

# APEX HEALTHCARE

(APEX MK EQUITY, APER.KL)

18 Nov 2021

## A steady quarter

## BUY

(Maintained)

### Company report

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**Rationale for report: Company results**

Price	RM2.67
Fair Value	RM3.33
52-week High/Low	RM3.81/RM2.65

#### 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)	-	54.2	64.2	68.3
DPS (sen)	3.7	3.5	4.8	5.0
PE (x)	23.1	25.3	18.4	17.7
EV/EBITDA (x)	14.2	16.9	12.8	11.9
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)	1,252.8
Book Value (RM/share)	0.99
P/BV (x)	2.7
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)	0.1

Price performance	3mth	6mth	12mth
Absolute (%)	(7.3)	(7.9)	(24.1)
Relative (%)	(8.5)	(4.3)	(20.3)



#### 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 9MFY21 net profit of RM38.7mil came in within expectations. It accounted for 77% and 71% of our and consensus full-year earnings forecasts respectively. As expected, no dividend was declared in 3QYF21.
- On a QoQ basis, 3QFY21 earnings increased 9% to RM14.0mil. The improvement in earnings is supported by a 16% rise in revenue QoQ. We gather that the demand for Apex products has improved due to heightened consumer confidence and activities. This is within our expectation as Covid-19 cases have been in a downtrend after the surge in vaccination rates in 3QFY21. Strong demand is seen in pharmaceuticals, diagnostics and consumer healthcare products.
- On a YoY basis, 3QFY21 earnings was flat at RM14.0m. The improvement in operating profit by 16% YoY was offset by the decline in contributions from its associate and higher effective tax rate.
- Positive outlook. Demand for pharmaceutical products has improved from both private sector clinics and pharmacies. This has propelled the company's revenue to record high in 3QF21, exceeding that of the pre-pandemic level. However, we believe the earnings has not improved in tandem to reach record high due to the weakness in its associate earnings but things should improve from FY22 onwards.
- The associate Straits Apex Sdn Bhd's (SASB) workforce vaccination rate has reached 98% as of 30 Sep. This should lead to a lower risk of infection and quarantine of the staff. We gather that the order book for SASB's orthopaedic devices and surgical instruments is strong and this bodes well for its future financial performance.
- Maintain BUY. Apex has positioned itself well to benefit from these market trends – ageing population, public health education advancement and steady healthcare expenditure increase. Additionally, the company will not be affected by the prosperity tax. We expect Apex to record an FY22 PBT of RM83.2mil (less than RM100mil).

