Singapore Initiating Coverage

3 July 2019

Healthcare | Pharmaceuticals

Hyphens Pharma (HYP SP)

Buy

Undervalued And Under-Covered; Initiate BUY

Target Price (Return)	SGD0.25 (+28%)
Price:	SGD0.196
Market Cap:	USD43.5m
Avg Daily Turnover (USD/SGD) ('000)	26/35

- **Initiating coverage with a BUY and DCF-backed SGD0.25 TP (9% WACC, 0% TG), 28% upside, implying 12.2x FY19F P/E) plus 2.8% yield.** Hyphens Pharma is one of Singapore's leading specialty pharmaceutical (pharma) and consumer healthcare groups with an ASEAN presence. It is trading at 9.6x FY19F P/E (industry average: 17.8x). We believe the specialty pharma principals and proprietary brands segments are equipped for growth in the near term. We forecast revenue and NPAT CAGRs of 7% and 19% for FY18-21.
- **Specialty pharma principals' revenue CAGR of 20% in FY15-18.** Hyphens' saw an increase in revenue across most of the products in this division, particularly in Vietnam. We expect the growth momentum to continue in the near term, as it continuously reaches out to existing and prospective buyers.

  To keep the momentum going, Hyphens is exploring opportunities with new principals and distributing existing products in other markets. We estimate the Vietnam market to grow 5-8% in the next three years.
- **Expanding and strengthening the proprietary brands product range.** The group launched five products in 2018, and has a few more in the pipeline for 2019. Two dermatological products – *Ceradan Advanced* and *TDF Fairence T-Complex* – are pending commercialisation. We think the introduction of the former is something to look forward to this year. Upon their launch, some existing *Ceradan* brand products may be marketed through retail pharmacies, making them easier for consumers to reach. These products are currently sold through hospitals and clinics.

  Coupled with other new launches and its business expansion pipeline, we expect sales of Hyphen's proprietary brands segment to hit SGD24.4m by FY21, from SGD13m in FY18 (+23% CAGR).
- **The valuation catch-up play.** We believe the market is currently undervaluing the group's potential. The stock is trading at 9.6x FY19F P/E and offers a decent yield of 2.8%. We like Hyphens, as it is a fundamentally well-run company helmed by an experienced management team with growth opportunities, ie specialty pharma principals and proprietary brands. Management is also mindful of rewarding its shareholders.
- **Key risks include** unsuccessful product registrations, reliance on relationships with brand principals, and FX fluctuations.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	112.7	120.9	125.2	132.8	147.0
Recurring net profit (SGDm)	6.40	6.40	6.13	7.13	9.03
Recurring net profit growth	22.1	0.1	(4.2)	16.2	26.7
Recurring P/E (x)	9.2	9.2	9.6	8.3	6.5
P/BV (x)	3.1	1.5	1.3	1.2	1.0
P/CF (x)	11.1	6.8	9.7	8.5	7.2
Dividend Yield (%)	0.0	2.8	2.8	2.8	2.8
EV/EBITDA (x)	6.2	5.0	4.1	3.4	2.6
ROE (%)	34.0	16.4	14.0	14.5	16.0
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage (x)	35.7	54.8	62.0	71.9	91.0

Source: Company data, RHB

Analysts

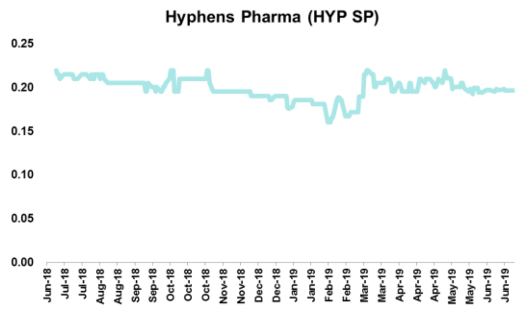
Lee Cai Ling
+65 6232 3892
lee.cai.ling@rhbgroup.com

Jarick Seet
+65 6232 3891
jarick.seet@rhbgroup.com

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.5	(1.5)	(6.7)	0.5	(12.9)
Relative	(9.1)	(9.4)	(9.3)	(10.2)	(16.8)

52-wk Price low/high (SGD) 0.16 - 0.24



Source: Bloomberg

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Financial Exhibits

Financial model updated on: 2019-06-24.

