



APEX HEALTHCARE BERHAD

Underperform

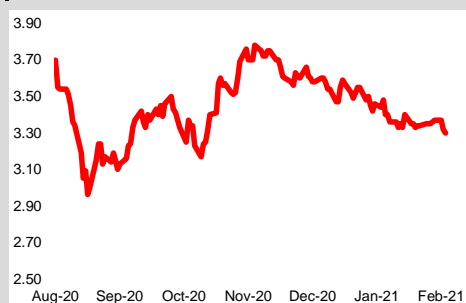
DESCRIPTION

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 RM2.10
Current Price RM3.30
Expected Return -36.2%

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) 90.4

SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	-4.6	-10.8	45.3
Relative Returns	-4.4	-9.9	33.3

KEY STOCK DATA

Market Capitalisation (RMm)	1,568.3
No. of Shares (m)	475.2

MAJOR SHAREHOLDERS

	%
Apex Pharmacy Holdings Sdn Bhd	40.0
Washington H Soul Pattinson	29.9
MD DEWAK MD ALI	1.7

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Within Expectations

Apex Healthcare (ApexH) delivered a 6% YoY earnings growth, with its full year FY20 net profit reaching RM56m. The results came in within both our and consensus forecast, at 104% and 102% respectively. Despite the subdued demand in 2HFY20, ApexH has benefitted from panic buying induced by the pandemic in 1QFY20, and the surge in sales of pandemic related products in 2QFY20. The Group's cost optimisation efforts also paid off as pre-tax margin for FY20 expanded by 0.4ppts to 10%. While we acknowledge that ApexH's cold chain facility expansion has completed, allowing it to potentially wholesale and distribute Covid-19 vaccine in future, however, we did not factor in any potential earnings that may be derived from Covid-19 vaccine distribution and wholesaling, considering that only the Ministry of Health has the authority to manage access to and purchase Covid-19 vaccines currently. Maintain **Underperform**, with an unchanged TP of RM2.10. ApexH also declared a dividend of 2.8 sen per share.

§ **Decline in revenue mitigated by lower cost.** ApexH reported a revenue of RM161.6m in 4QFY20, representing a 5% YoY decline. Revenue contribution from its wholesale and distribution segment was flattish, contributing a marginal 1% YoY growth to the Group's topline, while its manufacturing and marketing segment's revenue suffered a 48% YoY decline, recording only RM9.6m in 4QFY20. The weaker revenue YoY was mainly caused by subdued demand from the private and public sectors, as well as the export markets.

Profit contribution from its 40%-owned associate company, Straits Apex, leaped by 204% to RM3.9m. We believe the strong contribution in this quarter was a result of clients' earlier request to delay order deliveries to a later date, as the Covid-19 outbreak have resulted in patients delaying elective surgical procedures, leading to a lower demand for orthopaedic devices. Coupled with the Group's cost cutting measures, ApexH's PBT margin expanded slightly by 0.6ppts YoY, to 8.9% and the Group's profit before tax grew by 3% YoY to RM14.4m.

§ **No Covid-19 related contributions factored in.** With the completion of its cold chain facilities expansion, ApexH can now capitalize on the opportunity to wholesale and distribute Covid-19 vaccine should the opportunity arises. However, we are of the view that it is still too early to factor in potential earnings that may arise, considering that only the Ministry of Health has the authority to manage the access and purchase Covid-19 vaccine.

KEY FORECAST TABLE

FYE Dec (RM m)	2019A	2020A	2021F	2022F	2023F	CAGR
Revenue	688.8	698.7	751.9	802.8	862.4	7.3%
Pre-tax Profit	66.3	70.2	75.8	80.9	86.8	7.3%
Net Profit	52.7	56.0	58.3	62.2	66.8	6.0%
EPS (Sen)	11.2	11.8	12.3	13.1	14.1	5.9%
P/E (x)	29.5	27.9	26.9	25.2	23.5	
DPS (Sen)	3.7	4.5	4.1	4.4	4.7	
Dividend Yield (%)	1.1	1.4	1.2	1.3	1.4	

