



AmInvestment Bank

Company report

APEX HEALTHCARE

(APEX MK EQUITY, APER.KL)

18 Aug 2022

Beneficiary of rising flu cases

BUY

(Maintained)

AmInvestment Bank

Team Coverage

03-2036 2290

Rationale for report: Company update

Price	RM3.23
Fair Value	RM3.73
52-week High/Low	RM3.12/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	16.1	17.0	18.1
FD Core EPS growth (%)	5.4	25.0	5.7	6.4
Consensus Net Profit (RM mil)	-	74.0	74.8	79.4
DPS (sen)	11.5	6.1	6.5	6.9
PE (x)	25.1	20.1	19.0	17.9
EV/EBITDA (x)	15.7	15.6	14.7	13.8
Div yield (%)	3.6	1.9	2.0	2.1
ROE (%)	12.2	14.4	14.0	13.7
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	477.3
Market Cap (RMmil)	1,479.6
Book Value (RM/share)	1.06
P/BV (x)	3.0
ROE (%)	12.2
Net Gearing (%)	-

Major Shareholders	Apex Pharmacy Holdings Sdn Bhd (39.9%) Washington H. Soul Pattinson and Company Ltd. (29.7%)
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Free Float (%)	20.9
Avg Daily Value (RMmil)	0.3

Price performance	3mth	6mth	12mth
Absolute (%)	9.5	23.1	9.9
Relative (%)	11.3	30.0	8.7

