

APEX HEALTHCARE

(APEX MK EQUITY, APER.KL)

17 Nov 2022

Record quarterly revenue and profit

BUY

(Maintained)

Company report

AmlInvestment Bank

Team Coverage

03-2036 2290

Rationale for report: Company result

Price	RM3.39
Fair Value	RM3.73
52-week High/Low	RM3.39/RM2.33

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	770.8	861.9	910.0	960.9
Core net profit (RM mil)	60.9	76.6	81.0	86.3
FD Core EPS (sen)	12.8	16.0	17.0	18.1
FD Core EPS growth (%)	5.4	24.9	5.7	6.4
Consensus Net Profit (RM mil)	-	73.0	76.3	81.0
DPS (sen)	11.5	6.1	6.4	6.9
PE (x)	26.4	21.1	20.0	18.8
EV/EBITDA (x)	16.6	16.4	15.4	14.5
Div yield (%)	3.4	1.8	1.9	2.0
ROE (%)	12.2	14.4	14.0	13.7
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	477.6
Market Cap (RMmil)	1,619.1
Book Value (RM/share)	1.07
P/BV (x)	3.2
ROE (%)	12.2
Net Gearing (%)	nm

Major Shareholders	Apex Pharmacy Holdings (39.8%) Washington H. Soul Pattinson and Company (29.7%)
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Free Float (%)	19.8%
Avg Daily Value (RMmil)	0.2

Price performance	3mth	6mth	12mth
Absolute (%)	9.4	19.7	29.6
Relative (%)	14.7	27.7	36.3



Investment Highlights

- We reiterate BUY on Apex Healthcare (Apex), although the share price has increased 9% over the past 3 months, with an unchanged the fair value (FV) of RM3.73/share, based on FY23F PE of 22x. This is at 0.5 standard deviation above its 4-year average of 20x, with a neutral ESG rating of 3 stars.
- Apex's 9MFY22 core net profit of RM65.2mil came in within our expectation, accounting for 85% of our FY22F net profit, as we anticipate Apex's 4QFY22F earnings to soften sequentially in view of the normalisation of flu cases and inventory restocking activities in Malaysia.
- Hence, we made no changes to FY22F-24F earnings. We will be providing further updates following an analyst briefing later today.
- However, Apex's 9MFY22 core net profit came in above consensus, accounting for 89% of consensus net profit forecast. As a comparison, 9M accounted for 65%-74% for FY19-FY21 core net profit.
- No interim dividend has been declared in this quarter as Apex historically declare dividend post-4Q results. With the 3 sen declared in 2QFY21, this remains in line with our FY22F assumption of 6.1 sen/share.
- On a YoY basis, Apex's 3QFY22 core earnings soared 91% to an all-time record of RM26.6mil, spurred by a
 - 10% revenue growth from strong demand for cough and cold products due to the prevalence of Covid-19 and elevated flu cases in Malaysia;
 - better gross profit margin (+1.9ppt) thanks to increased share of higher margin manufacturing division from 7.6% in 3QFY21 to 9.4% in 3QFY22; and
 - surge in associate contribution of RM7m (+14.8x) from the group's 40%-owned Straits Apex.
- On a QoQ basis, Apex's 3QFY22 core earnings rose by 12.5%, in tandem with an 11% revenue growth. The stronger earnings was also attributed to the increased share of revenue from higher margin manufacturing division of 9.4% from 9.2% in 2QFY22.
- Apex has been enjoying strong CAGR growth over the past 20 years with revenue rising at 9% and earnings 10% (Exhibit 3), anchored by an ageing population, public health education advancement and steady healthcare expenditure increase.

