

"9M20 results were in line. Key risk to our SELL rating is strong investor appetite for Covid-19 vaccine related plays"

Share price performance



	1M	3M	12M
Absolute (%)	2.9	4.7	48.8
Rel KLCI (%)	-1.4	4.1	50.8

	BUY	HOLD	SELL
Consensus	-	1	1

Source: Bloomberg

Stock Data

Sector	Healthcare & Pharmaceuticals
Issued shares (m)	475.0
Mkt cap (RMm)/(US\$m)	1,710/417
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)	12.3%
Derivatives	No
Shariah Compliant	Yes

Key Shareholders

Apex Pharmacy Holding	40.1%
Washington H Soul	29.9%

Source: Affin Hwang, Bloomberg

Isaac Chow

T (603) 2146 7536

E Isaac.chow@affinhwang.com

Apex Healthcare (APEX MK)

SELL (maintain)

Up/Downside: -24%

Price Target: RM2.75

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

Results in line; eyeing opportunities in vaccine distribution

- Despite a lower revenue, Apex's 3Q20 core net profit grew by 12% qoq to RM14.1m on lower admin, sales and marketing costs. Cumulatively, 9M20 core net profit of RM41m (+6.6% yoy) is within market and our expectations.
- Apex is expanding its cold chain distribution capabilities, partly to charter for possible business opportunities in distribution of Covid-19 vaccines.
- Maintain SELL for now. Our earnings forecasts have yet to incorporate any revenue uplift from distribution of Covid-19 vaccines, pending management guidance on its business plan and capabilities.

3Q20 earnings grew by 11.5% qoq on lower costs; results are in line

Notwithstanding a 3.2% qoq decline in revenue due to subdued market demand, especially from clinics, private hospitals and exports, Apex's 3Q20 core net profit grew by 11.5% qoq to RM14.1m on lower admin, sales and marketing costs. Cumulatively, the group's 9M20 core net profit grew by 6.6% yoy to RM41m, driven by a surge in sales of pandemic-related products in 1H20. Overall, the results were within market and our expectations - Apex's 9M20 core net profit accounts for 69% of consensus and 72% of our full-year earnings forecasts. The 4Q is traditionally a stronger quarter for Apex as the group has typically spent less on sales and marketing during 4Q, which led to higher profitability.

Expanding the cold chain distribution capabilities

In 3Q20, Apex has increased its Singapore operation's cold chain distribution capabilities. The group has expanded its current 2-8 °C cold room and acquired a -20 °C freezer room for pharmaceuticals, vaccines and biologics. In Malaysia, Apex is expanding its cold chain distribution capacity, scheduled for completion by end-2020. We believe these expansions are to partly charter for possible business opportunities in the distribution of Covid-19 vaccines. To recap, the sales of various vaccines accounted for c.RM16.6m (2.4%) of Apex's revenue in 2019.

Maintain SELL. Key risk is strong investor appetite for Covid-19 vaccine plays

We maintain our earnings forecasts, SELL rating and price target of RM2.75 for now. We have not incorporated any additional revenue from the distribution of Covid-19 vaccines, pending management guidance on its capabilities and business plan. At 28x 2021E PER, Apex is trading above its 5-year average PER of 14x, and looks rich. Key risk: strong investor appetite for Covid-19 vaccine plays, significant revenue uplift from distribution of Covid-19 vaccines and higher-than-expected earnings.

Earnings & Valuation Summary

FYE 31 Dec	2018	2019	2020E	2021E	2022E
Revenue (RMm)	652.7	688.8	761.1	793.3	869.5
EBITDA (RMm)	71.0	76.1	82.4	86.2	104.4
Pretax profit (RMm)	69.3	66.3	74.9	78.7	97.4
Net profit (RMm)	58.6	52.8	56.9	59.8	74.0
EPS (sen)	12.5	11.2	12.1	12.7	15.7
PER (x)	28.8	32.1	29.7	28.3	22.9
Core net profit (RMm)	60.2	55.4	56.9	59.8	74.0
Core EPS (sen)	12.8	11.8	12.1	12.7	15.7
Core EPS growth (%)	33.9	-8.0	2.8	5.0	23.8
Core PER (x)	28.1	30.6	29.7	28.3	22.9
Net DPS (sen)	3.4	3.7	3.9	4.1	5.0
Dividend Yield (%)	0.9	1.0	1.1	1.1	1.4
EV/EBITDA	23.1	21.0	19.2	18.0	14.6