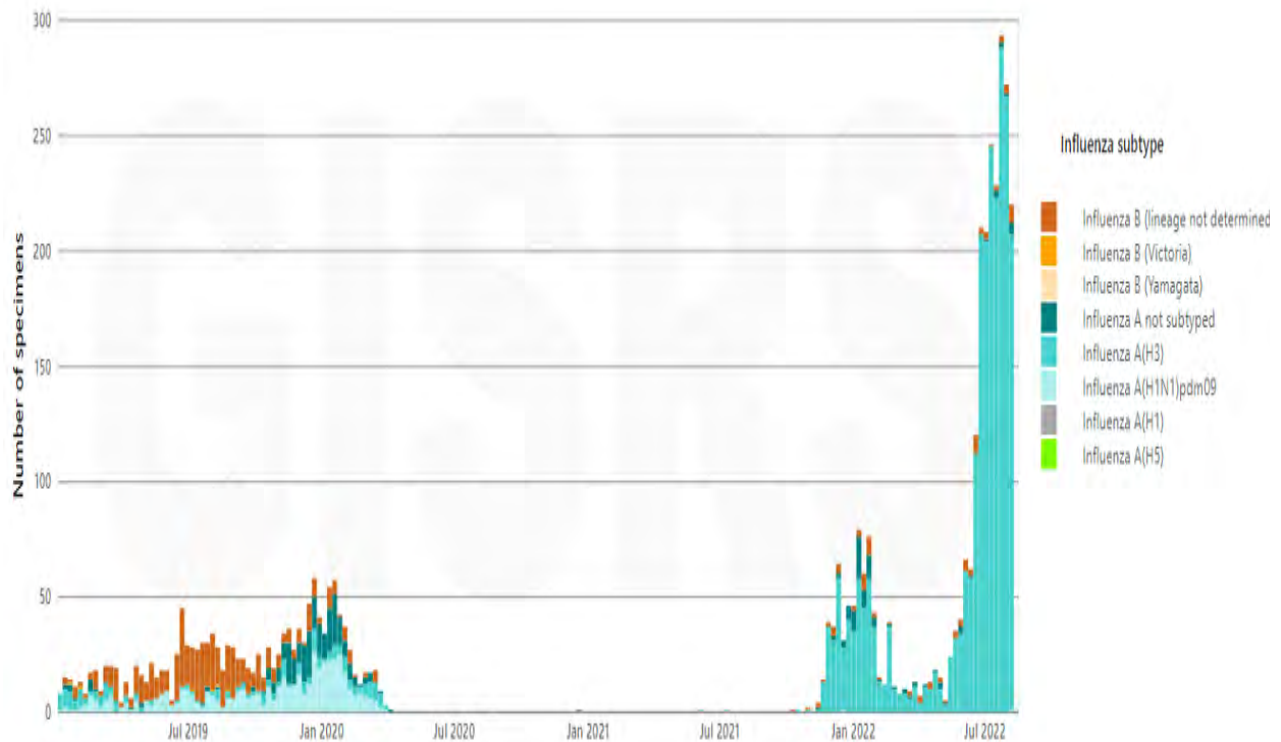


Investment Highlights

- We maintain BUY on Apex Healthcare (Apex) with an unchanged 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 3-star rating.
- Our forecasts are maintained following an analyst briefing yesterday. These are the salient highlights:
 - Apex's own product brands, which enjoy a higher margin, registered a 30% YoY increase in sales at RM127.6mil in 1HFY22, spurred by stronger demand for cough, cold and flu medication. This raised the segment's share of group revenue to 30% from 27% in 1HFY21.
 - Agency brands, which accounted for almost half of the 1HFY22 group revenue, rose by 11% YoY to RM209mil, thanks to the strong demand for cough, cold, flu and throat lozenges. However, the share of this segment's revenue to the group decreased to 49% from 52% in 1HFY21 as own product brands grew as a faster pace.
 - General brands, accounting for 21% of 1HFY22 group revenue, improved by 18% YoY to RM88.5mil mainly propelled by the sale of face masks, Covid test kits, paracetamol and cough/flu medication.
 - Notably, flu-related medications are the major drivers across the 3 segments. We believe the demand for flu-related medication could sustain in the coming quarter in view of rising flu cases in Malaysia (Exhibit 1) and Singapore, according to *The Straits Times*, Singapore.
 - Additionally, Covid-19 has transitioned into a general respiratory illness. Hence management guided that the sales volume for flu-related medications in 1HFY22 has exceeded that of 1HFY19 by 20%.
 - 40%-owned Straits Apex's strong 2QFY22 earnings, which were mainly driven by the clearing of order backlogs, are expected to moderate in coming quarters. However, on a semi-annual basis, the orders secured and to be delivered by 4QFY22 have already exceeded that of 1HFY22.
 - The potential wildcards for stronger sales recognition include: (a) labour shortages leading to higher production costs; (b) the possibility of another round of workforce infections; and (c) elevating metal prices which could erode margins. To recap, Straits Apex plans to expand production space by 30% in 4QFY22 in view of the higher expected deliveries in 2023.
 - In terms of average selling prices (ASP), Apex raised product prices by 4% for its own brands in Malaysia early this year and further increased another 4–5% in July to preserve margins amid rising production costs.