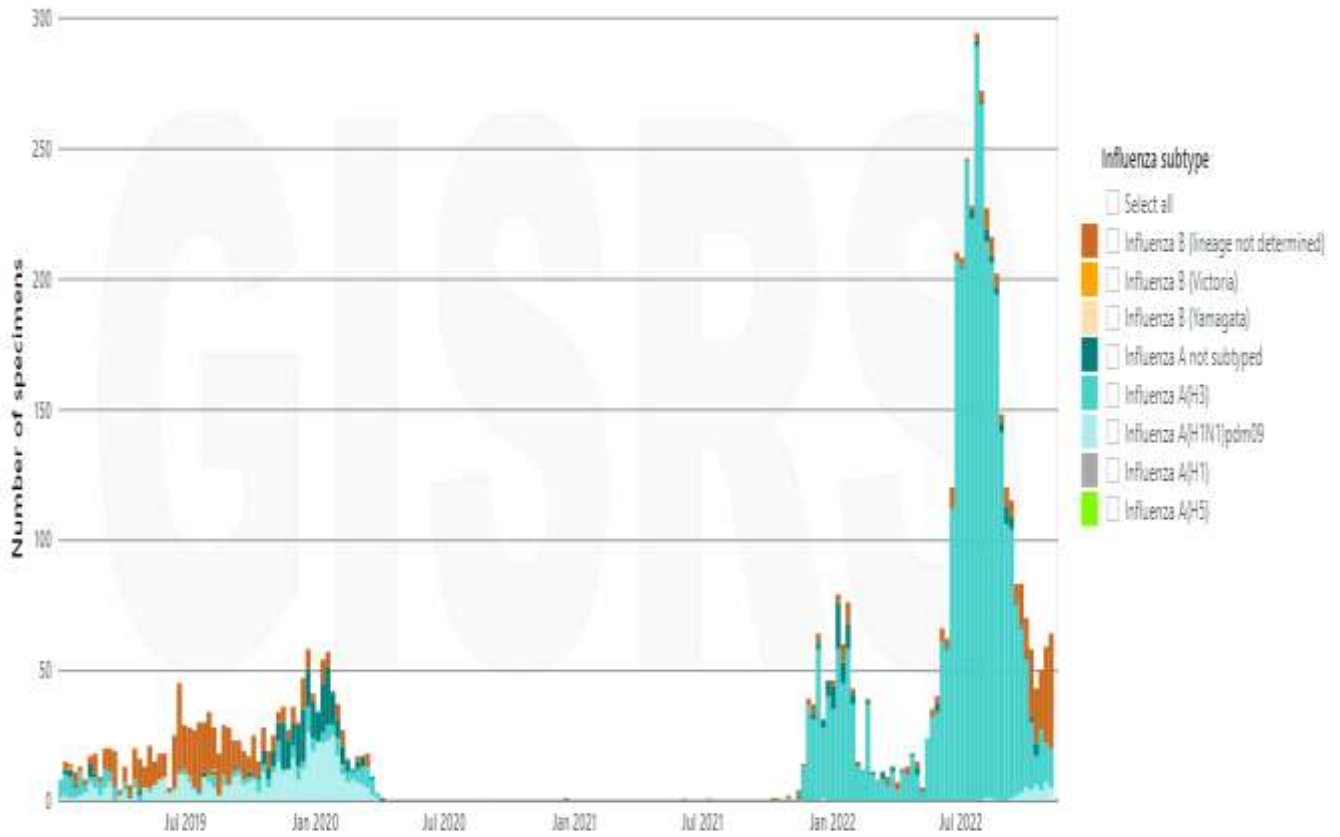
- Apex also exhibited resilience and flexibility during the Covid-era via rapid identification and supply of in-demand products. Additionally, Apex's net cash position of RM136mil represents a significant 8.4% of its market cap.
- The stock currently trades at an undemanding FY23F PE of 20x, at parity to its 4-year average, with decent dividend yields of 1.9%.

EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	211.1	209.2	232.1	10.9	10.0	573.1	657.2	14.7
Gross profit	44.3	47.3	53.2	12.4	20.0	119.4	146.5	22.7
EBITDA	22.3	24.8	29.8	20.1	33.5	61.6	77.6	26.1
EBIT	18.2	20.8	25.6	22.9	40.6	49.3	65.5	33.0
Share of associates	0.5	7.2	7.0	(3.1)	>100	1.5	15.1	>100
Profit before tax	18.6	27.9	32.4	16.3	74.6	50.1	80.1	59.8
Tax	(4.5)	(4.4)	(5.5)	(26.3)	(21.3)	(11.4)	(13.9)	(22.1)
Net profit	14.0	23.5	26.9	14.4	91.9	38.7	66.1	70.8
Core net profit	13.9	23.6	26.6	12.5	91.1	38.4	65.2	69.9
FD EPS (sen)	2.9	5.0	5.6	12.5	91.0	8.1	13.7	69.8
Gross DPS (sen)	0.0	3.0	0.0	n/a	n/a	2.5	3.0	20.0
Gross margin (%)	21.0	22.6	22.9	0.3ppt	1.9ppt	20.8	22.3	1.5ppt
EBITDA margin (%)	10.6	11.9	12.8	1.0ppt	2.3ppt	10.7	11.8	1.1ppt
Pretax margin (%)	8.8	13.3	14.0	0.6ppt	5.2ppt	8.7	12.2	3.4ppt
Core net profit margin (%)	6.6	11.3	11.5	0.2ppt	4.9ppt	6.7	9.9	3.2ppt
Effective tax rate (%)	24.5	15.7	17.0	1.4ppt	-7.5ppt	22.8	17.4	-5.4ppt
Segmental Revenue (RMmil)								
Manufacturing	16.6	20.8	22.5	8.2	35.3	43.4	61.7	42.3
Wholesale & Distribution	194.2	188.4	209.6	11.2	7.9	529.2	595.5	12.5
Corporate	0.2	0.0	0.0	(0.0)	(94.8)	0.5	0.0	(93.8)
Segmental PBT (RMmil)								
Manufacturing	11.5	15.0	17.7	17.6	53.2	29.6	45.7	54.2
Wholesale & Distribution	9.8	8.4	10.1	20.0	3.3	24.8	27.7	12.0
Corporate	(1.2)	5.5	5.6	0.8	>100	(1.6)	9.7	>100
Pretax margin (%)								
Manufacturing	25.3	26.0	28.2	2.1ppt	2.8ppt	23.5	26.7	3.1ppt
Wholesale & Distribution	5.0	4.5	4.8	0.4ppt	-0.2ppt	4.7	4.7	0.0ppt

