



APEX HEALTHCARE BERHAD

Underperform

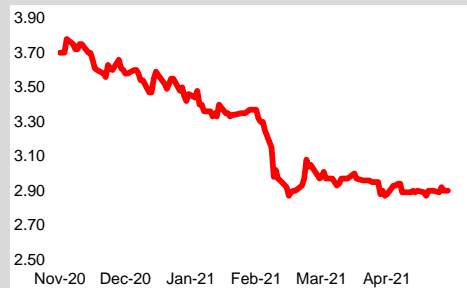
DESCRIPTION

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	RM2.35
Current Price	RM2.90
Expected Return	-19.0%

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

SHARE PRICE CHART



52 Week Range (RM)	2.68 – 4.65
3-Month Average Vol ('000)	70.9

SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	0.7	-13.9	1.3
Relative Returns	1.3	-13.4	-7.8

KEY STOCK DATA

Market Capitalisation (RMm)	1,379.2
No. of Shares (m)	475.6

MAJOR SHAREHOLDERS

	%
Apex Pharmacy Holdings Sdn Bhd	40.0
Washington H Soul Pattinson	29.8
MD DEWAK MD ALI	1.7

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No Major Surprises

Apex Healthcare (ApexH) reported a weaker net profit of RM11.9m in 1QFY21, down by 17% YoY. The weaker performance was mainly due to high base effect, as the start of the Covid-19 outbreak in 1QFY20 has led to customers stocking up inventories and also panic buying by consumers. The results still came in within both our and consensus estimates nonetheless at 20% of our full-year forecasts. On a QoQ basis, however, ApexH registered a 11% growth in revenue, given sales recovery to both private clinics and hospitals, as well as improved consumer confidence. With the resurgence of Covid-19 infections and lockdown measures being reinstated in both Malaysia and Singapore, we are of the view that the Group could potentially be negatively impacted should the situation worsens or prolong. We tweak our earnings forecast for FY21-23F slightly, due to housekeeping changes, and we also roll over our valuation base year to FY22F. Our TP is subsequently raised to RM2.35. We maintain our **Underperform** call on ApexH.

§ **Lower revenue and lower contribution from Straits Apex.** ApexH recorded an 7.2% YoY decline in revenue, to RM179.5m, considering that the Group reported its strongest ever revenue of RM193.3m in 1QFY20, boosted by the Covid-19 outbreak. This was reflected in its wholesale and distribution segment, whereby the revenue was down by 9% YoY. Its manufacturing and marketing segment has however reported a 25% YoY growth in revenue, as the Group has delivered its first batch of contract manufactured cardiovascular drug to Australia and also launched two new pharmaceutical products. Its associate company, Straits Apex's contribution also fell by 69% YoY to RM339k, owing to lower sales and higher expenses. Net profit also declined as a result, by 17% YoY to RM11.9m.

§ **Uncertainty lingers.** Although ApexH's performance was weaker on a YoY basis, due to lower sales, however, we highlight that, on a QoQ basis, ApexH's sales grew by 11% YoY, on the back of sales recovery to both private sector clinics and hospital, as well as improvement in consumer confidence. Bottomline was still lower by 17% on QoQ basis, due to the lower profit contribution from Straits Apex (-91% QoQ). We think that the resurgence of Covid-19 infections and movement restrictions being tightened and reimposed in Malaysia and Singapore, ApexH could potentially be negatively impacted should the situation worsens or prolonged. Given the weaker sentiment, we do not expect panic buying to recur, as consumers may hold back and delay purchases during the lockdown.

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	76.4	82.4	88.2	7.9%
Net Profit	52.7	56.0	58.9	63.5	67.9	6.6%
EPS (Sen)	11.2	11.8	12.4	13.4	14.3	6.6%
P/E (x)	25.9	24.6	23.4	21.7	20.3	
DPS (Sen)	3.7	4.5	4.1	4.4	4.7	
Dividend Yield (%)	1.3	1.5	1.4	1.5	1.6	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

