

APEX HEALTHCARE

(APEX MK EQUITY, APER.KL)

20 Aug 2021

Slight recovery in associate company contributions

BUY

(Maintained)

Company report

AmInvestment Bank

www.amequities.com.my

03-2036 2290

Rationale for report: Company results

Price	RM2.87
Fair Value	RM3.33
52-week High/Low	RM4.18/RM2.82

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	698.8	744.4	811.7	847.6
Core net profit (RM mil)	54.8	50.1	68.8	71.8
FD Core EPS (Sen)	11.5	10.5	14.5	15.1
FD Core EPS growth (%)	10.2	(8.6)	37.5	4.3
Consensus Net Profit (RM mil)	-	55.6	64.7	68.7
DPS (Sen)	3.7	3.5	4.8	5.0
PE (x)	24.9	27.2	19.8	19.0
EV/EBITDA (x)	15.4	18.2	13.9	12.9
Div yield (%)	1.3	1.2	1.6	1.7
ROE (%)	12.5	10.5	13.1	12.6
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	469.2
Market Cap (RM mil)	1,346.6
Book Value (RM/share)	0.99
P/BV (x)	2.9
ROE (%)	12.5
Net Gearing (%)	-

Major Shareholders	Apex Pharmacy Holdings Sdn Bhd (0.4%) Washington H. Soul Pattinson and Company Ltd. (0.3%)
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Free Float	92.0
Avg Daily Value (RM mil)	0.3

Price performance	3mth	6mth	12mth
Absolute (%)	(1.7)	(14.6)	(17.5)
Relative (%)	2.5	(11.8)	(14.7)



Investment Highlights

- We maintain **BUY** on Apex Healthcare (Apex) with an unchanged fair value (FV) of RM3.33/share, based on an unchanged PER of 23x FY22F EPS. We make no ESG-related price adjustment for our rating of 3 stars.
- Apex's 1HFY21 net profit of RM24.7mil came within expectations. It accounted for 49% and 44% of our and consensus full-year earnings forecasts respectively.
- We expect the group to report a poorer upcoming quarter due to tighter pandemic restrictions, before a recovery from 4QFY21 onwards underpinned by promising vaccination rates reopening the economy. We believe that pent-up pharmaceutical demand, stronger contributions from associate companies and a resumption of export sales would support earnings.
- Revenue grew by 2% QoQ and 4% YoY to RM182.6mil in 2QFY21 on the back of improved demand from the private sector clinics and hospitals. Lockdown-induced production disruptions prevented stronger revenue growth in the quarter.
- On a QoQ basis, the group experienced a 4% growth in PBT and a +0.2 ppt increase in PBT margins in 2QFY21. This was attributable to a small recovery in its associated company Straits Apex Group Sdn Bhd (SAG), and lower administrative and marketing expenses. Apex has embarked on a cost-cutting process to offset higher raw material and shipping expenses.
- On a YoY basis, PBT was flat at RM16.1mil in 2QFY21. Stronger revenue and lower administrative and marketing expenses helped offset the fall in SAG contributions. On a positive note, Apex said that the bulk of orders meant for SAG has been delayed to 2HFY21, with orders at a similar level to last year. Hence, we believe that Apex's associate company contributions would be stronger in 2HFY21.
- As for the wholesale and distribution division, Apex posted revenue growth of 4% on a QoQ basis and 6% on a YoY basis in 2QFY21. Demand for pharmaceutical products was driven by rising cases of Covid-19 in 2QFY21.
- Apex has announced an interim dividend of 2.5 sen/share, implying a 48% payout for the year so far. We believe that the full year's payout will be between 33% and 35%. We forecast a gross DPS of 3.5 sen for FY21E, which translates into a yield of 1.2%.