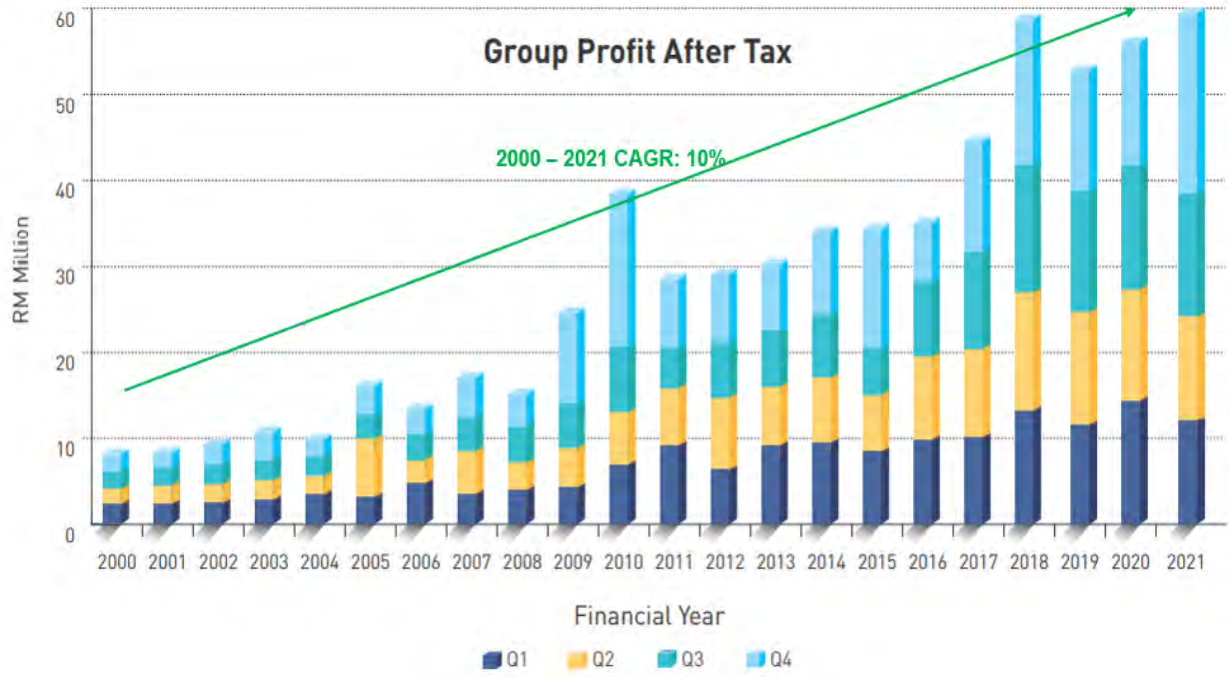
- Against the backdrop of a strengthening USD, Apex guided that the manufacturing segment and Straits Apex will be beneficiaries given the higher proportion of local input costs. However, the wholesale and distribution divisions could be slightly net negative due to the increased USD costs. Fortunately, given its strong brand name and network, Apex is able to pass on those costs (+5–8%) to its customers.
- In 1HFY22, the group registered strong YoY growth with revenue growing by 17% and while earnings climbed at a faster pace of 58%, higher than its historical CAGR of 9–10%. Management expects a similar growth momentum in 3QFY22 with some moderation by 4QFY22.
- We opine that Apex is operating under a sustainable business model involving both manufacturing and wholesale operations. The wholesale segment provides Apex with the business flexibility to meet changing market conditions while manufacturing allows Apex to command a higher blended margin.
- Apex has been enjoying strong growth over the past 20 years with revenue rising at a decent CAGR of 9% and earnings at 10% (Exhibit 2), 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 RM130mil represents a significant 8% of its market cap.

EXHIBIT 1: NUMBER OF MALAYSIAN SPECIMENS POSITIVE FOR INFLUENZA BY SUBTYPE



Source: AmInvestment Bank/World Health Organisation (WHO)

EXHIBIT 2: APEX HEALTHCARE PROFIT AFTER TAX



Source: AmInvestment Bank/Apex Healthcare Bhd

EXHIBIT 3: PB BAND CHART

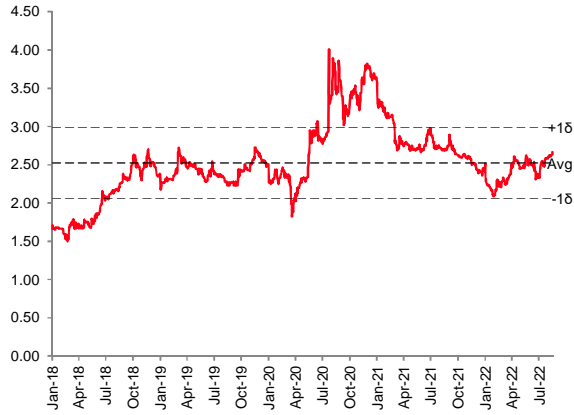


EXHIBIT 4: PE BAND CHART



EXHIBIT 5: 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 6: 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, AmInvestment Bank Bhd estimates

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