



APEX HEALTHCARE BERHAD

Underperform

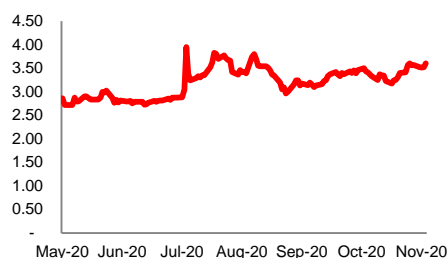
DESCRIPTION

An investment holding company involved in the development, manufacturing, marketing and distribution of pharmaceuticals, diagnostics, consumer healthcare products and orthopaedic devices.

12-Month Target Price	RM2.36
Current Price	RM3.60
Expected Return	-34.4%

Market	Main
Sector	Consumer
Bursa Code	7090
Bloomberg Ticker	APEX MK
Shariah-Compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	1.77 – 4.55
3-Month Average Vol ('000)	381.6

SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	2.9	5.2	50.6
Relative Returns	0.1	4.1	50.4

KEY STOCK DATA

Market Capitalisation (RMm)	1,710.1
No. of Shares (m)	475.0

MAJOR SHAREHOLDERS

	%
Apex Pharmacy Holdings Sdn Bhd	40.1
Washington H Soul Pattinson	29.6
MD DEWAK MD ALI	1.7

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Uncertainties Ahead

Apex Healthcare's (ApexH) 9MFY20 net profit grew by 7% YoY to RM41.6m, which was below our but within consensus estimates at 67% and 70% of full-year numbers respectively. The discrepancy in our forecast was mainly due to lower-than-expected sales, as it was negatively impacted by weaker consumer sentiment with the outbreak of Covid-19. We cut our earnings projections for FY20-22F by 12-15% to account for the potential adverse impact of a subdued consumer demand following the reinstatement of movement restrictions. Following the run up in its share price, we believe valuations have become rich, with ApexH trading at 29x (at +2.5SD of its 5-year historical mean) currently. Given that the share price has run ahead of fundamentals, we downgrade ApexH from Neutral to **Underperform**, with a lower TP of RM2.36 (at 19x FY21 EPS, +1SD 5-year historical mean).

§ **Lower revenue, lower cost.** ApexH's 3QFY20 revenue was at RM169.1m, down by 6% YoY, due to a high base effect as the Group achieved its highest revenue to date in 3QFY19. Market demand was weaker in 3QFY20, especially for clinic, private hospitals and exports, given uncertainty caused by the pandemic. Evidently, revenue contribution from both its manufacturing and marketing (-20% YoY) as well as wholesale and distribution (-4% YoY) segments were also lower at RM12.3m and RM156.6m respectively. Profit contribution from Straits Apex was higher by 5% YoY at RM2m. Given ApexH's cost optimisation effort, its PAT margin saw an improvement of 0.6ppts YoY, to 8.4%. With lower operating expenses mitigating the impact of weaker revenue, ApexH recorded a flattish YoY net profit of RM14.2m (+0.7% YoY).

§ **Timely expansion.** Recall that in 2QFY20, ApexH had completed the expansion of its cold chain distribution in Singapore and the expansion in Malaysia is expected to complete by the end of FY20. This timely expansion may benefit ApexH when a Covid-19 vaccine is made available, as it can play a role in the facilitation of vaccine distribution.

§ **Hazy outlook.** Following the relaxation of movement restrictions, ApexH saw gradual recovery across all of its business units in 3QFY20. However, with the reintroduction of the Conditional Movement Control Order (CMCO) after a surge in Covid-19 cases, we think ApexH's sales performance may be adversely affected in the short term. With that, we are cutting our forecast for FY20-22F by 12-15% to account for the weakness in demand for pharmaceutical products. We have not factored in any potential earnings that may be derived from vaccine distribution, given the absence of a readily commercialized vaccine as of now.

EY FORECAST TABLE

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F	3-year CAGR
Revenue	652.7	688.8	699.7	751.9	802.8	4.7%
Pre-tax Profit	69.3	66.3	69.9	75.8	80.9	5.0%
Net Profit	58.6	52.7	53.8	58.3	62.2	5.0%
EPS (Sen)	12.4	11.2	11.4	12.4	13.2	5.0%
P/E (x)	29.0	32.2	31.6	29.1	27.3	
DPS (Sen)	3.4	1.7	3.8	4.1	4.4	
Dividend Yield (%)	0.9	0.5	1.0	1.1	1.2	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