<u>FYE Dec (RM m)</u>	<u>1Q21</u>	<u>1Q20</u>	<u>4Q20</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>YTD FY21</u>	<u>YTD FY20</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	179.5	193.3	161.6	-7.2	11.1	179.5	193.3	-7.2	Lower revenue mainly due to high base effect
Cost of Sales	-141.7	-149.6	-129.9	-5.3	9.1	-141.7	-149.6	-5.3	
Gross Profit	37.8	43.7	31.7	-13.6	19.2	37.8	43.7	-13.6	
Other operating income/ (expenses)	1.7	1.3	1.9	38.5	-7.8	1.7	1.3	38.5	
Operating profit/ (loss)	15.3	17.2	14.8	-10.8	3.5	15.3	17.2	-10.8	
Finance income/ (costs)	-0.2	-0.3	-0.3	-30.6	-24.0	-0.2	-0.3	-30.6	
Other income/ (expenses)	0.3	1.1	3.9	-69.0	-91.3	0.3	1.1	-69.0	Lower contribution from Straits Apex due to lower sales and higher operating expenses
Profit/ (Loss) before tax	15.4	17.9	18.4	-14.0	-16.1	15.4	17.9	-14.0	
Taxation	-3.6	-3.6	-4.0	-0.6	-11.6	-3.6	-3.6	-0.6	
Net Profit	11.9	14.4	14.4	-17.3	-17.4	11.9	14.4	-17.3	
Non-controlling interests	0.0	0.0	0.0	-62.5	-85.7	0.0	0.0	-62.5	
PATAMI	11.9	14.4	14.4	-17.3	-17.5	11.9	14.4	-17.3	
Core PATAMI	11.9	14.4	14.4	-17.3	-17.5	11.9	14.4	-17.3	
Operating Margin (%)	8.5%	8.9%	9.2%			8.5%	8.9%		
Pre-tax Margin (%)	8.6%	9.3%	11.4%			8.6%	9.3%		
Net Margin (%)	6.6%	7.4%	8.9%			6.6%	7.4%		
<u>Segment Revenue</u>									
Manufacturing and Marketing	15.1	12.1	9.6	24.5	56.9	15.1	12.1	24.5	Delivered first batch of cardiovascular drug to Australia and launched two new products
Wholesale and Distribution	164.3	179.6	151.8	-8.6	8.2	164.3	179.6	-8.6	
Corporate	0.1	1.5	0.1	-91.3	2.3	0.1	1.5	-91.3	
<u>Segment EBIT</u>									
Manufacturing and Marketing	9.1	11.3	8.2	-19.7	10.5	9.1	11.3	-19.7	
Wholesale and Distribution	7.5	9.2	6.5	-18.8	14.0	7.5	9.2	-18.8	
Corporate	-0.5	-1.8	4.2	-69.7	-113.0	-0.5	-1.8	-69.7	

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	68.1	72.4	77.4
Other Gains/(Losses)	7.3	8.7	9.4	10.0	10.8
Finance Costs	-1.6	-1.1	-1.1	0.0	0.0
Pre-tax Profit	66.3	70.2	76.4	82.4	88.2
Income Tax	-13.6	-14.2	-17.6	-19.0	-20.3
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	58.9	63.5	67.9
Growth					
Revenue (%)	5.5	1.4	7.6	6.8	7.4
Operating Profit (%)	-1.6	3.4	8.7	6.3	7.0
Net Profit (%)	-10.0	6.2	5.1	7.8	7.0

Source: Company, PublicInvest Research estimates

BALANCE SHEET

FYE Dec (RM m)	2019A	2020A	2021F	2022F	2023F
Property, Plant & Equipment	170.2	170.7	164.6	157.4	154.0
Cash and Cash Equivalents	65.3	82.8	122.8	158.8	191.0
Receivables	159.4	129.3	139.2	148.6	159.6
Other Assets	188.3	238.1	221.5	234.3	250.1
Total Assets	583.2	620.9	648.0	699.1	754.7
Payables	121.0	118.4	127.2	135.9	145.9
Borrowings	24.1	21.2	0.0	0.0	0.0
Deferred Tax	7.3	7.5	7.5	7.5	7.5
Other Liabilities	5.1	5.8	5.8	5.8	5.8
Total Liabilities	157.6	153.0	140.6	149.2	159.3
Total Equity	425.5	468.0	507.4	549.9	595.5
Total Equity and Liabilities	583.2	620.9	648.0	699.1	754.7

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	12.4	13.4	14.3
DPS (Sen)	3.7	4.5	4.1	4.4	4.7
Payout Ratio	32.9%	38.0%	33.0%	33.0%	33.0%
ROA	9.0%	9.0%	9.1%	9.1%	9.0%
ROE	12.4%	12.0%	11.6%	11.5%	11.4%

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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Published and printed by:

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