

"We now peg Apex at a higher 2021E target PER of 29x, considering the sector's valuation re-rating and its scarcity premium"

Share price performance



	1M	3M	12M
Absolute (%)	7.6	7.3	52.5
Rel KLCI (%)	2.0	6.0	53.2

	BUY	HOLD	SELL
Consensus	-	1	1

Source: Bloomberg

Stock Data

Sector	Healthcare & Pharmaceuticals
Issued shares (m)	475.0
Mkt cap (RMm)/(US\$m)	1,753/428
Avg daily vol - 6mth (m)	0.5
52-wk range (RM)	1.77-4.55
Est free float	19.3%
Stock Beta	0.80
Net cash/(debt) (RMm)	139.9
ROE (CY21E)	12.7%
Derivatives	No
Shariah Compliant	Yes

Key Shareholders

Apex Pharmacy Holding	40.1%
Washington H Soul	29.9%

Source: Affin Hwang, Bloomberg

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Apex Healthcare (APEX MK)

HOLD (upgrade)

Up/Downside: 3.0%

Price Target: RM3.80

Previous Target (Rating): RM2.75 (SELL)

Upgrading to HOLD

- Apex is expanding its cold chain distribution capabilities. Post expansion, Apex can distribute a maximum of 2-3m doses of Covid-19 vaccine per annum, if the group is to charter 100% of its capacity for the vaccines.
- Once available, Apex will most likely seize the opportunity to become a wholesaler of Covid-19 vaccines from various manufacturers, instead of focusing on a particular manufacturer as its exclusive distributor.
- Raising 2021-22E EPS forecasts by 3% and upgrading Apex to HOLD. We now peg Apex at higher 2021E PER of 29x after considering the re-rating across the pharmaceutical companies' valuation and the scarcity premium for quality pharmaceutical companies with a strong earnings track record.

Expanding the cold chain distribution capabilities

In Singapore, Apex has expanded its current 2-8 °C cold room and acquired a -20 °C freezer room. In Malaysia, Apex is doubling its cold chain distribution capacity, scheduled for completion by end-2020. These expansions are to partly charter for business opportunities in the distribution of Covid-19 vaccines. It was [reported](#) that for long-term storage, the Pfizer & BioNTech Covid-19 vaccine needs to be stored at a temperature of -75°C while Moderna's Covid-19 vaccine can be stored at -20°C. Apex does not have freezer with storage capabilities of -75°C, but management shared that these freezers can be acquired at <RM100k each should the need arise.

Maximum distribution capacity of 2-3m doses of Covid-19 vaccines per year

Currently, Apex stores various products in its cold chain facility (ie. eye drops and other drugs). Assuming Apex is to stop distributing the current products and focus solely on Covid-19 vaccines (an unlikely scenario), the group can distribute up to 2-3m doses of Covid-19 vaccines per year (post expansion).

When the Covid-19 vaccines are available, Apex may start as a wholesaler

Apex has been approached by several manufacturers to be the authorised distributor for their upcoming Covid-19 vaccines (work-in-progress). There are many considerations in evaluating these proposals (ie. whether the products will be approved, pricings, efficiencies, requirements, etc) and hence, Apex has not committed to any manufacturer. Instead, the group will likely start off as a wholesaler, where Apex will distribute the Covid-19 vaccines from various manufacturers. **As a wholesaler, the distribution of Covid-19 vaccines may deliver a similar margin to its existing wholesale business at around 10%.**

