



### APEX HEALTHCARE BERHAD

### Neutral

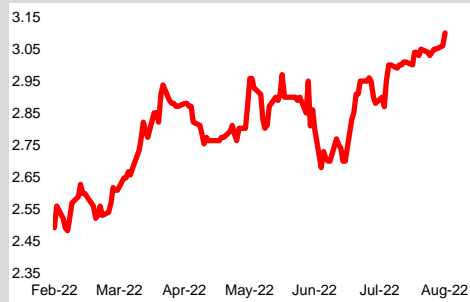
#### DESCRIPTION

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	RM3.03
Current Price	RM3.10
Expected Return	-2.3%

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

#### SHARE PRICE CHART



52 Week Range (RM)	2.33 – 3.12
3-Month Average Vol ('000)	85.3

#### SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	6.3	9.2	22.7
Relative Returns	0.5	11.3	30.0

#### KEY STOCK DATA

Market Capitalisation (RMm)	1,479.6
No. of Shares (m)	477.3

#### MAJOR SHAREHOLDERS

	%
Apex Pharmacy Holdings Sdn Bhd	39.9
Washington H Soul Pattinson	29.7
Lim Teh Realty Sdn Bhd	1.4

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## New High In Quarterly Profit

Apex Healthcare's (ApexH) 2QFY22 net profit increased by 83.2% YoY to RM23.5m. The stronger performance was mainly due to higher market demand for pharmaceuticals products. Meanwhile, ApexH's 1HFY22 net profit improved by 59% YoY to RM39.3m. The results came in above both our and street projections at 59% and 57% of full-year numbers respectively. The discrepancy was mainly due to higher-than-expected revenue and share of associate results. We revise our forecasts for FY22-24F by ~6%, factoring in higher revenue and share of associate results. Our TP is subsequently revised to RM3.03, based on 20x PER (5-years historical mean). Although we expect ApexH to benefit from favourable demography that should lead to a gradual increase in demand for pharmaceutical products in the long run, we believe its short-term performance may be impacted by rising inflation. As such, we maintain our **Neutral** call on ApexH. On a side note, ApexH declared an interim dividend of 3sen per share.

§ **Stronger revenue.** ApexH's 2QFY22 revenue reported a 14.6% YoY increase in revenue to RM209.2m. The increase was mainly due to stronger contribution from its distribution segment (+10.4% YoY) and its manufacturing segment (+78.3% YoY), underpinned by the increase in market demand for pharmaceuticals products. We attribute this to improving consumer confidence, especially for products relating to cough and cold given the prevalence of Covid-19 infection manifesting largely as a community respiratory illness. Additionally, ApexH launched two new paracetamol products and commissioned another blister packaging line in SPP Novo, raising its total installed annual capacity for tablets and capsules by 36%. Moreover, ApexH plans to commence commercial production of a new-high liquid production line in 3QFY22, which could double its annual installed capacity for liquid medicines such as cough and cold syrups. We view this positively as these products are currently in high demand.

§ **Net profit.** In tandem with higher revenue, ApexH's net profit increased by 83.2% YoY to RM23.5m. This was mainly due to higher share of profits from its 40%-owned associate company, SAG, which added 978% YoY to RM7.2m mainly due to clearing of order backlogs. Management also guided that the total secured export orders in hand for 2HFY22 has exceeded the executed orders in 1HFY22. In addition, PBT margin has improved by 4.5ppt to 13.3%.

§ **Outlook.** We expect ApexH to benefit from favourable demography where the demand for pharmaceutical products should gradually increase in the long run due to our ageing population. However, we believe its short-term performance may be impacted by rising raw material cost and supply chain disruption, which could result in weaker margins in 2HFY22.



**KEY FORECAST TABLE**

<b>FYE Dec (RM m)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>CAGR</b>
Revenue	698.7	770.8	816.9	886.4	949.2	7.2%
Pre-tax Profit	70.2	75.4	90.1	93.4	100.2	9.9%
Net Profit	56.0	59.4	71.0	73.6	79.0	9.9%
EPS (Sen)	11.8	12.5	14.9	15.4	16.6	9.9%
P/E (x)	25.9	24.4	20.5	19.7	18.4	
DPS (Sen)	4.5	11.4	4.9	5.1	5.5	
Dividend Yield (%)	1.5	3.7	1.6	1.7	1.8	