EXHIBIT 1: QUARTERLY RESULTS

FYE Dec (RM mil)	2QFY20	3QFY20	4FYQ20	1QFY21	2QFY21	QoQ (%)	YoY (%)	1HFY20	1HFY21	YoY (%)
Revenue	174.7	169.1	161.6	179.5	182.6	2%	4%	368.0	362.0	-2%
Gross profit	37.6	35.2	31.7	37.8	37.3	-1%	-1%	81.4	75.1	-8%
EBITDA	18.9	19.6	18.6	19.4	19.6	1%	4%	40.0	38.7	-3%
EBIT	14.9	15.7	14.8	15.3	15.7	2%	5%	32.1	31.0	-4%
Share of associates	1.7	2.0	3.9	0.3	0.7			2.8	1.0	
Profit before tax	16.3	17.5	18.4	15.4	16.1	4%	-1%	34.3	31.6	-8%
Tax	-3.4	-3.1	-4.0	-3.6	-3.3			-7.0	-6.9	
Net profit	12.8	14.5	14.4	11.9	12.8	8%	0%	27.2	24.7	-9%
Core net profit	12.1	14.0	14.5	11.9	12.8	8%	6%	26.2	24.7	-6%
FD EPS (sen)	2.5	3.0	3.0	2.5	2.7	8%	6%	5.5	5.2	-6%
Gross DPS (sen)	1.7	0.0	2.8	0.0	2.5			1.7	2.5	
Gross margin	21.5%	20.8%	19.6%	21.0%	20.4%	-0.6ppt	-1.1ppt	22.1%	20.7%	-1.4ppt
EBITDA margin	10.8%	11.6%	11.5%	10.8%	10.7%	-0.1ppt	-0.1ppt	10.9%	10.7%	-0.2ppt
PBT margin	9.4%	10.3%	11.4%	8.6%	8.8%	0.2ppt	-0.5ppt	9.3%	8.7%	-0.6ppt
Core net profit margin	6.9%	8.3%	9.0%	6.6%	7.0%	0.4ppt	0.1ppt	7.1%	6.8%	-0.3ppt
Segmental Revenue										
Manufacturing	13.5	12.3	9.6	15.1	11.7	-23%	-13%	25.6	26.8	5%
Wholesale & Distribution	160.8	156.6	151.8	164.3	170.7	4%	6%	340.5	335.0	-2%
Corporate	0.4	0.1	0.1	0.1	0.2			2.0	0.3	
Segmental PBT										
Manufacturing	6.4	8.4	8.2	9.1	9.0	0%	41%	17.7	18.1	2%
Wholesale & Distribution	9.7	8.4	6.5	7.5	7.5	1%	-22%	18.9	15.0	-21%
Corporate	0.9	1.3	4.2	-0.5	0.2			-0.9	-0.4	

Source: Apex Healthcare, AmInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART



EXHIBIT 4: ESG MATRIX

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

Source: AmInvestment Bank Bhd

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	688.8	698.8	744.4	811.7	847.6
EBITDA	73.5	77.9	71.6	92.3	96.7
Depreciation	(16.1)	(16.5)	(14.7)	(15.1)	(15.4)
Operating income (EBIT)	57.4	61.4	56.9	77.3	81.3
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	(0.2)	-
Pretax profit	66.3	70.2	63.9	83.2	87.6
Taxation	(13.6)	(14.2)	(12.8)	(14.6)	(15.8)
Minorities/pref dividends	-	-	-	-	-
Net profit	52.7	56.0	51.1	68.6	71.8
Core net profit	49.6	54.8	50.1	68.8	71.8
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	74.5	105.0	129.3
Stock	86.5	92.1	96.7	104.3	108.6
Trade debtors	159.4	129.3	163.2	175.7	184.7
Other current assets	2.7	3.1	109.7	116.5	123.3
Total current assets	368.9	397.4	444.1	501.6	545.8
Trade creditors	120.1	117.7	128.8	136.1	143.2
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	152.2	159.5	166.6
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	502.1	548.0	596.2
Minority interests	0.5	0.1	0.1	0.1	0.1
BV/share (RM)	0.90	0.99	1.06	1.15	1.26
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	66.3	70.2	63.9	83.2	87.6
Depreciation	15.7	16.5	14.3	14.7	15.0
Net change in working capital	0.5	20.5	(27.4)	(12.8)	(6.2)
Others	(14.4)	(21.7)	(17.9)	(19.5)	(21.2)
Cash flow from operations	68.1	85.4	33.0	65.5	75.2
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)	(16.9)	(22.7)	(23.7)
Others	5.9	1.6	(1.3)	(1.3)	(1.3)
Cash flow from financing	(16.1)	(18.8)	(13.2)	(19.0)	(35.0)
Net cash flow	29.1	13.5	3.8	30.6	24.2
Net cash/(debt) b/f	64.2	93.6	107.0	110.9	141.4
Net cash/(debt) c/f	93.4	107.0	110.9	141.4	165.7
Key Ratios (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	5.5	1.5	6.5	9.0	4.4
EBITDA growth (%)	5.9	5.9	(8.1)	29.0	4.7
Pretax margin (%)	9.6	10.0	8.6	10.3	10.3
Net profit margin (%)	7.7	8.0	6.9	8.5	8.5
Interest cover (x)	36.2	53.6	48.7	64.9	66.9
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	76	78
Stock turnover (days)	45	47	46	45	46
Creditors turnover (days)	63	62	60	60	60

Source: Company, AmInvestment Bank Bhd estimates

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