



AmInvestment Bank

Company report

APEX HEALTHCARE

(APEX MK EQUITY, APER.KL)

26 Feb 2021

Prospects remain bright

BUY

(Maintained)

AmInvestment Bank

www.amequities.com.my

03-2036 2290

Rationale for report: Company results

| | |
|------------------|---------------|
| Price | RM3.30 |
| Fair Value | RM3.77 |
| 52-week High/Low | RM4.55/RM1.77 |

Key Changes

| | |
|------------|----|
| Fair value | ⬇️ |
| EPS | ⬇️ |

| YE to Dec | FY20 | FY21F | FY22F | FY23F |
|-------------------------------|-------|-------|-------|-------|
| Revenue (RM mil) | 698.8 | 746.9 | 787.4 | 822.1 |
| Core net profit (RM mil) | 54.8 | 60.2 | 68.8 | 71.9 |
| FD Core EPS (Sen) | 11.5 | 12.7 | 14.5 | 15.1 |
| FD Core EPS growth (%) | 10.2 | 9.9 | 14.2 | 4.6 |
| Consensus Net Profit (RM mil) | - | 59.9 | 69.3 | - |
| DPS (Sen) | 3.7 | 4.3 | 4.8 | 5.0 |
| PE (x) | 28.6 | 26.0 | 22.8 | 21.8 |
| EV/EBITDA (x) | 18.0 | 17.8 | 15.9 | 14.8 |
| Div yield (%) | 1.1 | 1.3 | 1.4 | 1.5 |
| ROE (%) | 12.5 | 12.5 | 12.9 | 12.4 |
| Net Gearing (%) | nm | nm | nm | nm |

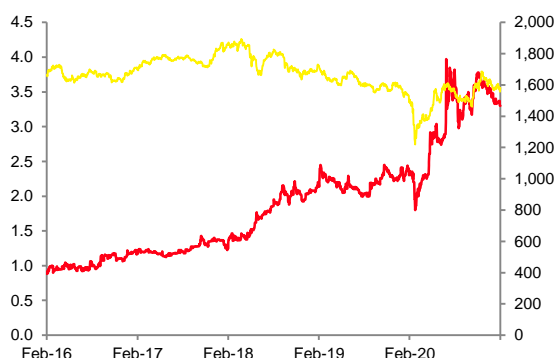
Stock and Financial Data

| | |
|------------------------------|---------|
| Shares Outstanding (million) | 469.2 |
| Market Cap (RM mil) | 1,548.4 |
| Book Value (RM/share) | 0.99 |
| P/BV (x) | 3.3 |
| ROE (%) | 12.5 |
| Net Gearing (%) | - |

| | |
|--------------------|-----------------------------------------------------------------------------------------------|
| Major Shareholders | Apex Pharmacy Holdings Sdn Bhd (0.4%) Washington H. Soul Pattinson and Company Ltd. (0.3%) |
|--------------------|-----------------------------------------------------------------------------------------------|

| | |
|--------------------------|------|
| Free Float | 92.0 |
| Avg Daily Value (RM mil) | 0.3 |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|--------|--------|-------|
| Absolute (%) | (10.8) | (13.6) | 40.4 |
| Relative (%) | (9.9) | (15.1) | 33.3 |