Source: Company, PublicInvest Research estimates

**Table 1: Results Summary**

<u>FYE Dec (RM m)</u>	<u>4Q20</u>	<u>4Q19</u>	<u>3Q20</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	161.6	170.6	169.1	-5.3	-4.5	698.7	688.8	1.4	Mainly due to lower contribution from its manufacturing and marketing segment, which suffered a 48% YoY decline
Cost of Sales	-129.9	-131.9	-133.9	-1.5	-3.0	-550.5	-534.1	3.1	
Gross Profit	31.7	38.8	35.2	-18.2	-9.9	148.2	154.7	-4.2	
Other operating income/ (expenses)	1.9	1.1	2.1	73.6	-8.9	7.7	5.0	54.6	
Operating profit/ (loss)	14.8	17.8	15.7	-16.6	-5.9	62.7	60.6	3.4	
Finance income/ (costs)	-0.3	-0.6	-0.3	-46.2	17.0	-1.1	-1.6	-27.8	
Other income/ (expenses)	3.9	1.3	2.0	204.9	94.1	8.7	7.3	18.6	
Profit/ (Loss) before tax	18.4	18.5	17.5	-0.4	5.2	70.2	66.3	5.8	
Taxation	-4.0	-4.5	-3.1	-10.0	28.2	-14.2	-13.6	4.4	
Net Profit	14.4	14.0	14.3	2.6	0.2	56.0	52.8	6.1	
Non-controlling interests	0.0	0.0	-0.1	NM	NM	0.0	0.0	NM	
PATAMI	14.4	14.0	14.2	2.8	1.2	56.0	52.8	6.2	
Operating Margin (%)	9.2%	10.4%	9.3%			9.0%	8.8%		
Pre-tax Margin (%)	11.4%	10.8%	10.3%			10.0%	9.6%		
Net Margin (%)	8.9%	8.2%	8.4%			8.0%	7.7%		
<u>Segment Revenue</u>									
Manufacturing and Marketing	9.6	18.4	12.3	-47.7	-22.1	47.5	57.3	-17.0	
Wholesale and Distribution	151.8	150.3	156.6	1.0	-3.1	649.0	623.4	4.1	
Corporate	0.1	1.9	0.1	-93.1	-4.3	2.2	8.1	-72.5	
<u>Segment PBT</u>									
Manufacturing and Marketing	8.2	11.7	8.4	-30.1	-2.4	34.3	39.2	-12.6	
Wholesale and Distribution	6.5	6.7	8.4	-2.7	-22.5	33.8	26.6	27.1	
Corporate	4.2	1.6	1.3	155.4	230.7	4.5	4.2	6.5	

Source: Company

KEY FINANCIAL DATA

INCOME STATEMENT

FYE Dec (RM m)	2019A	2020A	2021F	2022F	2023F
Revenue	688.8	698.7	751.9	802.8	862.4
Operating Profit	60.6	62.7	67.0	71.2	76.2
Other Gains/(Losses)	7.3	8.7	9.4	10.0	10.8
Finance Costs	-1.6	-1.1	-0.6	-0.4	-0.2
Pre-tax Profit	66.3	70.2	75.8	80.9	86.8
Income Tax	-13.6	-14.2	-17.4	-18.6	-20.0
Effective Tax Rate (%)	20.4	20.2	23.0	23.0	23.0
Minorities	-0.2	0.0	0.0	0.0	0.0
Net Profit	52.7	56.0	58.3	62.2	66.8
Growth					
Revenue (%)	5.5	1.4	7.5	6.8	7.4
Operating Profit (%)	-1.6	3.4	6.4	6.3	7.0
Net Profit (%)	-10.0	6.2	8.4	6.7	7.3

Source: Company, PublicInvest Research estimates

BALANCE SHEET

FYE Dec (RM m)	2019A	2020A	2021F	2022F	2023F
Property, Plant & Equipment	170.2	170.7	159.6	152.4	149.0
Cash and Cash Equivalents	120.4	172.9	133.1	173.4	213.2
Receivables	159.4	129.3	174.0	185.7	199.5
Other Assets	133.3	148.0	196.1	203.8	212.1
Total Assets	583.2	620.9	662.8	715.3	773.9
Payables	120.1	117.7	131.9	140.8	151.2
Borrowings	24.1	21.2	9.1	4.5	0.0
Deferred Tax	5.9	6.0	7.3	7.3	7.3
Other Liabilities	7.5	8.0	5.1	5.1	5.1
Total Liabilities	157.6	153.0	153.4	157.8	163.7
Total Equity	425.5	468.0	509.4	557.5	610.2
Total Equity and Liabilities	583.2	620.9	662.8	715.3	773.9

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec (RM m)	2019A	2020A	2021F	2022F	2023F
Book Value Per Share	0.9	1.0	1.1	1.2	1.3
EPS (Sen)	11.2	11.8	12.3	13.1	14.1
DPS (Sen)	3.7	4.5	4.1	4.4	4.7
Payout Ratio	33.1%	38.0%	33.3%	33.3%	33.3%
ROA	9.0%	9.0%	8.8%	8.7%	8.6%
ROE	12.4%	12.0%	11.5%	11.2%	10.9%

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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