



Company report

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APEX HEALTHCARE

(APEX MK EQUITY, APER.KL)

19 May 2022

Looking at M&A to drive growth further

BUY

(Maintained)

Rationale for report: Company update

Price	RM3.05
Fair Value	RM3.45
52-week High/Low	RM3.20/RM2.38

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	770.8	815.7	851.8	889.9
Core net profit (RM mil)	59.4	71.5	74.9	79.3
FD Core EPS (sen)	12.5	15.0	15.7	16.7
FD Core EPS growth (%)	5.9	19.7	4.8	5.9
Consensus Net Profit (RM mil)	-	69.1	72.0	76.1
DPS (sen)	11.5	5.7	6.0	6.3
PE (x)	24.3	20.3	19.4	18.3
EV/EBITDA (x)	15.0	14.8	13.8	12.8
Div yield (%)	4.5	2.2	2.3	2.5
ROE (%)	12.2	13.5	13.0	12.8
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	476.3
Market Cap (RM mil)	1,452.7
Book Value (RM/share)	1.07
P/BV (x)	2.9
ROE (%)	12.2
Net Gearing (%)	-

Major Shareholders	Apex Pharmacy Holdings Sdn Bhd (40.0%) Washington H. Soul Pattinson and Company Ltd. (30.0%)
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Free Float	30.3
Avg Daily Value (RM mil)	0.2

Price performance	3mth	6mth	12mth
Absolute (%)	15.5	13.4	4.5
Relative (%)	19.1	11.1	6.9



Investment Highlights

- We maintain BUY on Apex Healthcare (Apex) with an unchanged fair value (FV) of RM3.45, based on a rolled-forward FY23F PE of 22x. This is at 0.5 standard deviation above its 4-year average of 20x, with a neutral 3-star rating.
- Our forecasts are maintained following an analyst briefing today. These are the salient highlights:
 - Driven mainly by cough, cold and flu medication, the group's own product brands registered an impressive 1QFY22 sales growth of 24% YoY to RM61mil, raising this segment's share to group revenue to 28% from 27% in 1QFY21.
 - The group's agency brands, which accounted for half of 1QFY22 sales, grew by 19% YoY to RM109mil on strong demand for pulse oximeters and respiratory-related products as well as vaccine distribution in Singapore.
 - General brands, which involve wholesale and distribution, accounted for 21% of 1QFY22 sales. The sales of face masks, Covid test kits, paracetamol, cold/flu medication and throat lozenges propelled the 20% YoY growth in 1QFY22 segment sales to RM46mil.
 - For contract manufacturing which made up 5% of 1QFY22 sales, Apex marked its maiden foray into Latin America by exporting EyeMo eye drop products to Mexico during 1QFY22. The group also added a dementia medication to the existing 2 offerings in Australia.
 - Management reaffirmed that the sales of 40%-owned Straits Apex Group should be stronger over the next quarters as 1QFY22 was impacted by workforce Covid-19 infections and supply chain disruptions. Recall that 1QFY22 associate contributions fell 85% QoQ to RM0.9mil.
 - Apex raised product prices by 4% for its own brands in Malaysia early this year and aims likewise for export markets next month, to offset the impact of higher production costs. With 20% of raw material/finished products derived from China, management has strategically increased inventory since last year to mitigate supply chain risks. For now, management expects to maintain gross margins, which registered at 21% in 1QFY22.
 - As the country transitions towards Covid-19 endemic status, the sales growth of generic products such as face masks, oximeters and test kits is expected to moderate. However, this is expected to be offset by stronger growth in paracetamol, cough/cold/fever medication and lozenges until 1H2023.