Source: Company, PublicInvest Research estimates

**Table 1: Results Summary**

<u>FYE Dec (RM m)</u>	<u>2Q22</u>	<u>2Q21</u>	<u>1Q22</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>YTD FY22</u>	<u>YTD FY21</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	209.2	182.6	215.9	14.6	-3.1	425.2	362.0	17.4	Growth mainly contributed by its distribution segment and its manufacturing segment
Cost of Sales	-161.9	-145.2	-169.9	11.5	-4.7	-331.9	-287.0	15.6	
<b>Gross Profit</b>	<b>47.3</b>	<b>37.3</b>	<b>46.0</b>	<b>26.9</b>	<b>2.9</b>	<b>93.3</b>	<b>75.1</b>	<b>24.3</b>	
Other operating income/ (expenses)	0.9	1.3	1.8	-32.3	-49.4	2.6	3.1	-13.3	
<b>Operating profit/ (loss)</b>	<b>20.8</b>	<b>15.7</b>	<b>19.2</b>	<b>32.8</b>	<b>8.6</b>	<b>40.0</b>	<b>31.0</b>	<b>29.0</b>	
Finance income/ (costs)	-0.2	-0.2	-0.2	-17.0	-8.3	-0.4	-0.4	-15.8	
Other income/ (expenses)	7.2	0.7	0.9	978.1	741.8	8.1	1.0	700.9	
<b>Profit/ (Loss) before tax</b>	<b>27.9</b>	<b>16.1</b>	<b>19.8</b>	<b>72.8</b>	<b>40.5</b>	<b>47.7</b>	<b>31.6</b>	<b>51.1</b>	
Taxation	-4.4	-3.3	-4.0	32.4	7.8	-8.4	-6.9	22.7	
<b>Net Profit</b>	<b>23.5</b>	<b>12.8</b>	<b>15.8</b>	<b>83.2</b>	<b>48.9</b>	<b>39.3</b>	<b>24.7</b>	<b>58.9</b>	
Non-controlling interests	0.0	0.0	0.0	50.0	-	0.0	0.0	-40.0	
<b>PATAMI</b>	<b>23.5</b>	<b>12.8</b>	<b>15.8</b>	<b>83.2</b>	<b>48.9</b>	<b>39.3</b>	<b>24.7</b>	<b>58.9</b>	
<b>Core PATAMI</b>	<b>23.5</b>	<b>12.8</b>	<b>15.8</b>	<b>83.2</b>	<b>48.9</b>	<b>39.3</b>	<b>24.7</b>	<b>58.9</b>	
Operating Margin (%)	9.9%	8.6%	8.9%			9.4%	8.6%		Improved mainly due to higher share of associate result.
Pre-tax Margin (%)	13.3%	8.8%	9.2%			11.2%	8.7%		
Net Margin (%)	11.2%	7.0%	7.3%			9.2%	6.8%		
<b><u>Segment Revenue</u></b>									
Manufacturing	20.8	11.7	18.4	78.3	12.8	39.2	26.8	46.6	
Distribution	188.4	170.7	197.5	10.4	-4.6	385.9	335.0	15.2	
Corporate	0.0	0.2	0.0	-93.4	10.0	0.0	0.3	-93.0	
<b><u>Segment EBIT</u></b>									
Manufacturing	15.0	9.0	13.0	66.6	16.1	28.0	18.1	54.9	
Distribution	8.4	7.5	9.2	11.7	-8.6	17.6	15.0	17.6	
Corporate	5.5	0.2	-1.5	3,542.8	-478.2	4.1	-0.4	-1,144	

Source: Company

## KEY FINANCIAL DATA

### INCOME STATEMENT

FYE Dec (RM m)	2020A	2021A	2022F	2023F	2024F
Revenue	698.7	770.8	816.9	886.4	949.2
Operating Profit	62.7	69.2	78.6	80.3	86.0
Other Gains/(Losses)	8.7	7.1	12.3	13.3	14.2
Finance Costs	-1.1	-0.9	-0.7	-0.2	0.0
Pre-tax Profit	70.2	75.4	90.1	93.4	100.2
Income Tax	-14.2	-16.0	-19.1	-19.8	-21.2
Effective Tax Rate (%)	20.2	21.2	21.2	21.2	21.2
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>56.0</b>	<b>59.4</b>	<b>71.0</b>	<b>73.6</b>	<b>79.0</b>
Growth					
Revenue (%)	1.4	10.3	6.0	8.5	7.1
Operating Profit (%)	3.4	10.4	13.6	2.2	7.1
Net Profit (%)	6.2	6.1	19.5	3.6	7.3

Source: Company, PublicInvest Research estimates

### BALANCE SHEET

FYE Dec (RM m)	2020A	2021A	2022F	2023F	2024F
Property, Plant & Equipment	170.7	167.1	159.8	156.1	150.0
Cash and Cash Equivalents	82.8	93.4	144.5	170.5	218.0
Receivables	129.3	158.8	168.3	182.6	195.6
Other Assets	238.1	260.9	252.0	273.8	283.9
<b>Total Assets</b>	<b>620.9</b>	<b>680.1</b>	<b>724.6</b>	<b>783.0</b>	<b>847.6</b>
Payables	118.4	144.1	151.6	165.4	177.1
Borrowings	21.2	15.4	4.7	0.0	0.0
Deferred Tax	7.5	8.6	8.6	8.6	8.6
Other Liabilities	5.8	5.3	5.3	5.3	5.3
<b>Total Liabilities</b>	<b>153.0</b>	<b>173.3</b>	<b>170.2</b>	<b>179.3</b>	<b>190.9</b>
Total Equity	468.0	506.9	554.4	603.7	656.6
<b>Total Equity and Liabilities</b>	<b>620.9</b>	<b>680.1</b>	<b>724.6</b>	<b>783.0</b>	<b>847.6</b>

Source: Company, PublicInvest Research estimates

### PER SHARE DATA & RATIOS

FYE Dec (RM m)	2020A	2021A	2022F	2023F	2024F
Book Value Per Share	1.0	1.1	1.2	1.3	1.4
EPS (Sen)	11.8	12.5	14.9	15.4	16.6
DPS (Sen)	4.5	11.4	4.9	5.1	5.5
Payout Ratio	38.2%	91.7%	33.0%	33.0%	33.0%
ROA	9.0%	8.7%	9.8%	9.4%	9.3%
ROE	12.0%	11.7%	12.8%	12.2%	12.0%

Source: Company, PublicInvest Research estimates

## **RATING CLASSIFICATION**

### **STOCKS**

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### **SECTOR**

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

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