Earnings & Valuation Summary

FYE 31 Dec	2018	2019	2020E	2021E	2022E
Revenue (RMm)	652.7	688.8	714.2	785.8	867.4
EBITDA (RMm)	71.0	76.1	80.7	88.5	107.1
Pretax profit (RMm)	69.3	66.3	73.9	81.2	100.1
Net profit (RMm)	58.6	52.8	56.2	61.7	76.1
EPS (sen)	12.5	11.2	11.9	13.1	16.2
PER (x)	29.6	32.9	30.9	28.2	22.8
Core net profit (RMm)	60.2	55.4	55.5	61.7	76.1
Core EPS (sen)	12.8	11.8	11.8	13.1	16.2
Core EPS growth (%)	33.9	-8.0	0.1	11.2	23.4
Core PER (x)	28.8	31.3	31.3	28.2	22.8
Net DPS (sen)	3.4	3.7	3.8	4.2	5.2
Dividend Yield (%)	0.9	1.0	1.0	1.1	1.4
EV/EBITDA	23.7	21.6	20.0	18.0	14.6

Chg in EPS (%)	-2.6	3.2	2.8
Affin/Consensus (x)	1.0	1.0	1.1

Source: Company, Affin Hwang estimates

Covid-19 vaccine for Malaysia still a long way to go, reported NST

The NST reported that it is still a long way for the Covid-19 vaccines to be made available for Malaysia. Health director-general Dr Noor Hisham Abdullah said there were 10 companies claiming to have come close to finding a vaccine, however, none had actually published their clinical trial data to be reviewed, reported NST. Meanwhile, deputy director-general of health Dr Hishamshah Mohd Ibrahim said that vaccine approval was not a simple process, as it needed to undergo various levels of testing and approval from multiple agencies. To recap, the Ministry of Health of Malaysia had earlier said that the ministry is studying 10 Covid-19 vaccines that have entered into phase 3 trials, including 4 viral vector vaccines, 3 inactivated virus vaccine, 2 RNA based vaccine and 1 virus like particle vaccine. However, the ministry has not provided any guidance on the availability date / schedule.

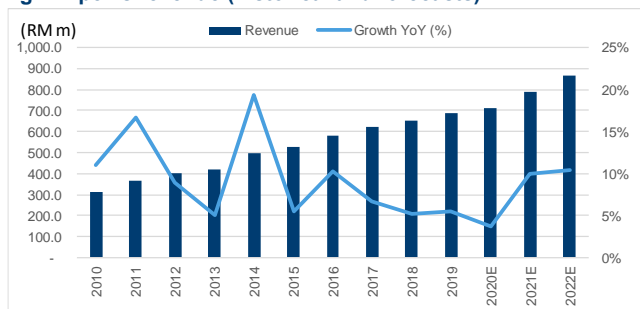
Trimming 2020E forecasts but raising 2021-22E EPS by 3%

We have revised our 2020/21/22E core EPS forecasts by -3%/+3%/+3% after incorporating: (i) weaker revenue from the manufacturing segment due to slow demand growth and delays in securing new customers / contract orders; (ii) higher sales of pandemic related products; (iii) RM15m-40m revenue from distribution of Covid-19 vaccines in FY21-22E; and (iv) higher profit margins due to lower operating costs and better margins from the wholesale and distribution business. Broadly we forecast Apex's core net profit to recover by 11% in 2021E before accelerating to 23% growth in 2022E on pent-up demand and contribution from new production lines.

Upgrade to HOLD with a higher price target of RM3.80

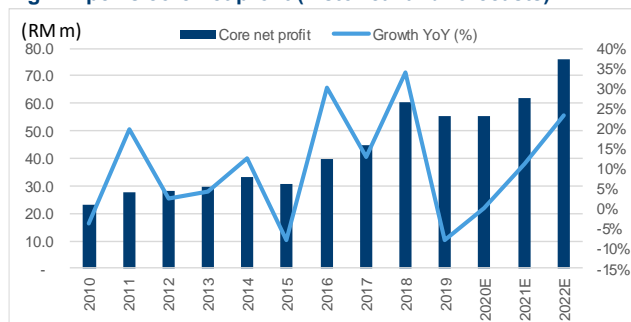
We upgrade Apex to HOLD (from Sell) with a higher price target of RM3.80 based on 29x 2021E earnings (from 21.5x). We now peg Apex at 3 standard deviation above its 6-year average PER of 15x, taking into consideration: (i) the re-rating across the local pharmaceutical companies; (ii) strong investor appetite for Covid-19 vaccine related plays; and (iii) scarcity premium for pharmaceutical names with strong earnings track record. Key upside risks: strong investor appetite for Covid-19 vaccine plays, significant revenue uplift from distribution of Covid-19 vaccines; downside risk is lower-than-expected earnings