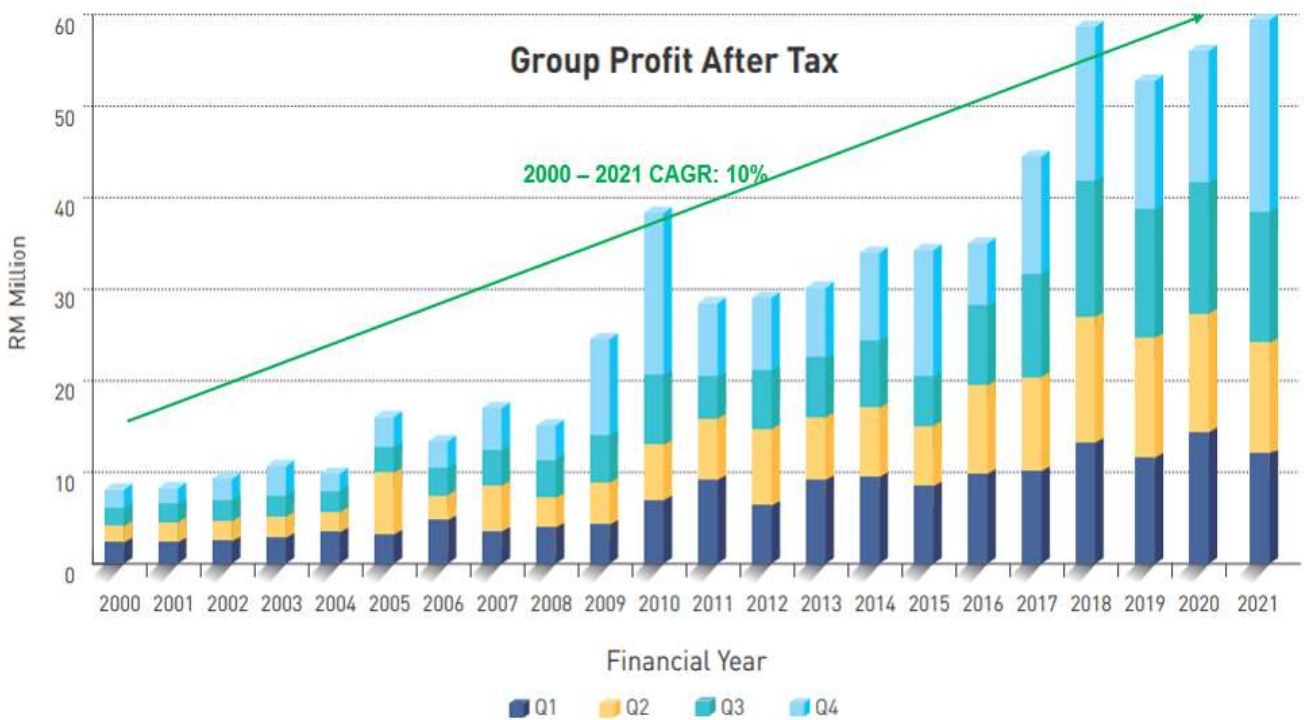
Source: AmlInvestment Bank/Apex Healthcare Bhd

EXHIBIT 2: NUMBER OF MALAYSIAN SPECIMENS POSITIVE FOR INFLUENZA BY SUBTYPES



Source: AmlInvestment Bank/World Health Organisation (WHO)

