

APEX HEALTHCARE

(APEX MK EQUITY, APER.KL)

22 Sep 2022

JV with Shanghai Pharmaceuticals

BUY

(Maintained)


AmInvestment Bank

Company report

AmInvestment Bank

Team Coverage

03-2036 2290

Rationale for report: Company update

Price	RM3.26
Fair Value	RM3.73
52-week High/Low	RM3.34/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)	-	73.0	76.3	81.0
DPS (sen)	11.5	6.1	6.5	6.9
PE (x)	25.4	20.3	19.2	18.0
EV/EBITDA (x)	15.9	15.8	14.8	13.9
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)	1,556.0
Book Value (RM/share)	1.07
P/BV (x)	3.0
ROE (%)	12.2
Net Gearing (%)	nm

Major Shareholders	Apex Pharmacy Holdings (39.9%) Washington H. Soul Pattinson and Company Ltd. (29.7%)
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Free Float	19.9%
Avg Daily Value (RMmil)	0.3

Price performance	3mth	6mth	12mth
Absolute (%)	19.4	21.9	18.0
Relative (%)	20.3	33.7	24.8

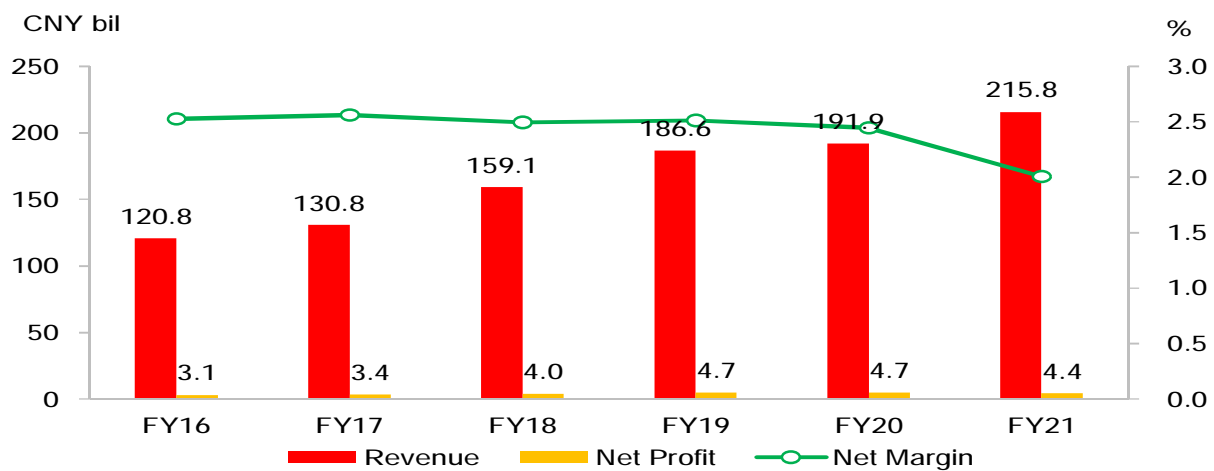


Investment Highlights

- 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.
- Apex's wholly-owned Singapore-based First SGC (FSGC) entered into a subscription and shareholder agreement (SSA) with Shanghai Pharmaceuticals Holding (SPH) to incorporate a Singapore joint venture company (JV). Apex holds a 40% equity stake in this JV.
- Dual-listed in Shanghai and Hong Kong stock exchanges, SPH is a Chinese vertically-integrated and diversified pharmaceutical group with a current market cap of HK\$62bil (or RM36bil), 23x vs Apex's RM1.6bil. SPH is involved in research & development (R&D), manufacturing, distribution and retailing (mainly pharmacies and drug stores).
- The proficiency and reputability of SPH in the pharmaceutical sector are reflected in its 437th rank within the Fortune Global 500 and 42nd position within the Top 50 Global Pharmaceuticals rankings. In 2016-2021, SPH registered a 5-year CAGR of 12.3% for revenue and 7.3% for net profit (Exhibit 1). As at 2021, SPH's net gearing has risen to 42% from 34% in FY19 (Exhibit 2).
- SPH is well-supported by a sophisticated research & development (R&D) team of >1K staffs, focusing on both innovative and generic drugs. SPH's product portfolio includes innovative medicines, active pharmaceutical ingredients, modern traditional Chinese medicines, fine chemical reagents, and nutrition & supplements products (Exhibit 3 & 4). To date, SPH owns a total of 652 patents.
- The purpose of this JV is to manufacture and distribute pharmaceuticals, consumer healthcare products and medical devices in selective ASEAN and international markets under the brand name of the JV.
- We positively view this proposed JV as a win-win situation for both parties. Apex gets to tap on SPH's deep pipeline of innovative pharmaceutical products and manufacturing expertise while SPH leverages on Apex's established European Union Good Manufacturing Practice (EU-GMP) certified manufacturing facilities as well as its established market access in ASEAN market, especially in Malaysia and Singapore.