<u>FYE Dec (RM m)</u>	<u>3Q20</u>	<u>3Q19</u>	<u>2Q20</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>YTD FY20</u>	<u>YTD FY19</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	169.1	180.7	174.7	-6.4	-3.2	537.2	518.2	3.7	Weaker sales YoY was due to weaker demand for pharmaceutical products, coupled with a high base effect
Cost of Sales	-133.9	-140.7	-137.1	-4.8	-2.3	-420.6	-402.2	4.6	
Gross Profit	35.2	39.9	37.6	-11.9	-6.6	116.5	115.9	0.5	
Other operating income/ (expenses)	2.1	1.1	2.5	91.7	-17.4	5.8	3.9	49.3	
Operating profit/ (loss)	15.7	15.6	14.9	1.2	5.3	47.9	42.9	11.6	
Finance income/ (costs)	-0.3	-0.3	-0.3	-25.1	-7.0	-0.8	-1.0	-18.0	
Other income/ (expenses)	2.0	1.9	1.7	5.2	20.2	4.8	6.0	-20.8	
Profit/ (Loss) before tax	17.5	17.1	16.3	2.1	7.0	51.8	47.9	8.2	
Taxation	-3.1	-3.0	-3.4	4.7	-7.9	-10.1	-9.1	11.6	
Net Profit	14.3	14.1	12.9	1.6	11.0	41.6	38.8	7.4	
Non-controlling interests	-0.1	0.0	0.1	NM	NM	0.0	0.0	NM	
PATAMI	14.2	14.1	13.0	0.7	9.1	41.6	38.7	7.4	
Core PATAMI	14.2	14.1	13.0	0.7	9.1	41.6	38.7	7.4	
Operating Margin (%)	9.3%	8.6%	8.6%			8.9%	8.3%		
Pre-tax Margin (%)	10.3%	9.5%	9.4%			9.6%	9.2%		
Net Margin (%)	8.4%	7.8%	7.5%			7.7%	7.5%		YoY Improvement in PAT margin was due to ApexH's cost optimization efforts
<u>Segment Revenue</u>									
Manufacturing and Marketing	12.3	15.4	13.5	-19.8	-8.4	37.9	38.9	-2.5	
Wholesale and Distribution	156.6	163.3	160.8	-4.1	-2.6	497.1	473.0	5.1	
Corporate	0.1	2.0	0.4	-93.1	-66.8	2.1	6.2	-66.2	
<u>Segment PBT</u>									
Manufacturing and Marketing	8.4	10.4	6.4	-19.5	31.3	26.1	27.5	-5.1	
Wholesale and Distribution	8.4	5.9	9.7	43.8	-13.0	27.3	19.9	37.1	
Corporate	1.3	1.3	0.9	-2.3	42.5	0.4	2.6	-86.5	

Source: Company

KEY FINANCIAL DATA

INCOME STATEMENT

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Revenue	652.7	688.8	699.7	751.9	802.8
Operating Profit	61.6	60.6	63.0	67.0	71.2
Other Gains/(Losses)	7.8	7.3	8.0	9.4	10.0
Finance Costs	-0.1	-1.6	-1.1	-0.6	-0.4
Pre-tax Profit	69.3	66.3	69.9	75.8	80.9
Income Tax	-10.6	-13.6	-16.1	-17.4	-18.6
Effective Tax Rate (%)	15.3	20.4	23.0	23.0	23.0
Minorities	-0.1	-0.2	0.0	0.0	0.0
Net Profit	58.6	52.7	53.8	58.3	62.2
Growth					
Revenue (%)	5.2	0.1	1.6	7.5	6.8
Operating Profit (%)	21.5	0.0	3.9	6.4	6.3
Net Profit (%)	31.8	-0.1	2.0	8.4	6.7

Source: Company, PublicInvest Research estimates

BALANCE SHEET

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Property, Plant & Equipment	177.2	170.2	165.8	159.6	152.4
Cash and Cash Equivalents	56.0	120.4	95.9	133.1	173.4
Receivables	160.4	159.4	161.9	174.0	185.7
Other Assets	146.3	133.3	190.4	196.2	203.9
Total Assets	540.0	583.2	614.0	663.0	715.4
Payables	117.7	120.1	122.7	131.9	140.8
Borrowings	29.9	24.1	13.6	9.1	4.5
Deferred Tax	6.0	5.9	7.3	7.3	7.3
Other Liabilities	0.0	7.5	5.1	5.1	5.1
Total Liabilities	153.5	157.6	148.8	153.4	157.8
Total Equity	386.5	425.5	465.2	509.4	557.5
Total Equity and Liabilities	540.0	583.2	614.0	662.8	715.3

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Book Value Per Share	0.8	0.9	1.0	1.1	1.2
EPS (Sen)	12.4	11.2	11.4	12.4	13.2
DPS (Sen)	3.3	1.7	3.8	4.1	4.4
Payout Ratio	27.0%	15.2%	33.1%	33.1%	33.1%
ROA	10.8%	2.5%	8.8%	8.8%	8.7%
ROE	15.2%	3.4%	11.6%	11.5%	11.2%

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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