

“Earnings miss due to lower contribution from Straits Apex and weaker profit margin from wholesale & distribution segment”

Share price performance



	1M	3M	12M
Absolute (%)	-1.4	0.0	-15.7
Rel KLCI (%)	-1.0	4.3	-12.3

	BUY	HOLD	SELL
Consensus	1	2	1

Source: Bloomberg

Stock Data

Sector	Healthcare & Pharmaceuticals
Issued shares (m)	475.9
Mkt cap (RMm)/(US\$m)	1,380.1/325.4
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	2.82-4.18
Est free float	19.3%
Stock Beta	0.76
Net cash/(debt) (RMm)	144.2
ROE (CY21E)	12.4%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200)	No
ESG Rank	

Key Shareholders

Apex Pharmacy Holding	40.0%
Washington H Soul	29.8%

Source: Bloomberg, Affin Hwang, Bursa

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Apex Healthcare (APEX MK)

HOLD (maintain)

Up/Downside: -3.4%

Price Target: RM2.80

Previous Target (Rating): RM2.88 (HOLD)

Earnings were a tad below expectations

- **6M21 core net profit fell by 9% yoy to RM24.5m due to lower revenue (against a high base in 6M20), weaker margin and reduced contribution from the 40%-owned associate Straits Apex (operation affected by MCO)**
- **Sequentially, 2Q21 core profit grew by 10% to RM12.8m. However, Apex's results still fell short of market and our expectations: 6M21 core profit accounted for 43-44% of the street and our prior full-year earnings forecasts**
- **We trim our 2021-23E core EPS forecasts by 2-4% and lower our price target to RM2.80 (from RM2.88), based on an unchanged 22x 2022E PER. Maintain HOLD.**

6M21 core net profit fell by 8.7% yoy to RM24.5m

Apex's 6M21 core net profit fell by 8.7% yoy to RM24.5m due to lower revenue, weaker margin and reduced contribution from its 40%-owned associate Straits Apex. Apex's 6M21 revenue slipped by 1.6% yoy from the high base in 6M20 when heightened market demand at the start of the Covid-19 pandemic led to a surge in non-recurring sales of pandemic-related products. Also, the group reaped a stronger profit margin during 6M20 from the sales of the pandemic-related products. Elsewhere, the lower profits from Straits Apex was due to lower production volume (affected by stringent SOP during the MCO period) and higher fixed and operating costs after adding new production capacity in 2H20.

Sequentially, 2Q21 core profit grew by 10% but the earnings are still a miss

Sequentially, Apex's 2Q21 core net profit grew by 9.6% qoq to RM12.8m on the back of higher revenue, driven by improved demand from private-sector clinics and hospitals. However, the results were below market and our expectations – Apex's 6M21 core net profit only accounted for 43-44% of the street's and our prior full-year earnings forecasts. The earnings miss was due to lower production volume at Straits Apex due to the MCO and weaker-than-expected margins from the wholesale & distribution segment.

Cutting 2021-23E core EPS by 2-4%, maintain HOLD with a lower PT of RM2.80

We cut our 2021-23E core EPS forecasts by 2-4% after incorporating lower earnings contributions from Straits Apex due to lower productivity during the MCO period and weaker profit margin for the wholesale & distribution segments. We maintain our HOLD rating with a lower price target of RM2.80 (from RM2.88) based on an unchanged 22x 2022E PER. Upside risks: strong quarterly earnings, major contract manufacturing contract wins; downside risk is earnings disappointment.

Earnings & Valuation Summary

FYE 31 Dec	2019	2020	2021E	2022E	2023E
Revenue (RMm)	688.8	698.7	741.2	812.3	850.4
EBITDA (RMm)	74.1	76.6	80.4	85.9	92.4
Pretax profit (RMm)	66.3	70.2	71.8	79.5	85.8
Net profit (RMm)	52.8	56.0	54.6	60.4	65.2
EPS (sen)	11.2	11.8	11.5	12.8	13.8
PER (x)	25.9	24.5	25.1	22.7	21.0
Core net profit (RMm)	52.3	55.3	54.6	60.4	65.2
Core EPS (sen)	11.1	11.7	11.5	12.8	13.8
Core EPS growth (%)	-13.1	5.7	-1.3	10.7	7.9
Core PER (x)	26.1	24.8	25.1	22.7	21.0
Net DPS (sen)	3.7	4.5	3.8	4.2	4.5
Dividend Yield (%)	1.3	1.6	1.3	1.5	1.6
EV/EBITDA	17.2	15.9	15.2	14.0	12.7

Chg in Core EPS (%)		-3.8	-2.3	-1.8
Affin/Consensus (x)		1.0	0.9	0.9

Source: Company, Bloomberg, Affin Hwang forecasts



Fig 1: Results Comparison

FYE Dec (RMm)	2Q20	1Q21	2Q21	QoQ % chg	YoY % chg	6M20	6M21	YoY % chg	Comments
Revenue	174.7	179.5	182.6	1.7	4.5	368.0	362.0	-1.6	Lower 6M21 revenue due to a high base in 6M20 when heightened market demand at the start of the Covid-19 pandemic led to a surge in non-recurring sales of pandemic-related products.
Op costs	-156.3	-160.7	-163.2	1.6	4.4	-328.9	-323.9	-1.5	
EBITDA	18.4	18.8	19.3	2.8	5.1	39.1	38.1	-2.5	
<i>EBITDA margin (%)</i>	<i>10.5</i>	<i>10.5</i>	<i>10.6</i>	<i>0.1 ppt</i>	<i>0.1 ppt</i>	<i>10.6</i>	<i>10.5</i>	<i>-0.1 ppt</i>	6M21 EBITDA margin is relatively stable at 10.5%.
Depn and amort	-4.2	-4.1	-4.1	0.6	-2.9	-8.5	-8.2	-3.5	
EBIT	14.2	14.7	15.2	3.5	7.4	30.6	29.9	-2.2	
Int expense	-0.3	-0.2	-0.2	-5.8	-22.1	-0.6	-0.4	-26.7	
Int and other inc	0.4	0.4	0.4	3.1	9.3	0.9	0.9	-7.9	
Associates	1.7	0.3	0.7	97.6	-59.9	2.8	1.0	-63.5	Weaker 6M21 contributions from Straits Apex due to lower production output during the MCO period.
Exceptional items	0.4	0.2	0.0	-99.5	-99.7	0.6	0.2	-67.0	
Pretax Profit	16.3	15.4	16.1	4.4	-1.4	34.3	31.6	-8.0	
Tax	-3.4	-3.6	-3.3	-7.4	-3.3	-7.0	-6.9	-1.9	
<i>Tax rate (%)</i>	<i>20.9</i>	<i>23.1</i>	<i>20.5</i>	<i>-2.6 ppt</i>	<i>-0.4 ppt</i>	<i>20.4</i>	<i>21.7</i>	<i>1.3 ppt</i>	
MI	0.1	0.0	0.0	nm	nm	0.1	0.0	nm	
Net profit	13.0	11.9	12.8	8.0	-1.6	27.4	24.7	-9.9	
EPS (sen)	2.8	2.5	2.7	8.0	-1.8	5.8	5.2	-10.1	
Core net profit	12.7	11.7	12.8	9.6	1.3	26.8	24.5	-8.7	Below market and our expectations.

Source: Affin Hwang, Company





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