— APEX MK — FBMKLCI Index

Investment Highlights

- We maintain our BUY call on Apex Healthcare (Apex) with a slightly lower fair value (FV) of RM3.77/share (vs. RM3.82 previously). Our FV is based on an unchanged PE of 26x on FY22F EPS, which is slightly higher than the regional pharmaceutical industry's average PER of 24.4x for FY22F.
- We tweak our FY22F's earnings forecast downwards by 1% as we believe that the pandemic may have fundamentally changed public attitude towards illness prevention, primarily those respiratory in nature. As a result, we anticipate lower transmissible respiratory illness cases in the coming years. Given that Apex's best-sellers are cough and cold medicines, we believe that the company may be slightly affected before pivoting towards other medications.
- Apex's FY20 core net profit came of **RM54.1** mil, accounting for 99% of our and street's full-year earnings forecast. Results were in line with expectations.
- In FY21F, we believe that mass vaccinations will result in a strong recovery in hospital and clinical pharmaceutical demand.
- Given its newly expanded cold chain facilities, there is a possibility that Apex will be involved in the logistical side of vaccinations, though we doubt it would result in significant earnings contribution, given the public service nature of the assistance.
- On a longer term, we like the strong prospects of the group's contract-manufacturing arm, continual cost management measures, active investments to widen its e-commerce and digital outreach capabilities and the expansion of its higher-margin manufacturing arm.
- The group's FY20 revenue increased by 1.4% YoY to RM699mil, with the group benefiting from spike in sales of pandemic-related products in 2QFY20.
- The group's FY20 PBT increased by 5.8% to RM70.2mil due to cost management measures cutting operating costs, job support grants received by Singapore subsidiaries and lower finance costs due to loan repayment.
- In FY20, the group's manufacturing segment reported lower revenue and PBT of RM47.5mil and RM34.3mil respectively (-17% YoY, -13% YoY), largely as result of depressed hospital and clinical pharmaceutical demand.

- In contrast its wholesale and distribution arm saw a sharp increase in revenue and PBT of RM649.0mil and RM33.8mil (+4.1% YoY and +27.1% YoY) respectively, sustained due to pandemic induced heightened market demand in the 1HFY20, as customers stockpiled pandemic related supplies.