Asia
Singapore
Health Care
Hyphens Pharma
HYP SP

Valuation basis

Our DCF assumptions include:
i. WACC of 9%;
ii. Terminal growth of 0%.

Key drivers

i. An undervalued counter – it is trading at 9.6x FY19F P/E;
ii. Growth opportunity in Vietnam for the specialty pharma principals segment;
iii. Expanding and strengthening its proprietary brands product range.

Key risks

Downside risks include:
i. Unsuccessful outcomes or challenges faced in new/renewal of product registrations;
ii. Reliance on relationships with brand principals;
iii. High inherent risks;
iv. FX fluctuation.

Company Profile

Hyphens is one of Singapore's leading specialty pharmaceutical and consumer healthcare groups with a presence in ASEAN. Its core businesses are specialty pharma principals, proprietary brands, and a medical hypermart and digital platform.

Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring EPS (SGD)	0.02	0.02	0.02	0.02	0.03
EPS (SGD)	0.02	0.02	0.02	0.02	0.03
DPS (SGD)	0.00	0.01	0.01	0.01	0.01
BVPS (SGD)	0.06	0.13	0.15	0.16	0.19
ROE (%)	34.0	16.4	14.0	14.5	16.0
ROA (%)	10.2	7.2	7.7	8.3	9.5

Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Core P/E (x)	9.2	9.2	9.6	8.3	6.5
P/B (x)	3.1	1.5	1.3	1.2	1.0
Dividend Yield (%)	0.0	2.8	2.8	2.8	2.8
EV/EBITDA (x)	6.2	5.0	4.1	3.4	2.6

Income statement (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover	113	121	125	133	147
Gross profit	37	41	43	46	52
EBITDA	8	8	9	11	14
Operating profit	7	7	8	9	12
Net interest	0	0	0	0	0
Exceptional items	0	1	0	0	0
Pre-tax profit	7	7	8	9	12
Taxation	-1	-2	-2	-2	-3
Net Profit	6	5	6	7	9
Core net profit	6	6	6	7	9

Cash flow (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Cash flow from operations	5	9	6	7	8
Capex	0	-3	-2	-2	-2
Cash flow from investing activities	0	-3	-2	-2	-2
Cash flow from financing activities	-5	6	-2	-2	-2
Cash at beginning of period	13	12	22	23	25
Net change in cash	0	10	1	1	2
Ending balance cash	12	22	23	25	26

Balance sheet (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total cash and equivalents	12	22	23	25	26
Tangible fixed assets	1	3	4	5	5
Intangible assets	9	8	7	7	7
Total investments	0	0	0	0	0
Total other assets	38	41	44	49	57
Total assets	60	75	79	86	95
Short-term debt	2	3	3	3	3
Total long-term debt	2	0	0	0	0
Total liabilities	41	36	36	36	38
Shareholders' equity	19	39	44	49	56
Minority interests	0	0	0	0	0
Total equity	19	39	44	49	56
Total liabilities & equity	60	75	79	86	95

Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Revenue growth (%)	11.6	7.3	3.5	6.1	10.7
Core net profit growth (%)	22.1	0.1	-4.2	16.2	26.7
Core EPS growth (%)	22.1	0.1	-4.2	16.2	26.7
Gross Margin (%)	32.8	33.7	34.0	34.3	35.1
Core Net profit Margin (%)	5.7	5.3	4.9	5.4	6.1
Dividend payout ratio (%)	0.0	30.5	26.9	23.2	18.3

Note: For comparative purposes, the EPS, DPS, BVPS for the respective financial periods have been computed based on the share capital of 300m shares

