



APEX HEALTHCARE BERHAD

Underperform

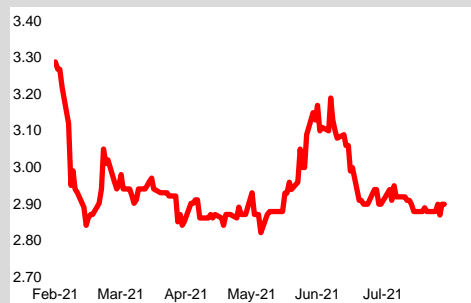
DESCRIPTION

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) 2.82 – 4.18
3-Month Average Vol ('000) 90.0

SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	-1.4	1.0	-13.1
Relative Returns	-1.0	4.0	-10.0

KEY STOCK DATA

Market Capitalisation (RMm)	1,380.1
No. of Shares (m)	475.9

MAJOR SHAREHOLDERS

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

Chua Siu Li

T 603 2268 3010
F 603 2268 3014
E chua.siu.li@publicinvestbank.com.my

Slightly Below Expectations

Apex Healthcare's (ApexH) 1HFY21 net profit declined by 9.9% YoY to RM24.7m. The weaker performance was mainly due to a high base effect, as ApexH experienced a surge in demand for its products during the start of the pandemic in 1QFY20 as well as an increase in sales of pandemic related products in 2QFY20. Nevertheless, its performance came in above both our and street projections at 42% and 44% respectively. The discrepancy in our forecasts was due to lower-than-expected other income. We are cutting our forecasts for FY21-22F by <2% as we impute a lower forecast for other income. We maintain our **Underperform** rating on ApexH, with an unchanged TP of RM2.35. On a side note, ApexH have also declared an interim dividend 2.5sen per share.

§ **Growing revenue but lower contribution from Straits Apex.** ApexH reported a 4.5% YoY revenue growth, to RM182.6m. The increase in revenue was mainly due to stronger contribution from its wholesale and distribution segment (+6% YoY), offsetting the impact of lower sales from its manufacturing and marketing segment (-13% YoY). Share of profits from its 40%-owned associate company, Straits Apex was also lower by 60% YoY, to RM0.67m, given the lower production output as Straits Apex complied with the standard operating procedures (SOPs) of the Movement Control Order (MCO). On top of that, new production capacities that were installed during 2H of FY20 have also resulted in higher operating and fixed cost for Straits Apex, leading to lower profit contribution to the Group. In spite of the growing revenue, net profit for the quarter was down marginally by 2% YoY to RM12.8m.

§ **Expect to see gradual improvements in 2H.** Despite the weaker contribution from Straits Apex, ApexH believes that with the secured orders in hand, Straits Apex's full year revenue in FY21 is likely to exceed FY20's full year revenue, provided that lockdown restrictions are gradually lifted, and production output can soon normalise. Covid-19 cases in Malaysia have been on the climb, but as the vaccination program continues to pick up speed, we expect lockdown measures to ease progressively and consumer sentiment should also gradually recover, boosting consumer spending, which in turn should also benefit ApexH.

KEY FORECAST TABLE

FYE Dec (RM m)	2019A	2020A	2021F	2022F	2023F	CAGR
Revenue	688.8	698.7	743.2	801.7	862.3	7.3%
Pre-tax Profit	66.3	70.2	75.1	82.3	88.1	7.9%
Net Profit	52.7	56.0	57.9	63.4	67.9	6.6%
EPS (Sen)	11.2	11.8	12.2	13.3	14.3	6.6%
P/E (x)	25.9	24.6	23.9	21.8	20.3	
DPS (Sen)	3.7	4.5	4.0	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>2Q21</u>	<u>2Q20</u>	<u>1Q21</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	182.6	174.7	179.5	4.5	1.7	362.0	368.0	-1.6	Growth mainly contributed by its wholesale and distribution segment (+6% YoY), despite revenue from its manufacturing and marketing segment declining 13% YoY.
Cost of Sales	-145.2	-137.1	-141.7	6.0	2.5	-287.0	-286.7	0.1	
Gross Profit	37.3	37.6	37.8	-0.9	-1.2	75.1	81.4	-7.7	
Other operating income/ (expenses)	1.3	2.5	1.7	-47.7	-24.5	3.1	3.8	-18.9	
Operating profit/ (loss)	15.7	14.9	15.3	4.8	2.2	31.0	32.1	-3.5	
Finance income/ (costs)	-0.2	-0.3	-0.2	-22.1	-5.8	-0.4	-0.6	-26.7	
Other income/ (expenses)	0.7	1.7	0.3	-59.9	97.6	1.0	2.8	-63.5	Due to lower production output as well as higher cost
Profit/ (Loss) before tax	16.1	16.3	15.4	-1.4	4.4	31.6	34.3	-8.0	
Taxation	-3.3	-3.4	-3.6	-3.3	-7.4	-6.9	-7.0	-1.9	
Net Profit	12.8	12.9	11.9	-0.8	8.0	24.7	27.3	-9.5	
Non-controlling interests	0.0	0.1	0.0	-98.1	-33.3	0.0	0.1	-95.5	
PATAMI	12.8	13.0	11.9	-1.6	8.0	24.7	27.4	-9.9	
Core PATAMI	12.8	13.0	11.9	-1.6	8.0	24.7	27.4	-9.9	
Operating Margin (%)	8.6%	8.6%	8.5%			8.6%	8.7%		
Pre-tax Margin (%)	8.8%	9.4%	8.6%			8.7%	9.3%		
Net Margin (%)	7.0%	7.5%	6.6%			6.8%	7.4%		
<u>Segment Revenue</u>									
Manufacturing and Marketing	11.7	13.5	15.1	-13.4	-22.7	26.8	25.6	4.5	
Wholesale and Distribution	170.7	160.8	164.3	6.1	3.9	335.0	340.5	-1.6	
Corporate	0.2	0.4	0.1	-59.9	23.7	0.3	2.0	-84.6	
<u>Segment EBIT</u>									
Manufacturing and Marketing	9.0	6.4	9.1	41.1	-0.3	18.1	17.7	2.4	
Wholesale and Distribution	7.5	9.7	7.5	-22.2	1.1	15.0	18.9	-20.5	
Corporate	0.2	0.9	-0.5	-82.8	-128.0	-0.4	-0.9	-56.9	