- After a weak 9MFY20, STRAITS provided an earnings contribution of RM3.9mil in 4QFY20, a 3x increase from 4QFY19 amount. This segment saw weak earnings in previous quarters as result of depressed inpatient volumes.

EXHIBIT 1: RESULTS SUMMARY

| FYE Dec (RM mil) | 4QFY19 | 3QFY20 | 4FYQ20 | QoQ (%) | YoY (%) | FY19 | FY20 | YoY (%) |
|----------------------------|--------------|--------------|--------------|-------------|--------------|--------------|--------------|-------------|
| Revenue | 170.6 | 169.1 | 161.6 | -4.5 | -5.3 | 688.8 | 698.7 | 1.4 |
| COGS | -131.9 | -133.9 | -129.9 | -3.0 | -1.5 | -534.1 | -550.5 | 3.1 |
| Gross Profit | 38.8 | 35.2 | 31.7 | -9.9 | -18.2 | 154.7 | 148.2 | -4.2 |
| Other Income | 2.0 | 2.4 | 2.1 | -11.6 | 7.7 | 6.7 | 9.2 | 36.6 |
| Selling & Marketing exp. | -14.2 | -15.3 | -12.1 | -21.0 | -14.7 | -70.0 | -65.9 | -5.8 |
| Other expenses | 4.9 | 2.7 | 3.2 | 16.3 | -35.5 | 15.8 | 13.3 | -16.0 |
| EBITDA | 21.7 | 19.6 | 18.6 | -5.1 | -14.3 | 75.6 | 78.2 | 3.4 |
| Depreciation/Amortisation | -3.9 | -3.8 | -3.8 | -1.8 | -3.4 | -15.0 | -15.5 | 3.7 |
| EBIT | 17.8 | 15.7 | 14.8 | -5.9 | -16.6 | 60.6 | 62.7 | 3.4 |
| Share of associates | 1.3 | 2.0 | 3.9 | | | 7.3 | 8.7 | |
| Interest Expense | -0.6 | -0.3 | -0.3 | 18.4 | -46.2 | -1.6 | -1.1 | -27.8 |
| Profit Before Tax | 18.5 | 17.5 | 18.4 | 5.3 | -0.4 | 66.3 | 70.2 | 5.8 |
| Tax | -4.5 | -3.1 | -4.0 | | | -13.6 | -14.2 | |
| Minorities | 0.0 | 0.1 | 0.0 | | | 0.0 | 0.0 | |
| Net Profit | 14.0 | 14.5 | 14.4 | -0.8 | 2.5 | 52.8 | 56.0 | 6.1 |
| EIS | -0.8 | -0.4 | 0.1 | | | -2.8 | -1.3 | |
| Core Net Profit | 13.2 | 14.0 | 14.5 | 3.0 | 9.5 | 50.0 | 54.7 | 9.5 |
| Core EPS (sen) | 2.8 | 3.0 | 3.0 | 3.0 | 9.2 | 10.6 | 11.5 | 9.1 |
| DPS (sen) | 2.0 | 0.0 | 2.8 | | | 3.7 | 4.5 | |
| Gross margin (%) | 22.7 | 20.8 | 19.6 | -1.2ppt | -3.1ppt | 22.5 | 21.2 | -1.2ppt |
| EBITDA margin (%) | 12.7 | 11.6 | 11.5 | -0.1ppt | -1.2ppt | 11.0 | 11.2 | 0.2ppt |
| PBT margin (%) | 10.8 | 10.3 | 11.4 | 1.1ppt | 0.6ppt | 9.6 | 10.0 | 0.4ppt |
| Core net profit margin (%) | 7.7 | 8.3 | 9.0 | 0.7ppt | 1.2ppt | 7.3 | 7.8 | 0.6ppt |
| Segmental Revenue | | | | | | | | |
| Manufacturing & Marketing | 18.4 | 12.3 | 9.6 | -22.1 | -47.7 | 57.3 | 47.5 | -17.0 |
| Wholesale & Distribution | 150.3 | 156.6 | 151.8 | -3.1 | 1.0 | 623.4 | 649.0 | 4.1 |
| Corporate | 1.9 | 0.1 | 0.1 | | | 8.1 | 2.2 | |
| Segmental PBT | | | | | | | | |
| Manufacturing & Marketing | 11.7 | 8.4 | 8.2 | -2.4 | -30.1 | 39.2 | 34.3 | -12.6 |
| Wholesale & Distribution | 6.7 | 8.4 | 6.5 | -22.5 | -2.7 | 26.6 | 33.8 | 27.1 |
| Corporate | 1.6 | 1.3 | 4.2 | | | 4.2 | 4.5 | |

