Covid-19-induced demand lifted sales and profit

Apex Healthcare reported a decent set of results – 1Q20 core net profit grew by 19% yoy to RM13.6m on the back of higher revenue (+8.5% yoy) given the heightened market demand triggered by the growing Covid-19 pandemic. The results were ahead of our expectations but below consensus forecasts. We raised our 2020-22 earnings forecasts by 9-11% to factor in the solid 1Q20 results, a more robust revenue outlook, and resilient profit margins, thereby lifting our 12-month TP to RM2.10 based on an 18x 2021E PER. Nonetheless, we are maintaining our SELL rating on Apex due to its rich valuations. At a 25x 2021E PER, Apex is now trading at 3 standard deviations above its 6-year average and looks pricey. *This note marks a transfer of coverage.*

Higher revenue lifted 1Q20 profit

Apex's 1Q20 revenue grew by 8.5% yoy to RM193.3m driven by higher contributions from both the manufacturing (+2.4% to RM12.1m) and wholesale & distribution segments (+9.4% to RM179.6m). The higher revenue was driven by strong sales to both the private and government sectors in Malaysia and Singapore due to heightened market demand triggered by the growing Covid-19 pandemic which led to increased purchases by customers in order to ensure uninterrupted supplies. As a result and topped by resilient profit margins, Apex's 1Q20 core net profit grew by 19.4% to RM13.6m, accounting for 21% of the street's and 31% of our prior full-year earnings forecasts.

Raising 2020-22 EPS forecasts by 9-11%

We raise our 2020-21E earnings by 9-11% to factor in the strong 1Q20 results, robust revenue outlook and resilient profit margins for the wholesale & distribution business. That said, we are still expecting a yoy decline in Apex's 2020 earnings due to operational disruptions (manufacturing activities / commissioning of new lines) arising from the MCO.

Lifting price target but maintain SELL due to rich valuations

We lift our 12-month price target to RM2.10 (from RM1.50) based on an 18x 2021E PER (from 14x). Taking into consideration its relatively resilient earnings and strong investor demand for defensive healthcare / pharmaceutical stocks, we now pegged Apex at 1 standard deviation above its 6-year average PER of 14x. Nevertheless, we maintain our SELL call due to its rich valuation. Key risk: stronger-than-expected earnings.

Earnings & Valuation Summary

FYE 31 Dec (RMm)	2018	2019	2020E	2021E	2022E
Revenue	652.7	688.8	720.5	757.1	832.3
EBITDA	71.0	76.1	72.0	80.5	100.7
Pretax profit	69.3	66.3	64.5	73.1	93.7
Net profit	58.6	52.8	49.0	55.5	71.2
EPS (sen)	12.5	11.2	10.4	11.8	15.1
PER (x)	23.2	25.9	27.8	24.6	19.2
Core net profit	60.2	55.4	49.0	55.5	71.2
Core EPS (sen)	12.8	11.8	10.4	11.8	15.1
Core EPS growth (%)	33.9	-8.0	-11.5	13.3	28.2
Core PER (sen)	22.6	24.6	27.8	24.6	19.2
Net DPS (sen)	3.4	3.7	3.3	3.8	4.8
Dividend yield (%)	1.2	1.3	1.1	1.3	1.7
EV/EBITDA	18.5	16.7	17.4	15.2	11.9
Chg in EPS (%)			+10.6	+10.2	+9.2
Affin/Consensus (x)			0.7	0.8	0.9

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

Apex Healthcare

APEX MK
Sector: Healthcare & Pharmaceuticals

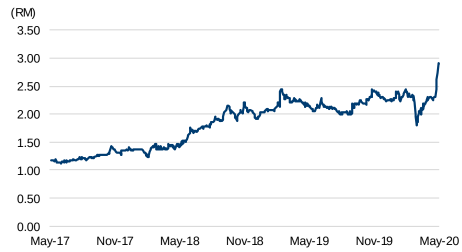
RM2.90 @ 21 May 2020

SELL (maintain)

Downside: 28%

Price Target: RM2.10

Previous Target: RM1.50



Price Performance

	1M	3M	12M
Absolute	+29.5%	+20.8%	+36.0%
Rel to KLCI	+23.2%	+27.4%	+50.2%

Stock Data

Issued shares (m)	472.4	7,7750
Mkt cap (RMm)/(US$m)	1,369.9/315.2	34,988
Avg daily vol - 6mth (m)	0.1	3.8
52-wk range (RM)	1.77-2.97	3.82-5.10
Est free float	19.4%	21.9%
BV per share (RM)	0.93	0.08
P/BV (x)	3.1	53.8
Net cash/ (debt) (RMm)	99.2	(4,720)
ROE (2020E)	11.1%	198%
Derivatives	No	Nil
Shariah Compliant	Yes	Yes

Key Shareholders

Apex Pharmacy Holdings	40.3%
Washington H Soul	30.0%
Liew Yoon Yee	1.6%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	1Q19	4Q19	1Q20	QoQ %chg	YoY %chg	Comment
Revenue	178.2	170.6	193.3	13.3%	8.5%	Higher revenue yoy driven by higher contribution from both the manufacturing and wholesale & distribution segments. The increase was largely attributable to heightened market demand precipitated by the growing Covid-19 pandemic, leading to increased purchases by customers in order to ensure uninterrupted supplies.
Op costs	161.2	148.8	173.2	16.4%	7.5%	
EBITDA	17.1	21.8	20.1	-8.0%	17.8%	
EBITDA margin (%)	*9.6*	*12.8*	*10.4*	-2.4ppt	+0.8ppt	Lower EBITDA margin qoq due to strong revenue growth from the lower margin in the wholesale & distribution segment.
Depn and amort	3.5	3.9	4.3	8.9%	22.0%	
EBIT	13.6	17.9	15.9	-11.7%	16.7%	
EBIT margin (%)	*7.6*	*10.5*	*8.2*	-2.3ppt	+0.6ppt	
Int expense	-0.3	-0.6	-0.3	-41.1%	0.3%	
Int and other inc	0.5	0.5	0.5	-1.1%	14.6%	
Associates	0.8	1.3	1.1	-14.3%	36.8%	
EI	0.0	-0.7	0.8	nm	nm	
Pretax profit	**14.5**	**18.5**	**17.9**	**-2.9%**	**23.4%**	
Tax	-3.1	-4.5	-3.6	-20.0%	14.5%	
Tax rate (%)	21.5	24.2	20.0	-4.3ppt	-1.6ppt	
MI	0.0	0.0	0.0	nm	nm	
Net profit	**11.4**	**14.0**	**14.4**	**2.6%**	**26.1%**	
EPS (sen)	2.4	3.0	3.0	2.5%	25.8%	
Core net profit	**11.4**	**14.7**	**13.6**	**-7.8%**	**19.4%**	Below market but above our expectations.

Source: Company, Affin Hwang

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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