Source: Company data, RHB

Investment Merits

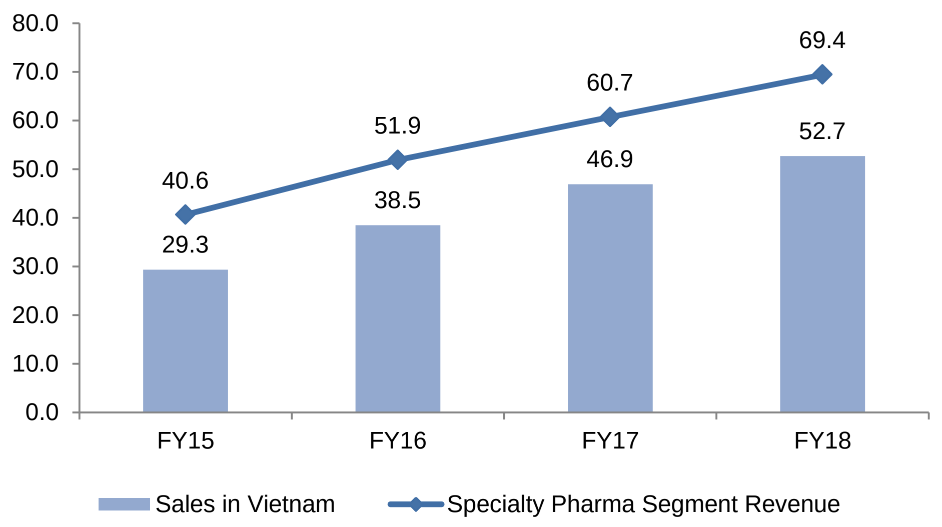
Undervalued counter trading at 9.6x FY19F P/E, which is at a steep discount to its peer average of 17.8x. Our DCF-derived TP of SGD0.25 implies 12.2x FY19F P/E, which is at a c.31% discount to the industry average. We think this is a fair valuation for Hyphens, given its scale vs peers. Its share price has declined by c.24% from its IPO offer price of SGD0.26 per share – it is also 28% down from its trading debut. We believe this counter's valuation will catch up to be at least 12.2x, reaching our TP of SGD0.25.

Nikko Asset Management, Qilin Asset Management, and Maxi-Harvest each entered into cornerstone subscription agreements at the IPO offer price, for an aggregate amount of approximately SGD7.9m during the IPO. Those investing into Hyphens now are getting this counter at c.25% lower than these initial IPO investors.

Growth opportunity in Vietnam for the specialty pharma principal segment. Sales in Vietnam grew to SGD52.7m in FY18, from SGD29.3m in FY15. This increase was mainly due to the higher sales volume in contrast media products, as well as coronary stents contributed by its Vietnam business unit. As the Vietnamese Government continues to increase its expenditure on upgrading healthcare facilities and services – especially in the provinces – we are likely to see continuous growth in this segment for Hyphens in the near term. As such, we estimate sales contribution from the ASEAN member state to grow by 5-8% over the next three years.

Other growth drivers include partnering with new principals and bringing existing products into new markets. Hyphens group introduced three stock-keeping units (SKUs) in 2016, two SKUs in 2018, and one SKU in 2019.

Figure 1: Sales in Vietnam; specialty pharma segment's revenue trend



Source: Company data

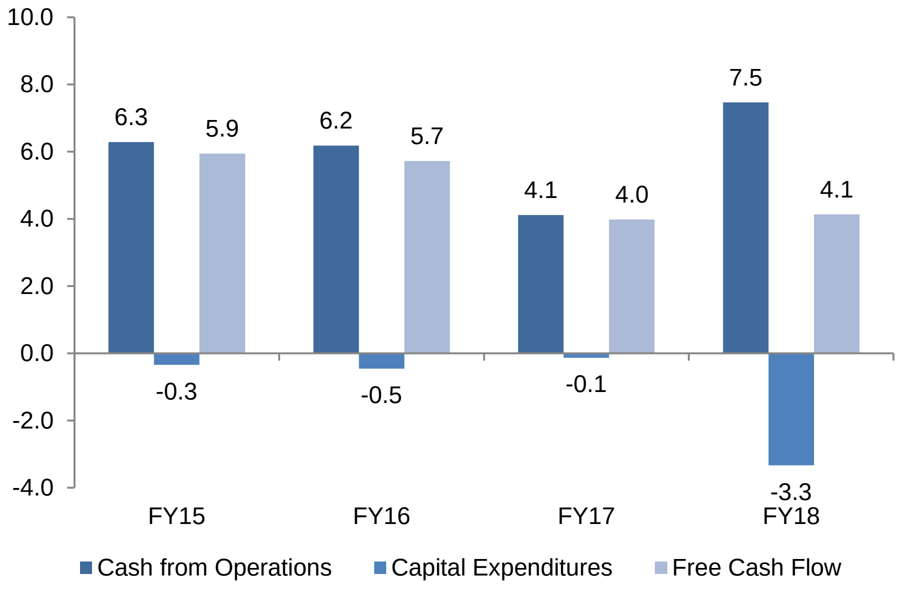
Expanding and strengthening its proprietary brands product range: *Ceradan*, *TDF*, and *Ocean Health*. Hyphens launched six products in 2018 and has two products – *Ceradan Advanced* and *TDF Fairence T-Complex* – slated to launch in 2019. In FY18, the group successfully brought *Ceradan* into the Middle East and South Asia.

