

APEX HEALTHCARE

(APEX MK EQUITY, APER.KL)

23 Feb 2023

Record quarterly performance with bonus issues

BUY

(Maintained)

Company report

AmlInvestment Bank

Team Coverage

03-2036 2280

Rationale for report: Company result

Price	RM3.39
Fair Value	RM4.21
52-week High/Low	RM3.69/RM2.51

Key Changes

Fair value	ⓘ
EPS	ⓘ

YE to Dec	FY22	FY23F	FY24F	FY25F
Revenue (RM mil)	877.7	904.8	970.5	1,039.8
Core net profit (RM mil)	96.7	100.6	108.1	116.1
FD Core EPS (sen)	20.2	21.1	22.6	24.3
FD Core EPS growth (%)	58.9	4.1	7.4	7.4
Consensus Net Profit (RM mil)	-	81.6	87.7	n/a
DPS (sen)	8.5	8.0	8.6	9.2
PE (x)	16.7	16.1	15.0	13.9
EV/EBITDA (x)	14.1	13.3	12.4	11.1
Div yield (%)	2.5	2.4	2.5	2.7
ROE (%)	19.0	17.1	16.5	16.0
Net Gearing (%)	nm	nm	nm	nm

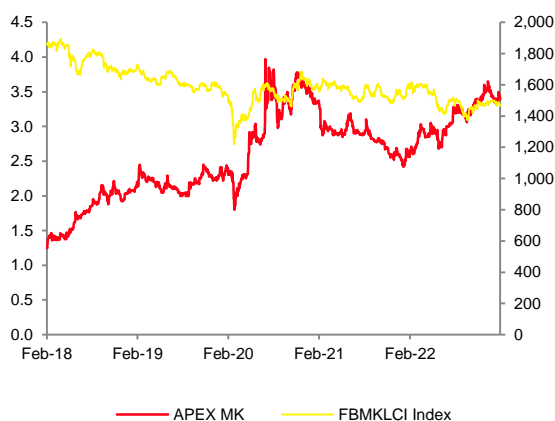
Stock and Financial Data

Shares Outstanding (million)	477.6
Market Cap (RMmil)	1,619.1
Book Value (RM/share)	1.17
P/BV (x)	2.9
ROE (%)	19.0
Net Gearing (%)	nm

Major Shareholders	Apex Pharmacy Holdings Sdn Bhd (39.8%) Washington H. Soul Pattinson and Company Ltd. (29.7%)
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Free Float (%)	19.9
Avg Daily Value (RMmil)	0.4

Price performance	3mth	6mth	12mth
Absolute (%)	-	5.3	34.6
Relative (%)	(1.6)	7.0	45.0



Investment Highlights

- We reiterate BUY on Apex Healthcare (Apex) with a higher fair value (FV) of RM4.21/share (from RM3.73/share previously) based on higher earnings expectations and an unchanged FY23F target PE of 20x, at parity to its 5-year average. There is no ESG-related adjustments based on our 3-star rating.
- Apex's FY22 core net profit of RM96.7mil beat expectations, coming in 12% above our forecast and 18% above street's. The deviation from our estimation was primarily attributable to continued strong demand for influenza (flu)-related medication and outstanding performance from 40%-owned Straits Apex.
- Hence, we increased net profit forecasts by 24% for FY23F and 25% for FY24F. In addition, we introduce FY25F earnings with a 7% YoY growth, underpinned by an ageing population, public health education advancement and continuous healthcare expenditure increase.
- The group declared a final dividend of 3.5 sen/share and special dividend of 2 sen/share in 4QFY22, bringing total dividend payout in FY22 to 8.5 sen/share (implying a payout of 42%), which beat our forecast of 6.1 sen/share.
- On a YoY basis, Apex's 4QFY22 core earnings soared 52% to an all-time quarterly record of RM31.5mil, spurred by a:
 - (i) 12% revenue growth from strong demand for flu-related medication especially in Malaysia and Singapore due to the prevalence of Covid-19 and elevated flu cases in the 2 countries;
 - (ii) better gross profit margin (+2.2ppt) thanks to increased share of higher margin manufacturing division from 19% in 4QFY21 to 23% in 4QFY22; and
 - (iii) surge in associate contribution to RM14.5mil (+2.6x) from the group's 40%-owned Straits Apex due to clearance of order backlogs and new sales.
- On a QoQ basis, Apex's 4QFY22 core earnings rose by 18%, despite a 5% decrease in revenue. The stronger earnings was mostly related to an exceptionally surge (+2.1x QoQ) from Straits Apex.
- To recap, Apex guided in Nov 2022 result briefing that sales could normalise from Dec 2022 onwards given declining flu cases in Malaysia and Singapore.
- However, the number of flu cases in Malaysia has been increasing steadily since mid-Oct 2022, while in Singapore, the trend began in late-Jan 2023 (Exhibit 2 & 3). We believe this development reignited demand for flu-related medications amid ongoing drug shortages, especially in Malaysia (Exhibit 4).

