



APEX HEALTHCARE BERHAD

Neutral

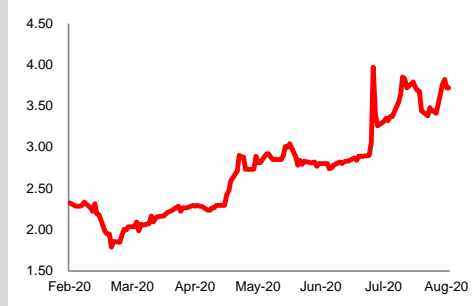
DESCRIPTION

An investment holding company involved in the development, manufacturing, marketing and distribution of pharmaceuticals, diagnostics, consumer healthcare products and orthopaedic devices.

12-Month Target Price RM2.45
Current Price RM3.72
Expected Return -66.6%

Market Main
Sector Consumer
Bursa Code 7090
Bloomberg Ticker APEX MK
Shariah-Compliant Yes

SHARE PRICE CHART



52 Week Range (RM) 1.77 – 4.55
3-Month Average Vol ('000) 681.4

SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	14.1	36.2	86.1
Relative Returns	15.4	19.8	88.1

KEY STOCK DATA

Market Capitalisation (RMm) 1,764.6
No. of Shares (m) 474.3

MAJOR SHAREHOLDERS

	%
Apex Pharmacy Holdings Sdn Bhd	40.1
Washington H Soul Pattinson	29.9
MD DEWAK MD ALI	1.7

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No Surprises

Apex Healthcare's (ApexH) reported a 1HFY20 net profit of RM27.2m (up 10% YoY), which was slightly below our but within consensus estimates at 44% and 51% respectively. The Group saw stronger sales of pandemic related products, but the panic buying from private hospitals and clinics have since normalised in 2QFY20. Profit contribution from Straits Apex was also lower YoY, as elective surgeries have been postponed and also due to a high base effect. We maintain our earnings forecast for now, pending an analyst briefing. Our TP is also unchanged at RM2.45. Reiterate **Neutral** on ApexH. On a side note, the Group has declared a dividend of 1.7 sen per share.

§ **Continues to grow.** ApexH's 2QFY20 revenue was up 10% YoY to RM174.7m, driven by stronger contribution from both manufacturing and marketing (+15% YoY) as well as the wholesale and distribution segment (+10% YoY). ApexH saw a spike in sales of pandemic related products (PRP) such as medical face masks and Vitamic C. Sales of PRP during the quarter amounted to a sum of RM32m, of which c. 33% of the PRP sales were for Group brand products. After experiencing a strong 1QFY20, fuelled by panic buying from hospitals and clinics, pharmaceutical sales to this segment remain muted in 2QFY20. Share of profit from its associate company, Straits Apex also fell 50% YoY to RM1.7m, mainly due to a high base effect. Despite the stronger topline, ApexH's net profit declined marginally by 1% YoY to RM13.0m.

§ **Just a myth.** Contrary to popular belief, pharmaceutical companies like ApexH are also faced with an uncertain outlook for 2H2020 due to disruptions caused by the pandemic. Weaker consumer sentiment and cautious spending has impacted ApexH's sales, while the deferment elective medical procedures like orthopaedic surgeries has resulted in lower demand for Straits Apex's orthopaedic devices. However, during this tough time, ApexH has also completed its cold chain distribution expansion in Singapore, while the expansion in Malaysia is expected to complete in 4QFY20. Given that cold chain distribution is vital for the distribution of vaccine, we are positive on this timely expansion as ApexH would be able to expand into vaccine distribution, be it a Covid-19 vaccine or other vaccines available. However, contrary to market's belief, we are not expecting immediate benefit arising from any potential vaccine distribution by Apex.

KEY FORECAST TABLE

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F	CAGR
Revenue	652.7	688.8	802.9	873.8	946.3	5.6%
Pre-tax Profit	69.3	66.3	80.4	88.2	95.4	5.9%
Net Profit	58.6	52.7	61.8	67.8	73.3	5.9%
EPS (Sen)	12.4	11.2	13.1	14.4	15.5	5.9%
P/E (x)	30.0	33.2	28.4	25.8	24.0	
DPS (Sen)	3.3	3.7	3.1	3.1	3.3	
Dividend Yield (%)	0.8	0.9	0.8	0.8	0.9	