Fig 1: Apex's revenue (historical and forecasts)



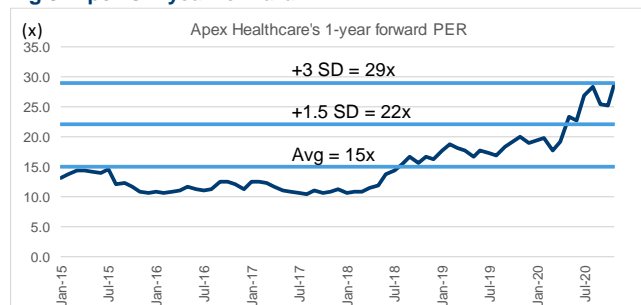
Source: Company Data, Affin Hwang estimates

Fig 2: Apex's core net profit (historical and forecasts)



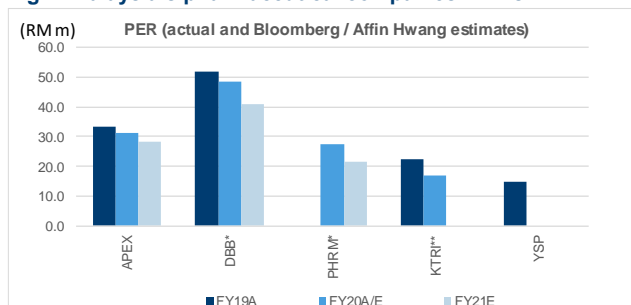
Source: Company Data, Affin Hwang estimates

Fig 3: Apex's 1-year forward PER



Source: Bloomberg, Company, Affin Hwang estimates

Fig 4: Malaysia's pharmaceutical companies' PERs



* Based on Bloomberg consensus ** FYE = June
Source: Bloomberg, Company, Affin Hwang estimates

Financial Summary – Apex Healthcare Berhad

Profit & Loss Statement

FYE 30 Dec (RM m)	2018A	2019A	2020E	2021E	2022E
Revenue	652.7	688.8	714.2	785.8	867.4
Operating expenses	581.7	612.7	633.5	697.3	760.3
EBITDA	71.0	76.1	80.7	88.5	107.1
Depreciation	-9.4	-15.0	-14.8	-15.6	-16.4
EBIT	61.6	61.1	65.8	72.9	90.7
Net int income/(expense)	1.6	0.6	1.5	2.1	2.7
Associates' contribution	7.8	7.3	5.8	6.1	6.7
Pretax profit	69.3	66.3	73.9	81.2	100.1
Tax	-10.6	-13.6	-17.7	-19.5	-24.0
Minority interest	0.1	0.0	0.0	0.0	0.0
Net profit	58.6	52.8	56.2	61.7	76.1

Balance Sheet Statement

Cash and equivalents	81.2	120.4	138.8	156.5	181.6
Stocks	83.1	86.5	89.8	98.6	107.1
Debtors	160.4	159.4	170.4	187.5	207.0
Other current assets	4.4	2.7	2.7	2.7	2.7
Total current assets	329.0	368.9	401.7	445.3	498.3
Creditors	117.7	120.1	125.9	138.3	150.2
Short term borrowings	5.9	5.9	5.9	5.9	5.9
Other current liabilities	1.5	2.4	2.4	2.4	2.4
Total current liabilities	125.0	128.3	134.1	146.5	158.4
Long term borrowings	24.0	18.3	13.3	8.3	3.3
Other long term liabilities	4.4	5.9	5.9	5.9	5.9
Total long term liabilities	28.5	24.2	19.2	14.2	9.2
Shareholders' Funds	386.0	425.1	463.3	505.2	556.9
Minority interest	0.5	0.5	0.5	0.5	0.5