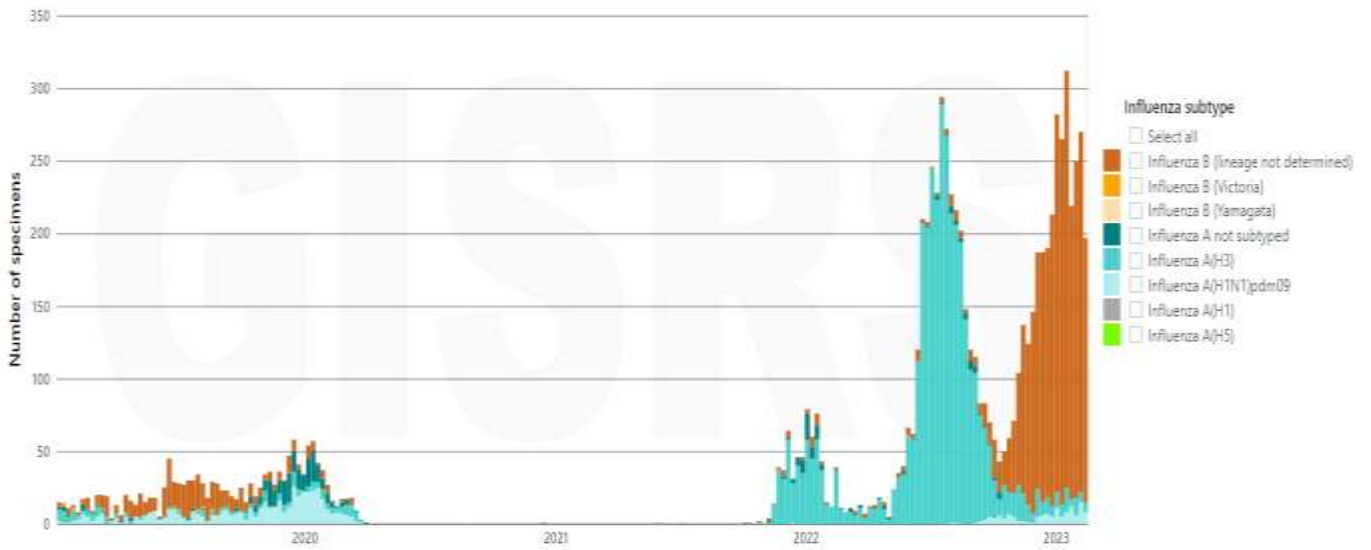
- Apex has been enjoying strong CAGR earnings growth of 12% over the past 20 years (Exhibit 5), anchored by an ageing population, public health education advancement and steady healthcare expenditure increase. In the near term, Apex is poised to ride on the prevalence of Covid-19 and elevated flu cases in Malaysia and Singapore amid ongoing drug shortages, especially in Malaysia.
- Apex also exhibited resilience and flexibility during the Covid-era via rapid identification and supply of in-demand products. Additionally, Apex's net cash position of RM158mil represents a significant 10% of its market cap.
- The stock currently trades at a compelling FY23F PE of 16x – 20% discount to its 5-year average of 20x while offering a decent dividend yield of 2.4%.
- On a positive note, Apex proposed a 1-for-2 bonus issue, which could increase trading liquidity and improve the affordability of the stock, hence potentially broadening its shareholder base and mitigate the valuation discount.

EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Revenue	197.7	232.1	220.5	(5.0)	11.6	770.8	877.7	13.9
Gross profit	41.5	53.2	51.1	(4.0)	23.1	160.9	197.6	22.8
EBITDA	23.9	29.8	30.4	2.1	27.0	85.5	108.0	26.3
EBIT	19.9	25.6	26.0	1.7	30.7	69.2	91.5	32.3
Share of associates	5.6	7.0	14.5	>100	>100	7.1	29.6	>100
Profit before tax	25.3	32.4	40.3	24.4	59.2	75.4	120.4	59.6
Tax	(4.6)	(5.5)	(5.5)	1.1	(19.4)	(16.0)	(19.4)	(21.3)
Net profit	20.7	26.9	34.8	29.6	68.3	59.4	101.0	69.9
Core net profit	20.7	26.6	31.5	18.4	52.1	59.1	96.7	63.7
FD EPS (sen)	4.4	5.6	6.6	18.5	52.0	12.5	20.4	63.5
Gross DPS (sen)	9.0	0.0	5.5	n/a	n/a	11.5	8.5	n/a
Gross margin (%)	21.0	22.9	23.2	0.2ppt	2.2ppt	20.9	22.5	1.6ppt
EBITDA margin (%)	12.1	12.8	13.8	1.0ppt	1.7ppt	11.1	12.3	1.2ppt
Pretax margin (%)	12.8	14.0	18.3	4.3ppt	5.5ppt	9.8	13.7	3.9ppt
Core net profit margin (%)	10.5	11.5	14.3	2.8ppt	3.8ppt	7.7	11.0	3.4ppt
Effective tax rate (%)	18.1	17.0	13.5	-3.5ppt	-4.5ppt	21.2	16.1	-5.1ppt
Segmental Revenue (RMmil)								
Manufacturing	46.5	62.8	61.6	(1.8)	32.5	172.5	233.0	35.0
Wholesale & Distribution	182.4	209.6	198.2	(5.5)	8.6	711.9	793.7	11.5
Corporate	11.7	11.0	11.6	5.7	(0.4)	29.6	29.3	(0.9)
Segmental PBT (RMmil)								
Manufacturing	11.9	17.7	18.2	3.0	52.7	41.6	63.9	53.8
Wholesale & Distribution	8.4	10.1	8.5	(15.9)	1.5	33.1	36.2	9.3
Corporate	5.9	5.6	15.3	>100	>100	4.3	24.9	>100
Pretax margin (%)								
Manufacturing	25.6	28.2	29.6	1.4ppt	3.9ppt	24.1	27.4	3.3ppt
Wholesale & Distribution	4.6	4.8	4.3	-0.5ppt	-0.3ppt	4.7	4.6	-0.1ppt

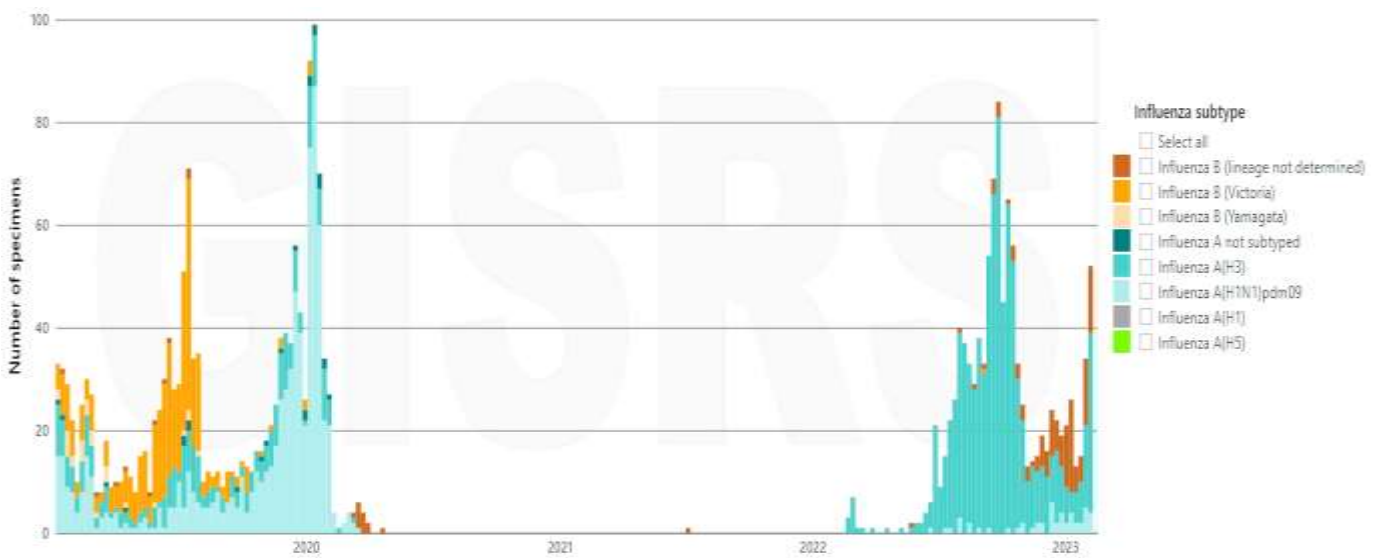
Source: AmlInvestment Bank/Apex Healthcare Bhd