Source: Company

KEY FINANCIAL DATA

INCOME STATEMENT

FYE Dec (RM m)	2019A	2020A	2021F	2022F	2023F
Revenue	688.8	698.7	743.2	801.7	862.3
Operating Profit	60.6	62.7	66.9	72.2	77.4
Other Gains/(Losses)	7.3	8.7	9.3	10.0	10.8
Finance Costs	-1.6	-1.1	-1.1	0.0	0.0
Pre-tax Profit	66.3	70.2	75.1	82.3	88.1
Income Tax	-13.6	-14.2	-17.3	-18.9	-20.3
Effective Tax Rate (%)	20.4	20.2	23.0	23.0	23.0
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit	52.7	56.0	57.9	63.4	67.9
Growth					
Revenue (%)	5.5	1.4	6.4	7.9	7.6
Operating Profit (%)	-1.6	3.4	6.8	8.0	7.1
Net Profit (%)	-10.0	6.2	3.3	9.5	7.1

Source: Company, PublicInvest Research estimates

BALANCE SHEET

FYE Dec (RM m)	2019A	2020A	2021F	2022F	2023F
Property, Plant & Equipment	170.2	170.7	164.7	157.6	154.2
Cash and Cash Equivalents	65.3	82.8	123.5	158.1	190.0
Receivables	159.4	129.3	137.6	148.4	159.6
Other Assets	188.3	238.1	220.1	234.1	250.1
Total Assets	583.2	620.9	645.9	698.2	753.9
Payables	121.0	118.4	125.8	135.7	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	139.2	149.0	159.3
Total Equity	425.5	468.0	506.7	549.2	594.7
Total Equity and Liabilities	583.2	620.9	645.9	698.2	753.9

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	1.2
EPS (Sen)	11.2	11.8	12.2	13.3	14.3
DPS (Sen)	3.7	4.5	4.0	4.4	4.7
Payout Ratio	33.1%	38.0%	33.0%	33.0%	33.0%
ROA	9.0%	9.0%	9.0%	9.1%	9.0%
ROE	12.4%	12.0%	11.4%	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.

DISCLAIMER

This document has been prepared solely for information and private circulation only. It is for distribution under such circumstances as may be permitted by applicable law. The information contained herein is prepared from data and sources believed to be reliable at the time of issue of this document. The views/opinions expressed herein are subject to change without notice and solely reflects the personal views of the analyst(s) acting in his/her capacity as employee of Public Investment Bank Berhad ("PIVB"). PIVB does not make any guarantee, representations or warranty neither expressed or implied nor accepts any responsibility or liability as to its fairness liability adequacy, completeness or correctness of any such information and opinion contained herein. No reliance upon such statement or usage by the addressee/anyone shall give rise to any claim/liability for loss of damage against PIVB, Public Bank Berhad, its affiliates and related companies, directors, officers, connected persons/employees, associates or agents.

This document is not and should not be construed or considered as an offer, recommendation, invitation or a solicitation of an offer to purchase or subscribe or sell any securities, related investments or financial instruments. Any recommendation in this document does not have regards to the specific investment objectives, financial situation, risk profile and particular needs of any specific persons who receive it. We encourage the addressee of this document to independently evaluate the merits of the information contained herein, consider their own investment objectives, financial situation, particular needs, risks and legal profiles, seek the advice of their, amongst others, tax, accounting, legal, business professionals and financial advisers before participating in any transaction in respect of any of the securities of the company(ies) covered in this document.

PIVB, Public Bank Berhad, our affiliates and related companies, directors, officers, connected persons/employees, associates or agents may own or have positions in the securities of the company(ies) covered in this document or any securities related thereto and may from time to time add or dispose of, or may be materially interested in, any such securities. Further PIVB, Public Bank Berhad, our affiliates and related companies, associates or agents do and/or seek to do business with the company(ies) covered in this document and may from time to time act as market maker or have assumed an underwriting commitment in the securities of such company(ies), may sell them or buy them from customers on a principal basis, may have or intend to accommodate credit facilities or other banking services and may also perform or seek to perform investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment advisory or other services from any entity mentioned in this document. The analyst(s) and associate analyst(s) principally responsible for the preparation of this document may participate in the solicitation of businesses described aforesaid and would receive compensation based upon various factors, including the quality of research, investor client feedback, stock pickings and performance of his/her recommendation and competitive factors. The analyst(s) and associate analyst(s) may also receive compensation or benefit (including gift and company/issuer-sponsored and paid trips in line with the Bank's policies) in executing his/her duties. Hence, the addressee or any persons reviewing this document should be aware of the foregoing, amongst others, may give rise to real or potential conflicts of interest.

PIVB is a participant of the Mid and Small Cap Research Scheme ("MidS"), and will receive compensation for the participation. This report has been prepared by PIVB pursuant to the MidS administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaims any and all liability, however arising, out of or in relation to the administration of MidS and/or this report.

Published and printed by:

PUBLIC INVESTMENT BANK BERHAD (20027-W)
26th Floor, Menara Public Bank 2
78, Jalan Raja Chulan,
50200 Kuala Lumpur
T 603 2268 3000
F 603 2268 3014