Source: Company, PublicInvest Research estimates

**Table 1: Results Summary**

<u>FYE Dec (RM m)</u>	<u>2Q20</u>	<u>2Q19</u>	<u>1Q20</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>YTD FY20</u>	<u>YTD FY19</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	174.7	159.3	193.3	9.7	-9.6	368.0	337.5	9.0	Saw a surge in sales of pandemic related product
Cost of Sales	-137.1	-122.7	-149.6	11.7	-8.4	-286.7	-261.5	9.6	
Gross Profit	37.6	36.5	43.7	3.1	-13.9	81.4	76.0	7.0	
Other operating income/ (expenses)	2.5	1.7	1.3	46.8	99.8	3.8	2.8	33.1	
Operating profit/ (loss)	14.9	13.2	17.2	12.9	-13.0	32.1	27.3	17.6	
Finance income/ (costs)	-0.3	-0.4	-0.3	-27.3	-16.0	-0.6	-0.7	-14.5	
Other income/ (expenses)	1.7	3.3	1.1	-49.7	52.6	2.8	4.1	-32.9	Lower profit contribution from Straits Apex due to the deferment of elective surgeries.
Profit/ (Loss) before tax	16.3	16.2	17.9	1.0	-8.9	34.3	30.7	11.6	
Taxation	-3.4	-3.0	-3.6	15.5	-4.8	-7.0	-6.1	15.0	
Net Profit	12.9	13.2	14.4	-2.3	-10.0	27.3	24.6	10.7	
Non-controlling interests	0.1	0.0	0.0	NM	NM	0.1	0.0	-633.3	
PATAMI	13.0	13.2	14.4	-1.4	-9.3	27.4	24.6	11.3	
Core PATAMI	13.0	13.2	14.4	-1.4	-9.3	27.4	24.6	11.3	
Operating Margin (%)	8.6%	8.3%	8.9%			8.7%	8.1%		
Pre-tax Margin (%)	9.4%	10.2%	9.3%			9.3%	9.1%		
Net Margin (%)	7.5%	8.3%	7.4%			7.4%	7.3%		
Segment Revenue									
Manufacturing and Marketing	13.5	11.7	12.1	15.4	11.2	25.6	23.5	8.9	
Wholesale and Distribution	160.8	145.6	179.6	10.5	-10.5	340.5	309.8	9.9	
Corporate	0.4	2.0	1.5	-79.4	-73.1	2.0	4.2	-53.4	
Segment PBT									
Manufacturing and Marketing	6.4	7.9	11.3	-18.5	-43.3	17.7	17.0	3.8	
Wholesale and Distribution	9.7	6.7	9.2	44.6	5.6	18.9	14.1	34.3	
Corporate	0.9	2.6	-1.8	-65.4	-149.4	-0.9	1.3	-168.5	

Source: Company

KEY FINANCIAL DATA

INCOME STATEMENT

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Revenue	652.7	688.8	802.9	873.8	946.3
Operating Profit	61.6	60.6	72.3	77.9	84.0
Other Gains/(Losses)	7.8	7.3	9.2	10.9	11.8
Finance Costs	-0.1	-1.6	-1.1	-0.6	-0.4
Pre-tax Profit	69.3	66.3	80.4	88.2	95.4
Income Tax	-10.6	-13.6	-18.5	-20.3	-21.9
Effective Tax Rate (%)	15.3	20.4	23.0	23.0	23.0
Minorities	-0.1	-0.2	-0.1	-0.1	-0.1
Net Profit	58.6	52.7	61.8	67.8	73.3
Growth					
Revenue (%)	5.2	0.1	7.6	8.8	8.3
Operating Profit (%)	21.5	0.0	10.6	7.8	7.8
Net Profit (%)	31.8	-0.1	16.1	9.7	8.2

Source: Company, PublicInvest Research estimates

BALANCE SHEET

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Property, Plant & Equipment	177.2	170.2	165.6	156.9	146.7
Cash and Cash Equivalents	56.0	120.4	102.2	146.4	194.6
Receivables	160.4	159.4	197.4	214.8	232.6
Other Assets	146.3	133.3	173.1	182.3	194.3
Total Assets	540.0	583.2	638.2	700.3	768.1
Payables	117.7	120.1	145.4	158.4	171.6
Borrowings	29.9	24.1	13.6	9.1	4.5
Deferred Tax	6.0	5.9	6.0	6.0	6.0
Other Liabilities	0.0	7.5	0.0	0.0	0.0
Total Liabilities	153.5	157.6	165.0	173.5	182.1
Total Equity	386.5	425.5	473.2	526.8	586.0
Total Equity and Liabilities	540.0	583.2	638.2	700.3	768.1

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Book Value Per Share	0.8	0.9	1.0	1.1	1.2
EPS (Sen)	12.4	11.2	13.1	14.4	15.5
DPS (Sen)	3.3	1.7	3.1	3.1	3.3
Payout Ratio	27.0%	15.2%	23.7%	21.5%	21.3%
ROA	10.8%	2.5%	9.7%	9.7%	9.5%
ROE	15.2%	3.4%	13.1%	12.9%	12.5%

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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