



APEX HEALTHCARE BERHAD

Underperform

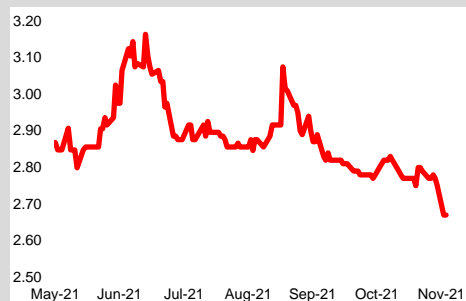
DESCRIPTION

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 RM2.25
Current Price RM2.67
Expected Return -15.7%

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

SHARE PRICE CHART



52 Week Range (RM) 2.65 – 3.81
 3-Month Average Vol ('000) 31.4

SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	-4.3	-6.5	-6.3
Relative Returns	0.3	-8.0	-4.1

KEY STOCK DATA

Market Capitalisation (RMm) 1,271.5
 No. of Shares (m) 476.2

MAJOR SHAREHOLDERS

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

Research Team

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Dragged By Weaker Associate Profit

Apex Healthcare's (ApexH) 3QFY21 net profit declined by 1.5% YoY to RM14m. The weaker performance was mainly due to lower contribution from share of associate profit as the Penang based associate, Strait Apex Group's (SAG) operations were severely impacted by COVID-19 infections. The results were below our but within street projections at 67% and 71% of full year numbers respectively. The discrepancy in our forecasts was due to lower-than-expected contribution from the share of associate profit. We are cutting our forecasts for FY21-23F by 4-6% as we impute a lower earnings forecast for share of associate profit. As such, our TP is revised to RM2.25 from RM2.35 previously. Given its rich valuation, we maintain our **Underperform** rating on ApexH.

§ **Stronger revenue.** ApexH reported highest quarterly revenue with a 24.8% YoY growth to RM211.1m. The increase in revenue was mainly due to stronger contribution from its wholesale and distribution segment (+34.7% YoY) and its manufacturing and marketing segment (+20.8% YoY). The strong growth was mainly due to the increase in market demand for pharmaceutical products as a result of increasing orders from customers. The outbreak of COVID-19 in Malaysia during 3QCY2021 had also contributed to the strong growth as there was an increase in demand for pulse oximeters, surgical mask and self-test kit.

§ **Net profit was down 1.5% YoY.** Despite higher revenue, share of profits from its 40%-owned associate company, SAG was lowered by 76.5% YoY to RM0.47m, due to lower production output and higher operating costs. On top of that, new production capacities that were installed during 2HFY20 have also resulted in higher fixed cost for SAG while raw material cost rose on higher freight cost.

§ **Expect to see gradual improvements in coming quarter.** ApexH believes that with secured orders in hand, SAG is likely to deliver higher 4QFY21 earnings. Meanwhile, given the high vaccination rate in Malaysia and the roll out of booster jab, we do not expect reintroduction of full lockdown. Additionally, we believe consumer sentiment should gradually recover, boosting consumer spending which in turn should 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	71.0	78.7	84.3	6.3%
Net Profit	52.7	56.0	54.7	60.6	64.9	5.0%
EPS (Sen)	11.2	11.8	11.5	12.7	13.6	5.0%
P/E (x)	23.9	22.7	23.2	21.0	19.6	
DPS (Sen)	3.7	4.5	3.8	4.2	4.5	
Dividend Yield (%)	1.4	1.7	1.4	1.6	1.7	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

<u>FYE Dec (RM m)</u>	<u>3Q21</u>	<u>3Q20</u>	<u>2Q21</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	211.1	169.1	182.6	24.8	15.6	573.1	537.2	6.7	Growth mainly contributed by its wholesale and distribution segment (+35% YoY) and its manufacturing and marketing segment (+21% YoY).
Cost of Sales	-166.7	-133.9	-145.2	24.5	14.8	-453.7	-420.6	7.9	
Gross Profit	44.3	35.2	37.3	26.1	18.8	119.4	116.5	2.5	
Other operating income/ (expenses)	2.0	2.1	1.3	-5.4	49.2	5.0	5.8	-14.2	
Operating profit/ (loss)	18.3	15.7	15.7	16.2	16.7	49.3	47.9	3.0	
Finance income/ (costs)	-0.2	-0.3	-0.2	-18.6	-2.8	-0.6	-0.8	-24.3	
Other income/ (expenses)	0.5	2.0	0.7	-76.5	-29.6	1.5	4.8	-68.9	Due to production output and costs were severely impacted by COVID-19 infection and resultant of quarantine production staff.
Profit/ (Loss) before tax	18.6	17.5	16.1	6.1	15.1	50.1	51.8	-3.2	
Taxation	-4.5	-3.1	-3.3	44.7	37.9	-11.4	-10.1	12.5	
Net Profit	14.0	14.3	12.8	-2.4	9.2	38.7	41.6	-7.0	
Non-controlling interests	0.0	-0.1	0.0	-104.9	200.0	0.0	0.0	-200.0	
PATAMI	14.0	14.2	12.8	-1.5	9.2	38.7	41.6	-7.0	
Core PATAMI	14.0	14.2	12.8	-1.5	9.2	38.7	41.6	-7.0	
Operating Margin (%)	8.7%	9.3%	8.6%			8.6%	8.9%		
Pre-tax Margin (%)	8.8%	10.3%	8.8%			8.7%	9.6%		
Net Margin (%)	6.6%	8.4%	7.0%			6.8%	7.7%		
Segment Revenue									
Manufacturing and Marketing	16.6	12.3	11.7	34.7	42.5	43.4	37.9	14.4	
Wholesale and Distribution	194.2	160.8	170.7	20.8	13.8	529.2	497.1	6.5	
Corporate	0.2	0.4	0.2	-49.5	25.7	0.5	2.1	-75.7	
Segment EBIT									
Manufacturing and Marketing	11.5	8.4	9.0	37.5	27.9	29.6	26.1	13.7	
Wholesale and Distribution	9.8	8.4	7.5	16.0	29.7	24.8	27.3	-9.3	
Corporate	-1.2	1.3	0.2	-196.4	-898.0	-1.6	0.4	-554.1	

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	5.2	6.4	6.9
Finance Costs	-1.6	-1.1	-1.1	0.0	0.0
Pre-tax Profit	66.3	70.2	71.0	78.7	84.3
Income Tax	-13.6	-14.2	-16.3	-18.1	-19.4
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	54.7	60.6	64.9
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	-2.4	10.7	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	121.4	154.1	184.0
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	643.8	694.2	748.0
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	504.6	545.2	588.7
Total Equity and Liabilities	583.2	620.9	643.8	694.2	748.0

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	1.1	1.2
EPS (Sen)	11.2	11.8	11.5	12.7	13.6
DPS (Sen)	3.7	4.5	3.8	4.2	4.5
Payout Ratio	33.1%	38.0%	33.0%	33.0%	33.0%
ROA	9.0%	9.0%	8.5%	8.7%	8.7%
ROE	12.4%	12.0%	10.8%	11.1%	11.0%

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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