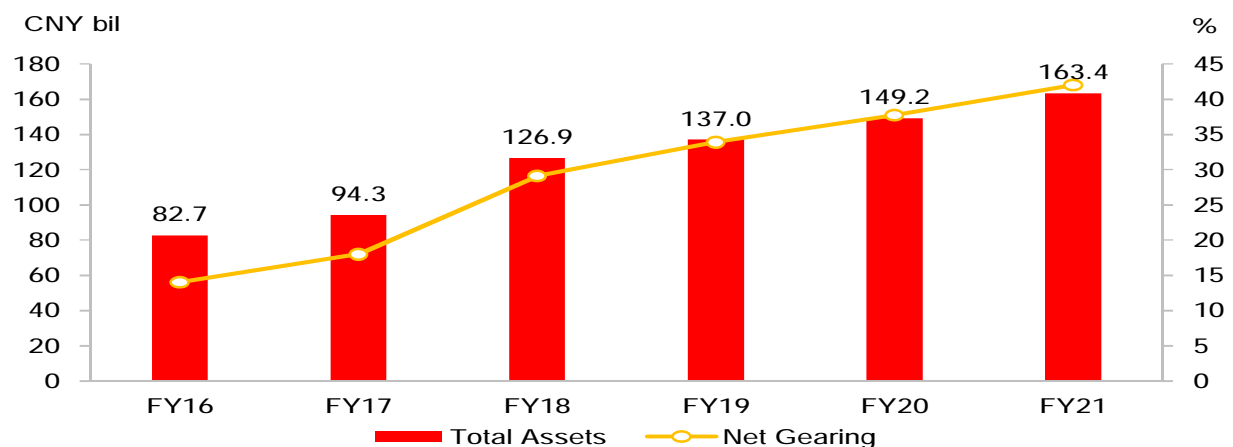
- For its 40% stake in the JV, Apex's total investment of SG\$1.2mil (or RM3.9mil) accounts for a mere 0.3% of Apex's current market cap. We estimate that this investment would not have any significant near-term earnings impact given the relatively small scale of investment. Hence, we maintain our earnings forecasts at this juncture.
- Pending the approval of China's regulatory authorities on the investment and remittance of funds as well as other usual procedures, the SSA is expected to be completed within 6 months. Further information on the JV may be provided in the upcoming analyst briefing in Nov 2022.
- At this juncture, Apex currently trades at a FY23F PE of 19.2x, slightly below to its 4-year average of 20x. However, we believe the valuation, below the over 25x PE range during the Covid 19 pandemic, remains compelling. Additionally, Apex is poised to benefit from current rising flu cases as well and growing public awareness of wellness and healthcare.

EXHIBIT 1: SPH'S FINANCIAL PERFORMANCE



Source: Bloomberg, AmInvestment Bank

EXHIBIT 2: SPH'S BALANCE SHEET



Source: Bloomberg, AmInvestment Bank

EXHIBIT 3: SPH'S CORE BRANDS



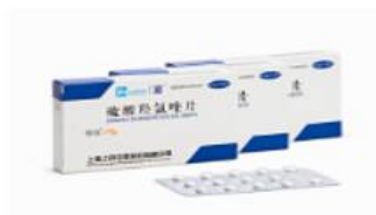
Source: SPH's website, AmlInvestment Bank

EXHIBIT 4: SPH'S CORE PRODUCTS



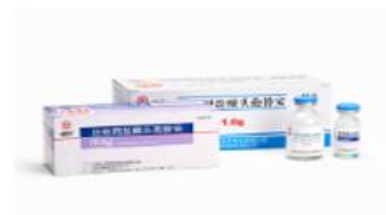
Nuoxinkang

Therapeutic:
Cardiovascular
System



Fenle

Therapeutic:
Musculo-
Skeletal System



Fengtixin

Therapeutic:
Systemic Anti-
infective

Source: SPH's website, AmlInvestment Bank

EXHIBIT 5: PB BAND CHART



EXHIBIT 6: PE BAND CHART



EXHIBIT 7: 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

Source: AmInvestment Bank

EXHIBIT 8: 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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