Cash Flow Statement

FYE 30 Dec (RM m)	2018A	2019A	2020E	2021E	2022E
EBIT	61.6	61.1	65.8	72.9	90.7
Depreciation & amortisation	9.4	15.0	14.8	15.6	16.4
Working capital changes	-16.3	0.5	-8.5	-13.5	-16.1
Cash tax paid	-15.0	-10.4	-17.7	-19.5	-24.0
Others	0.8	2.0	2.2	2.1	2.7
Cashflow from operation	40.5	68.1	56.7	57.6	69.7
Capex	-62.4	-15.6	-15.0	-15.0	-15.0
Others	-3.4	-7.4	-0.3	-0.3	-0.3
Cash flow from investing	-65.8	-23.0	-15.3	-15.3	-15.3
Debt raised/(repaid)	29.9	-5.8	-5.0	-5.0	-5.0
Dividends paid	-15.2	-16.3	-18.0	-19.7	-24.3
Others	31.1	0.2	-5.0	-5.0	-5.0
Cash flow from financing	15.9	-16.1	-23.0	-24.7	-29.3
Free Cash Flow	-22.0	52.5	41.7	42.6	54.7

Source: Company, Affin Hwang estimates

Key Financial Ratios and Margins

FYE 30 Dec (RM m)	2018A	2019A	2020E	2021E	2022E
Growth					
Revenue (%)	5%	6%	4%	10%	10%
EBITDA (%)	22%	7%	6%	10%	21%
Core net profit (%)	34%	-8%	0%	11%	23%
Profitability					
EBITDA margin (%)	11%	11%	11%	11%	12%
PBT margin (%)	11%	10%	10%	10%	12%
Net profit margin (%)	9%	8%	8%	8%	9%
Effective tax rate (%)	15%	24%	24%	24%	24%
ROA (%)	12%	9%	9%	10%	11%
Core ROE (%)	16%	14%	12%	13%	14%
ROCE (%)	15%	13%	13%	14%	16%
Free cashflow (RMm)	-22.0	52.5	41.7	42.6	54.7
FCF/share (RM)	-0.05	0.11	0.09	0.09	0.12
Asset management					
Debtors turnover (days)	84	85	84	83	83
Stock turnover (days)	56	58	59	57	58
Creditors turnover (days)	82	81	82	80	81
Capital structure					
Net gearing (%)	-13%	-23%	-26%	-28%	-31%
Interest cover (x)	n/a	n/a	n/a	n/a	n/a

Quarterly Profit & Loss

FYE 30 Dec (RM m)	3Q19	4Q19	1Q20	2Q20	3Q20
Revenue	180.7	170.6	193.3	174.7	169.1
Operating expenses	161.5	150.0	172.6	156.3	149.9
EBITDA	19.1	20.7	20.7	18.4	19.2
Depreciation	11.4	15.0	4.3	8.5	12.5
EBIT	15.1	17.1	16.5	14.2	15.2
Net int income/(expense)	0.5	0.8	0.6	1.9	1.6
Associates' contribution	1.9	1.3	1.1	1.7	2.0
Exceptional Items	-0.1	0.1	0.2	0.4	0.1
Pretax profit	17.1	18.5	17.9	16.3	17.5
Tax	-3.0	-4.5	-3.6	-3.4	-3.1
Minority interest	0.0	0.0	0.0	0.1	-0.1
Net profit	14.1	14.0	14.4	13.0	14.2
Core net profit	14.2	13.9	14.2	12.7	14.1
Margins (%)					
EBITDA	10.6%	12.1%	10.7%	10.5%	11.3%
PBT	9.5%	10.8%	9.3%	9.4%	10.3%
Net profit	7.8%	8.2%	7.4%	7.5%	8.4%

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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