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART



EXHIBIT 4: FINANCIAL DATA

| Income Statement (RMmil, YE 31 Dec) | FY19 | FY20 | FY21F | FY22F | FY23F |
|----------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 688.8 | 698.8 | 746.9 | 787.4 | 822.1 |
| EBITDA | 73.5 | 77.9 | 84.2 | 92.3 | 96.8 |
| Depreciation | (16.1) | (16.5) | (14.7) | (15.1) | (15.4) |
| Operating income (EBIT) | 57.4 | 61.4 | 69.5 | 77.2 | 81.4 |
| Other income & associates | 7.7 | 8.7 | 7.2 | 7.3 | 7.5 |
| Net interest | (1.6) | (1.1) | (1.2) | (1.2) | (1.2) |
| Exceptional items | 2.8 | 1.3 | 1.0 | - | - |
| Pretax profit | 66.3 | 70.2 | 76.5 | 83.4 | 87.7 |
| Taxation | (13.6) | (14.2) | (15.3) | (14.6) | (15.8) |
| Minorities/pref dividends | - | - | - | - | - |
| Net profit | 52.7 | 56.0 | 61.2 | 68.8 | 71.9 |
| Core net profit | 49.6 | 54.8 | 60.2 | 68.8 | 71.9 |
| Balance Sheet (RMmil, YE 31 Dec) | FY19 | FY20 | FY21F | FY22F | FY23F |
| Fixed assets | 176.1 | 176.9 | 173.4 | 166.8 | 160.3 |
| Intangible assets | 1.7 | 1.4 | 1.4 | 1.4 | 1.4 |
| Other long-term assets | 36.5 | 45.2 | 52.4 | 59.8 | 67.3 |
| Total non-current assets | 214.2 | 223.5 | 227.2 | 228.0 | 228.9 |
| Cash & equivalent | 120.4 | 172.9 | 80.1 | 116.1 | 140.6 |
| Stock | 86.5 | 92.1 | 95.0 | 100.7 | 104.9 |
| Trade debtors | 159.4 | 129.3 | 163.8 | 170.5 | 179.1 |
| Other current assets | 2.7 | 3.1 | 34.9 | 39.1 | 42.9 |
| Total current assets | 368.9 | 397.4 | 373.8 | 426.4 | 467.5 |
| Trade creditors | 120.1 | 117.7 | 126.5 | 131.5 | 138.3 |
| Short-term borrowings | 6.8 | 22.0 | 22.0 | 22.0 | 22.0 |
| Other current liabilities | 1.4 | 1.5 | 1.5 | 1.5 | 1.5 |
| Total current liabilities | 128.3 | 141.1 | 150.0 | 154.9 | 161.8 |
| Long-term borrowings | 23.4 | 5.8 | 10.8 | 15.8 | 5.8 |
| Other long-term liabilities | 5.9 | 6.0 | 6.0 | 6.0 | 6.0 |
| Total long-term liabilities | 29.4 | 11.8 | 16.8 | 21.8 | 11.8 |
| Shareholders' funds | 425.1 | 467.8 | 508.8 | 554.9 | 603.1 |
| Minority interests | 0.5 | 0.1 | 0.1 | 0.1 | 0.1 |
| BV/share (RM) | 0.90 | 0.99 | 1.07 | 1.17 | 1.27 |
| Cash Flow (RMmil, YE 31 Dec) | FY19 | FY20 | FY21F | FY22F | FY23F |
| Pretax profit | 66.3 | 70.2 | 76.5 | 83.4 | 87.7 |
| Depreciation | 15.7 | 16.5 | 14.3 | 14.7 | 15.0 |
| Net change in working capital | 0.5 | 20.5 | (28.5) | (7.5) | (6.0) |
| Others | (14.4) | (21.7) | (20.4) | (19.5) | (21.2) |
| Cash flow from operations | 68.1 | 85.4 | 42.0 | 71.0 | 75.5 |
| Capital expenditure | (14.5) | (15.9) | (14.0) | (14.0) | (14.0) |
| Net investments & sale of fixed assets | - | - | - | - | - |
| Others | (8.5) | (37.3) | (2.0) | (2.0) | (2.0) |
| Cash flow from investing | (23.0) | (53.1) | (16.0) | (16.0) | (16.0) |
| Debt raised/(repaid) | (5.8) | (2.9) | 5.0 | 5.0 | (10.0) |
| Equity raised/(repaid) | - | - | - | - | - |
| Dividends paid | (16.3) | (17.5) | (20.2) | (22.7) | (23.7) |
| Others | 5.9 | 1.6 | (1.3) | (1.3) | (1.3) |
| Cash flow from financing | (16.1) | (18.8) | (16.5) | (19.0) | (35.0) |
| Net cash flow | 29.1 | 13.5 | 9.5 | 36.0 | 24.5 |
| Net cash/(debt) b/f | 64.2 | 93.6 | 107.0 | 116.5 | 152.5 |
| Net cash/(debt) c/f | 93.4 | 107.0 | 116.5 | 152.5 | 177.0 |
| Key Ratios (YE 31 Dec) | FY19 | FY20 | FY21F | FY22F | FY23F |
| Revenue growth (%) | 5.5 | 1.5 | 6.9 | 5.4 | 4.4 |
| EBITDA growth (%) | 5.9 | 5.9 | 8.2 | 9.6 | 4.9 |
| Pretax margin (%) | 9.6 | 10.0 | 10.2 | 10.6 | 10.7 |
| Net profit margin (%) | 7.7 | 8.0 | 8.2 | 8.7 | 8.7 |
| Interest cover (x) | 36.2 | 53.6 | 59.5 | 64.8 | 67.0 |
| Effective tax rate (%) | 20.4 | 20.2 | 20.0 | 17.5 | 18.0 |
| Dividend payout (%) | 30.8 | 31.3 | 33.0 | 33.0 | 33.0 |
| Debtors turnover (days) | 85 | 75 | 72 | 77 | 78 |
| Stock turnover (days) | 45 | 47 | 46 | 45 | 46 |
| Creditors turnover (days) | 63 | 62 | 60 | 60 | 60 |

Source: Company, AmlInvestment Bank Bhd estimates

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