EXHIBIT 3: APEX HEALTHCARE PROFIT AFTER TAX



Source: AmlInvestment Bank/Apex Healthcare Bhd

EXHIBIT 4: PB BAND CHART



EXHIBIT 5: PE BAND CHART



EXHIBIT 6: ESG RATING

Overall	★	★	★		
Waste management	★	★			
Natural resource conservation	★	★	★		
Occupational safety + health	★	★	★	★	
Workplace diversity	★	★	★		
Employee training + wellbeing	★	★	★		
Quality assurance + safety	★	★	★	★	
Communal efforts	★	★	★	★	
Corruption-free pledge	★	★	★		
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	698.7	770.8	861.9	910.0	960.9
EBITDA	80.8	86.9	97.2	101.8	106.7
Depreciation/Amortisation	(16.4)	(16.3)	(15.5)	(15.9)	(16.3)
Operating income (EBIT)	64.3	70.6	81.7	85.9	90.4
Other income & associates	8.9	7.1	12.1	13.8	15.7
Net interest	0.6	1.0	0.4	0.8	1.5
Exceptional items	1.6	1.4	-	-	-
Pretax profit	70.2	75.4	92.9	98.8	105.2
Taxation	(14.2)	(16.0)	(16.3)	(17.8)	(18.9)
Minorities/pref dividends	-	-	-	-	-
Net profit	56.0	59.4	76.6	81.0	86.3
Core net profit	57.7	60.9	76.6	81.0	86.3
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	176.9	172.8	168.4	164.7	160.0
Intangible assets	1.4	2.6	2.6	2.6	2.6
Other long-term assets	45.2	53.3	65.4	79.2	95.0
Total non-current assets	223.5	228.7	236.4	246.5	257.6
Cash & equivalent	172.9	194.1	43.9	58.1	81.8
Stock	92.1	95.4	108.3	113.3	120.6
Trade debtors	129.3	158.8	193.3	209.0	218.1
Other current assets	3.1	3.2	116.6	123.4	129.9
Total current assets	397.4	451.4	462.1	503.7	550.4
Trade creditors	117.7	143.3	150.1	163.4	170.6
Short-term borrowings	22.0	6.6	6.6	6.6	6.6
Other current liabilities	1.5	2.0	2.0	2.0	2.0
Total current liabilities	141.1	151.9	158.7	172.1	179.2
Long-term borrowings	5.8	14.8	15.3	5.3	5.3
Other long-term liabilities	6.0	6.6	6.6	6.6	6.6
Total long-term liabilities	11.8	21.4	21.9	11.9	11.9
Shareholders' funds	467.8	506.8	554.3	604.5	658.0
Minority interests	0.1	0.1	0.1	0.1	0.1
BV/share (RM)	0.99	1.07	1.16	1.27	1.38
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	70.2	75.4	92.9	98.8	105.2
Depreciation/Amortisation	16.4	16.3	15.5	15.9	16.3
Net change in working capital	20.4	(8.8)	(40.6)	(7.3)	(9.3)
Others	(21.5)	(21.1)	(26.9)	(30.6)	(33.8)
Cash flow from operations	85.5	61.9	41.0	76.9	78.4
Capital expenditure	(15.9)	(13.1)	(14.0)	(14.0)	(14.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(35.6)	(12.3)	(2.0)	(2.0)	(2.0)
Cash flow from investing	(51.5)	(25.4)	(16.0)	(16.0)	(16.0)
Debt raised/(repaid)	(2.9)	(5.9)	0.5	(10.0)	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(17.5)	(25.2)	(29.1)	(30.8)	(32.8)
Others	1.6	-	(5.9)	(5.9)	(5.9)
Cash flow from financing	(18.8)	(31.1)	(34.5)	(46.7)	(38.7)
Net cash flow	15.1	5.4	(9.5)	14.2	23.7
Net cash/(debt) b/f	71.5	86.6	93.4	83.9	98.1
Net cash/(debt) c/f	86.6	93.4	83.9	98.1	121.8
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	1.4	10.3	11.8	5.6	5.6
EBITDA growth (%)	9.9	7.7	11.8	4.8	4.8
Pretax margin (%)	10.0	9.8	10.8	10.9	10.9
Net profit margin (%)	8.0	7.7	8.9	8.9	9.0
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	20.2	21.2	17.5	18.0	18.0
Dividend payout (%)	38.2	91.9	38.0	38.0	38.0
Debtors turnover (days)	75	68	75	81	81
Stock turnover (days)	47	44	43	44	44
Creditors turnover (days)	62	62	62	63	63

Source: Company, AmlInvestment Bank Bhd estimates

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