EXHIBIT 2: NUMBER OF MALAYSIAN SPECIMENS POSITIVE FOR INFLUENZA BY SUBTYPES



Source: AmInvestment Bank/World Health Organisation (WHO)

EXHIBIT 3: NUMBER OF SINGAPOREAN SPECIMENS POSITIVE FOR INFLUENZA BY SUBTYPES



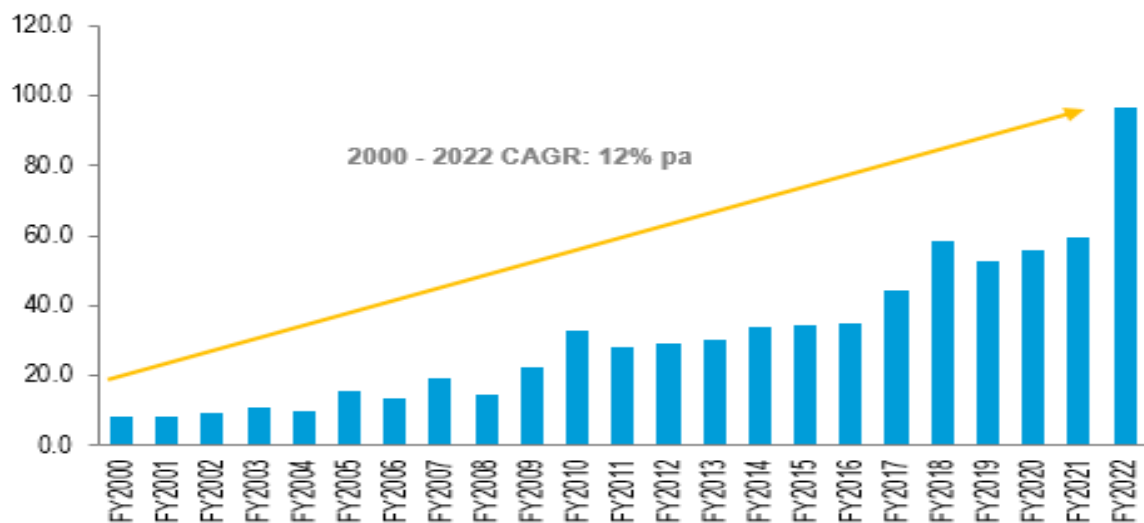
Source: AmInvestment Bank/ WHO

EXHIBIT 4: DRUG SHORTAGES IN MALAYSIA

Dates	Newsflow	Remarks
07-Jun-22	Khairy Jamaluddin (KJ) acknowledged shortages of certain medicine mainly due to supply chain issues from China lockdowns.	Based on channel checks, the shortages started earlier in end-1Q 2022.
15-Jul-22	(a) KJ claimed that the federal medicine stockpile will be released especially to private hospitals, clinics and community pharmacies. (b) Shortages mostly are flu-related medications.	Shortages mostly are flu-related medicines.
20-Jul-22	Malaysian Pharmacists Society saying stocks are very unstable. There are stocks available in a week but not subsequently.	-
19-Aug-22	Pharmaniaga expects the medicine shortage to normalise by 4Q 2022.	Drug shortages were expected to ease in 4Q2022
04-Jan-23	Drug shortages still persist among pharmacies in Sabah. Presently, suppliers can only fulfil 30-40% of orders.	We believe drug shortages could extend beyond Sabah to nationwide in Jan 2023.

Source: Various News Media, AmlInvestment Bank

EXHIBIT 5: APEX HEALTHCARE PROFIT AFTER TAX (RM MIL)