## EXHIBIT 1: QUARTERLY RESULTS

FYE Dec (RM mil)	3QFY20	2QFY21	3QFY21	QoQ (%)	YoY (%)	9MFY20	9MFY21	YoY (%)
Revenue	169.1	182.6	211.1	16%	25%	537.2	573.1	7%
<b>Gross profit</b>	<b>35.2</b>	<b>37.3</b>	<b>44.3</b>	<b>19%</b>	<b>26%</b>	<b>116.5</b>	<b>119.4</b>	<b>2%</b>
<b>EBITDA</b>	<b>19.6</b>	<b>19.6</b>	<b>22.2</b>	<b>13%</b>	<b>13%</b>	<b>59.6</b>	<b>60.9</b>	<b>2%</b>
<b>EBIT</b>	<b>15.7</b>	<b>15.7</b>	<b>18.3</b>	<b>17%</b>	<b>16%</b>	<b>47.9</b>	<b>49.3</b>	<b>3%</b>
Share of associates	2.0	0.7	0.5			4.8	1.5	
Profit before tax	17.5	16.1	18.6	15%	6%	51.8	50.1	-3%
Tax	-3.1	-3.3	-4.5			-10.1	-11.4	
<b>Net profit</b>	<b>14.5</b>	<b>12.8</b>	<b>14.0</b>	<b>9%</b>	<b>-3%</b>	<b>41.6</b>	<b>38.7</b>	<b>-7%</b>
<b>Core net profit</b>	<b>14.0</b>	<b>12.8</b>	<b>14.0</b>	<b>9%</b>	<b>0%</b>	<b>40.3</b>	<b>38.7</b>	<b>-4%</b>
	<b>-18%</b>	<b>-20%</b>	<b>-25%</b>					
FD EPS (sen)	3.0	2.7	3.0	9%	0%	8.5	8.2	-4%
Gross DPS (sen)	0.0	2.5	0.0			1.7	2.5	
Gross margin	20.8%	20.4%	21.0%	0.6ppt	0.2ppt	21.7%	20.8%	-0.9ppt
EBITDA margin	11.6%	10.7%	10.5%	-0.2ppt	-1.1ppt	11.1%	10.6%	-0.5ppt
PBT margin	10.3%	8.8%	8.8%	0.0ppt	-1.5ppt	9.6%	8.7%	-0.9ppt
Core net profit margin	8.3%	7.0%	6.6%	-0.4ppt	-1.7ppt	7.5%	6.8%	-0.7ppt
<b>Segmental Revenue</b>								
Manufacturing	12.3	11.7	16.6	43%	35%	37.9	43.4	14%
Wholesale & Distribution	156.6	170.7	194.2	14%	24%	497.1	529.2	6%
Corporate	0.1	0.2	0.2			2.1	0.5	
<b>Segmental PBT</b>								
Manufacturing	8.4	9.0	11.5	28%	38%	26.1	29.6	14%
Wholesale & Distribution	8.4	7.5	9.8	30%	16%	27.3	24.8	-9%
Corporate	1.3	0.2	-1.2			0.4	-1.6	

Source: Apex Healthcare, AmInvestment Bank Bhd

**EXHIBIT 2: PB BAND CHART**



**EXHIBIT 3: PE BAND CHART**



**EXHIBIT 4: ESG MATRIX**

<b>Overall</b>	★	★	★		
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/Amortisation	(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)
<b>Exceptional items</b>	<b>2.8</b>	<b>1.3</b>	<b>1.0</b>	<b>(0.2)</b>	-
Pretax profit	66.3	70.2	63.9	83.2	87.6
Taxation	(13.6)	(14.2)	(12.8)	(14.6)	(15.8)
<b>Minorities/pref dividends</b>	-	-	-	-	-
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
<b>Other long-term assets</b>	<b>36.5</b>	<b>45.2</b>	<b>52.4</b>	<b>59.8</b>	<b>67.3</b>
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
<b>Other current assets</b>	<b>2.7</b>	<b>3.1</b>	<b>109.7</b>	<b>116.5</b>	<b>123.3</b>
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
<b>Other current liabilities</b>	<b>1.4</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>
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
<b>Other long-term liabilities</b>	<b>5.9</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>
<b>Total long-term liabilities</b>	<b>29.4</b>	<b>11.8</b>	<b>16.8</b>	<b>21.8</b>	<b>11.8</b>
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/Amortisation	16.1	16.5	14.7	15.1	15.4
Net change in working capital	0.5	20.5	(27.4)	(12.8)	(6.2)
<b>Others</b>	<b>(14.7)</b>	<b>(21.7)</b>	<b>(18.3)</b>	<b>(19.9)</b>	<b>(21.6)</b>
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	-	-	-	-	-
<b>Others</b>	<b>(8.5)</b>	<b>(37.3)</b>	<b>(2.0)</b>	<b>(2.0)</b>	<b>(2.0)</b>
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)
<b>Others</b>	<b>5.9</b>	<b>1.6</b>	<b>(1.3)</b>	<b>(1.3)</b>	<b>(1.3)</b>
<b>Cash flow from financing</b>	<b>(16.1)</b>	<b>(18.8)</b>	<b>(13.2)</b>	<b>(19.0)</b>	<b>(35.0)</b>
<b>Net cash flow</b>	<b>29.1</b>	<b>13.5</b>	<b>3.8</b>	<b>30.6</b>	<b>24.2</b>
<b>Net cash/(debt) b/f</b>	<b>64.2</b>	<b>93.6</b>	<b>107.0</b>	<b>110.9</b>	<b>141.4</b>
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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