3	112.1
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	206.8	212.8	220.7
<b>Total non-current assets</b>	<b>280.5</b>	<b>416.8</b>	<b>433.6</b>	<b>458.1</b>	<b>485.7</b>
Cash & equivalent	174.5	383.0	206.5	219.0	241.8
Stock	110.5	127.0	123.3	132.6	141.5
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>561.5</b>	<b>599.3</b>	<b>650.9</b>
Trade creditors	160.4	179.9	175.5	185.4	198.6
Short-term borrowings	5.9	3.6	(9.6)	(18.2)	(19.5)
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>175.0</b>	<b>178.2</b>	<b>192.1</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>809.4</b>	<b>868.2</b>	<b>933.2</b>
Minority interests	-	-	-	-	-
BV/share (RM)	0.78	1.28	1.13	1.21	1.30
Cash Flow (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Pretax profit	120.4	423.3	113.1	128.3	141.9
Depreciation	16.2	17.7	17.1	18.6	20.2
Net change in working capital	(17.6)	(15.6)	(34.5)	(13.5)	(13.7)
Others	(46.8)	(360.7)	(26.1)	(32.6)	(37.5)
<b>Cash flow from operations</b>	<b>72.1</b>	<b>64.7</b>	<b>69.6</b>	<b>100.8</b>	<b>110.9</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)	(13.2)	(8.6)	(1.2)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(57.3)	(44.3)	(198.2)	(42.6)	(47.1)
Others	0.6	1.2	-	-	-
<b>Cash flow from financing</b>	<b>(62.5)</b>	<b>(48.9)</b>	<b>(211.5)</b>	<b>(51.2)</b>	<b>(48.3)</b>
<b>Net cash flow</b>	<b>57.5</b>	<b>214.3</b>	<b>(176.5)</b>	<b>12.5</b>	<b>22.8</b>
<b>Net cash/(debt) b/f</b>	<b>103.9</b>	<b>164.5</b>	<b>380.3</b>	<b>203.8</b>	<b>216.3</b>
<b>Net cash/(debt) c/f</b>	<b>164.5</b>	<b>380.3</b>	<b>203.8</b>	<b>216.3</b>	<b>239.1</b>
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)	22.2	10.7	9.2
Pretax margin (%)	13.7	45.2	11.3	11.9	12.3
Net profit margin (%)	11.5	42.5	8.9	9.4	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	43	43
Creditors turnover (days)	63	66	65	61	61

SOURCE: COMPANY, AMINVESTMENT BANK BHD ESTIMATES

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