- Internally, the group hopes to achieve prospective sales growth targets above its historical CAGR of 9%–10%. While maintaining our conservative FY22F revenue growth assumptions of 6% for now, we acknowledge that there is a likelihood of positive earnings revisions over the coming quarters from a resolution of supply chain disruptions and improving market demand driven by an ageing population, public health education advancement and steady healthcare expenditure expansion.
- With the group's substantive net cash of RM170mil (12% of market cap), management affirmed that Apex is exploring potential merger & acquisition prospects locally to drive stronger earnings growth and generate better returns to shareholders. We note that the group declared a special dividend of 6 sen in FY2021, which if included in our FY22F DPS, could raise yields to a more attractive 5% from 2% currently.
- Against the backdrop of a stable and more visible FY23F–24F earnings growth of 5%–6%, the stock currently trades at a decent FY23F PE of 19x, below its 4-year average of 20x (Exhibit 3).

EXHIBIT 1: APEX'S OWN BRAND PRODUCTS

Respiratory System	
Cardiovascular System	
Alimentary Tract & Metabolism	
Musculo-skeletal System	
Systemic Hormonal Preparations	
Nervous System	
Anti-infectives for systemic use	
Dermatologicals	
Mouth/Throat Preparations	
Sensory Organs	
Genitourinary	

Source: Apex website

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART



EXHIBIT 4: ESG MATRIX

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

Source: AmInvestment Bank

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	698.7	770.8	815.7	851.8	889.9
EBITDA	79.1	85.5	95.8	100.8	106.5
Depreciation/Amortisation	(16.5)	(16.3)	(15.6)	(15.9)	(16.4)
Operating income (EBIT)	62.7	69.2	80.3	84.9	90.1
Other income & associates	8.7	7.1	7.2	7.4	7.5
Net interest	(1.1)	(0.9)	(0.9)	(0.9)	(0.9)
Exceptional items	-	-	(0.2)	-	-
Pretax profit	70.2	75.4	86.4	91.4	96.8
Taxation	(14.2)	(16.0)	(15.1)	(16.4)	(17.4)
Minorities/pref dividends	-	-	-	-	-
Net profit	56.0	59.4	71.3	74.9	79.3
Core net profit	56.0	59.4	71.5	74.9	79.3
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	60.6	68.0	75.5
Total non-current assets	223.5	228.7	231.5	235.2	238.1
Cash & equivalent	172.9	194.1	53.4	72.2	102.0
Stock	92.1	95.4	102.1	105.3	110.7
Trade debtors	129.3	158.8	183.0	195.6	202.0
Other current assets	3.1	3.2	116.6	123.4	129.9
Total current assets	397.4	451.4	455.1	496.5	544.5
Trade creditors	117.7	143.3	141.5	152.0	156.5
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	150.1	160.6	165.2
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	551.0	597.4	646.6
Minority interests	0.1	0.1	0.1	0.1	0.1
BV/share (RM)	0.99	1.07	1.16	1.25	1.36
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	70.2	75.4	86.4	91.4	96.8
Depreciation/Amortisation	16.5	16.3	15.6	15.9	16.4
Net change in working capital	20.4	(8.8)	(32.6)	(5.4)	(7.2)
Others	(21.5)	(21.1)	(20.9)	(22.8)	(24.1)
Cash flow from operations	85.5	61.9	48.5	79.1	81.8
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)	(27.1)	(28.5)	(30.1)
Others	1.6	-	(5.9)	(5.9)	(5.9)
Cash flow from financing	(18.8)	(31.1)	(32.5)	(44.4)	(36.0)
Net cash flow	15.1	5.4	-	18.8	29.8
Net cash/(debt) b/f	71.5	86.6	93.4	93.4	112.2
Net cash/(debt) c/f	86.6	93.4	93.4	112.2	142.0
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	1.4	10.3	5.8	4.4	4.5
EBITDA growth (%)	7.6	8.1	12.1	5.2	5.6
Pretax margin (%)	10.0	9.8	10.6	10.7	10.9
Net profit margin (%)	8.0	7.7	8.7	8.8	8.9
Interest cover (x)	54.7	80.3	91.3	94.7	98.5
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	76	81	82
Stock turnover (days)	47	44	44	44	44
Creditors turnover (days)	62	62	64	63	63

Source: Company, AmInvestment Bank Bhd estimates

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