Source: AmlInvestment Bank/Apex Healthcare

EXHIBIT 5: PB BAND CHART

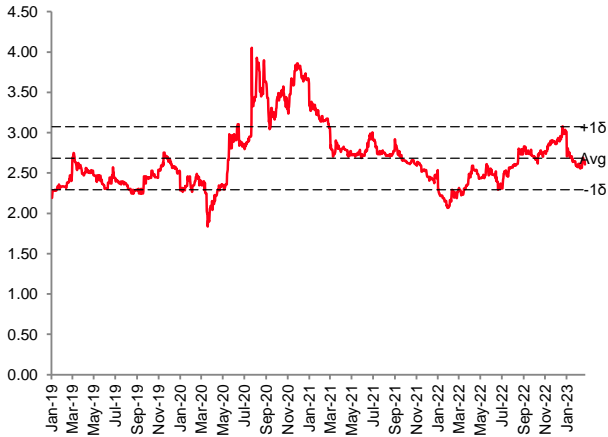


EXHIBIT 6: PE BAND CHART



EXHIBIT 7: ESG RATING

Overall	★	★	★		
Waste management	★	★			
Natural resource conservation	★	★	★		
Occupational safety + health	★	★	★	★	
Workplace diversity	★	★	★		
Employee training + wellbeing	★	★	★		
Quality assurance + safety	★	★	★	★	
Communal efforts	★	★	★	★	
Corruption-free pledge	★	★	★		
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 8: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	770.8	877.7	904.8	970.5	1,039.8
EBITDA	86.9	103.7	109.4	116.0	126.2
Depreciation/Amortisation	(16.3)	(16.5)	(15.5)	(16.0)	(16.4)
Operating income (EBIT)	70.6	87.2	93.9	100.1	109.9
Other income & associates	7.1	29.6	29.6	32.5	32.5
Net interest	1.0	0.9	4.5	5.2	6.0
Exceptional items	1.4	(4.3)	-	-	-
Pretax profit	75.4	120.4	122.7	131.8	141.6
Taxation	(16.0)	(19.4)	(22.1)	(23.7)	(25.5)
Minorities/pref dividends	-	-	-	-	-
Net profit	59.4	101.0	100.6	108.1	116.1
Core net profit	60.9	96.7	100.6	108.1	116.1
Balance Sheet (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Fixed assets	172.8	195.4	195.4	195.4	195.4
Intangible assets	2.6	4.0	4.0	4.0	4.0
Other long-term assets	53.3	81.1	109.8	142.3	174.8
Total non-current assets	228.7	280.5	309.1	341.7	374.2
Cash & equivalent	194.1	174.5	174.5	198.2	227.1
Stock	95.4	110.5	111.7	121.0	128.6
Trade debtors	158.8	178.2	207.8	220.3	237.4
Other current assets	3.2	1.6	1.6	0.6	0.6
Total current assets	451.4	464.8	495.5	540.0	593.6
Trade creditors	143.3	160.4	161.1	171.1	183.7
Short-term borrowings	6.6	6.6	6.6	6.6	6.6
Other current liabilities	2.0	3.6	3.6	3.6	5.2
Total current liabilities	151.9	170.6	171.3	181.2	195.5
Long-term borrowings	14.8	9.4	5.8	5.8	5.8
Other long-term liabilities	6.6	6.8	6.8	6.8	6.8
Total long-term liabilities	21.4	16.2	12.6	12.6	12.6
Shareholders' funds	506.8	558.4	620.8	687.8	759.8
Minority interests	0.1	-	-	-	-
BV/share (RM)	1.06	1.17	1.30	1.44	1.59
Cash Flow (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	75.4	120.4	122.7	131.8	141.6
Depreciation/Amortisation	16.3	16.5	15.5	16.0	16.4
Net change in working capital	(8.8)	(18.2)	(30.0)	(11.8)	(12.1)
Others	(21.1)	(46.4)	(50.9)	(55.7)	(57.3)
Cash flow from operations	61.9	72.2	57.3	80.2	88.5
Capital expenditure	(13.1)	(34.2)	(14.0)	(14.0)	(14.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(12.3)	83.9	(2.0)	(2.0)	(2.0)
Cash flow from investing	(25.4)	49.6	(16.0)	(16.0)	(16.0)
Debt raised/(repaid)	(5.9)	(5.9)	(3.6)	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(25.2)	(57.3)	(38.2)	(41.1)	(44.1)
Others	-	0.6	0.6	0.6	0.6
Cash flow from financing	(31.1)	(62.5)	(41.3)	(40.5)	(43.5)
Net cash flow	5.4	59.3	-	23.7	28.9
Cash & cash equivalent b/f	86.6	103.9	166.1	166.1	189.8
Cash & cash equivalent c/f	93.4	166.1	166.1	189.8	218.8
Key Ratios (YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	10.3	13.9	3.1	7.3	7.1
EBITDA growth (%)	7.7	19.3	5.5	6.0	8.8
Pretax margin (%)	9.8	13.7	13.6	13.6	13.6
Net profit margin (%)	7.7	11.5	11.1	11.1	11.2
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	21.2	16.1	18.0	18.0	18.0
Dividend payout (%)	91.9	40.2	38.0	38.0	38.0
Debtors turnover (days)	68	70	78	80	80
Stock turnover (days)	44	43	45	44	44
Creditors turnover (days)	62	63	65	62	62

Source: Company, AmlInvestment Bank Bhd estimates

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