Chg in EPS (%)

Affin/Consensus (x)

-	-	-
1.0	0.9	1.0

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE Dec (RMm)	3Q19	2Q20	3Q20	QoQ % chg	YoY % chg	9M19	9M20	YoY % chg	Comments
Revenue	180.7	174.7	169.1	-3.2	-6.4	518.2	537.2	3.7	Lower 3Q20 revenue due to subdued market demand, especially from clinics, private hospitals and exports.
Op costs	-161.5	-156.3	-149.9	-4.1	-7.2	-465.8	-478.9	2.8	
EBITDA	19.1	18.4	19.2	4.3	0.3	52.3	58.3	11.4	Higher 3Q20 EBITDA margin due to lower admin, sales & marketing costs.
EBITDA margin (%)	10.6	10.5	11.3	+0.8 ppt	+0.7 ppt	10.1	10.9	+0.7 ppt	
Depn and amort	-4.0	-4.2	-4.0	-4.9	1.0	-11.4	-12.5	9.3	
EBIT	15.1	14.2	15.2	7.1	0.2	40.9	45.8	11.9	
Int expense	-0.3	-0.3	-0.3	-7.0	-25.1	-1.0	-0.8	-18.0	
Int and other inc	0.5	0.4	0.5	15.6	-7.8	1.6	1.4	-13.5	
Associates	1.9	1.7	2.0	20.2	5.2	6.0	4.8	-20.8	
Exceptional items	-0.1	0.4	0.1	nm	nm	0.3	0.7	nm	Gain on disposal of PPE, forex and fair value gain / (loss) on derivatives
Pretax	17.1	16.3	17.5	7.0	2.1	47.9	51.8	8.2	
Tax	-3.0	-3.4	-3.1	-7.9	4.7	-9.1	-10.1	11.6	
Tax rate (%)	17.5	20.9	18.0	-2.9 ppt	+0.4 ppt	19.0	19.6	+0.6 ppt	
MI	0.0	0.1	-0.1	nm	nm	0.0	0.0	nm	
Net profit	14.1	13.0	14.2	9.1	0.7	38.7	41.6	7.4	
EPS (sen)	3.0	2.8	3.0	9.0	0.3	8.2	8.8	7.1	
Core net profit	14.2	12.7	14.1	11.5	-0.7	38.4	41.0	6.6	Within market and our expectations.

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

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable and is not to be taken in substitution for the exercise of your judgment. You should obtain independent financial, legal, tax or such other professional advice, when making your independent appraisal, assessment, review and evaluation of the company/entity covered in this report, and the extent of the risk involved in doing so, before investing or participating in any of the securities or investment strategies or transactions discussed in this report. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (expressed or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, estimates, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel and the same are subject to change without notice. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest. Under no circumstances shall the Company, be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company its directors, its employees and their respective associates may have positions or financial interest in the securities mentioned therein. The Company, its directors, its employees and their respective associates may further act as market maker, may have assumed an underwriting commitment, deal with such securities, may also perform or seek to perform investment banking services, advisory and other services relating to the subject company/entity, and may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. The Company, its directors, its employees and their respective associates, may provide, or have provided in the past 12 months investment banking, corporate finance or other services and may receive, or may have received compensation for the services provided from the subject company/entity covered in this report. No part of the research analyst's compensation or benefit was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. Employees of the Company may serve as a board member of the subject company/entity covered in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

This report, or any portion thereof may not be reprinted, sold or redistributed without the written consent of the Company.

This report is printed and published by:
 Affin Hwang Investment Bank Berhad (14389-U)
 A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
 69, Jalan Raja Chulan,
 50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
 F : + 603 2146 7630
 research@affinhwang.com

www.affinhwang.com