This year, upon the launch of *Ceradan Advanced*, some of the existing *Ceradan*-brand products – that are currently being sold through hospitals and clinics – may be marketed through retail pharmacies, making them easier to reach end-consumers.

We think the proprietary segment has huge growth potential, as Hyphens builds on expanding its product range and entry into new markets. It also includes brand acquisitions, such as Ocean Health in 2016. In fact, we have seen this segment's topline grow to SGD13.2m in FY18, from SGD2.7m in FY15.

Asset-light model, high FCF yield. We like the group's low capex business model. Plants & equipment only make up 4.6% of total FY18 assets. With minimal capex required, FCF yield stood at c.6.6% in FY18. Excluding one-off capex on new premises, FCF yield should have been 11.8%. This allows Hyphens to sustain its dividend of SGD0.0055 per share in the coming FY, translating into a modest 2.8% yield. High FCF also helps the group to build its war chest for future acquisitions.

Figure 2: Hyphens' FCF (SGDm)



Source: Bloomberg

Valuation

Initiating coverage with BUY and TP of SGD0.25

We initiate coverage on Hyphens with a DCF-derived TP of SGD0.25 and BUY call. Our TP implies 12.2x FY19F P/E. The stock is now trading at about 9.6x FY19F P/E, with a decent yield of 2.8%. Our DCF assumptions are:

i. WACC of 9%;

ii. Terminal growth rate of 0%.

Figure 3: Hyphen's DCF valuation

	Total (SGDm)	FY19F	FY20F	FY21F	FY22F	FY23F	Terminal Value
EBIT		8.0	9.3	11.7	11.9	12.3	
EBIT(1-T)		**6.2**	**7.2**	**9.1**	**9.2**	**9.5**	
Less: Capex		(1.5)	(2.0)	(2.0)	(2.5)	(2.5)	
Add: Depreciation & amortisation		1.3	1.6	1.9	2.2	2.6	
Less: Change in non-cash wc		(3.3)	(4.0)	(5.4)	(4.3)	(4.2)	
FCFF		**2.8**	**2.8**	**3.5**	**4.7**	**5.4**	**62.3**
Present Value of FCFF		2.5	2.4	2.8	3.4	3.6	41.0
Total FCFF	**55.6**						
Add: Cash	22.4						
Less: Value of debt	(3.0)						
Less: Minority interest	-						
Target equity value	**75.0**						
Number of shares (basic)	300						
Intrinsic share price (SGD)	**0.25**						

Source: RHB

Figure 4: Hyphens' sensitivity analysis

		FY19F EPS surprise				
		-20%	-10%	0%	10%	20%
P/E Ratio	8	0.13	0.15	0.16	0.18	0.20
	9	0.15	0.17	0.18	0.20	0.22
	10	0.16	0.18	0.20	0.22	0.25
	11	0.18	0.20	0.22	0.25	0.27
	12	0.20	0.22	0.25	0.27	0.29
	13	0.21	0.24	0.27	0.29	0.32
	14	0.23	0.26	0.29	0.31	0.34
	15	0.25	0.28	0.31	0.34	0.37
	16	0.26	0.29	0.33	0.36	0.39

Source: RHB

Figure 5: Underlying assumptions for WACC

Cost of equity		Cost of debt	
Expected market return	9%	Pre-tax cost of debt	3%
Risk free	2.5%	1 - effective tax rate	80%
Beta	1	Weight	5%
Weight	95%		
WACC (estimated)	9%		

Source: RHB

Financial Forecasts

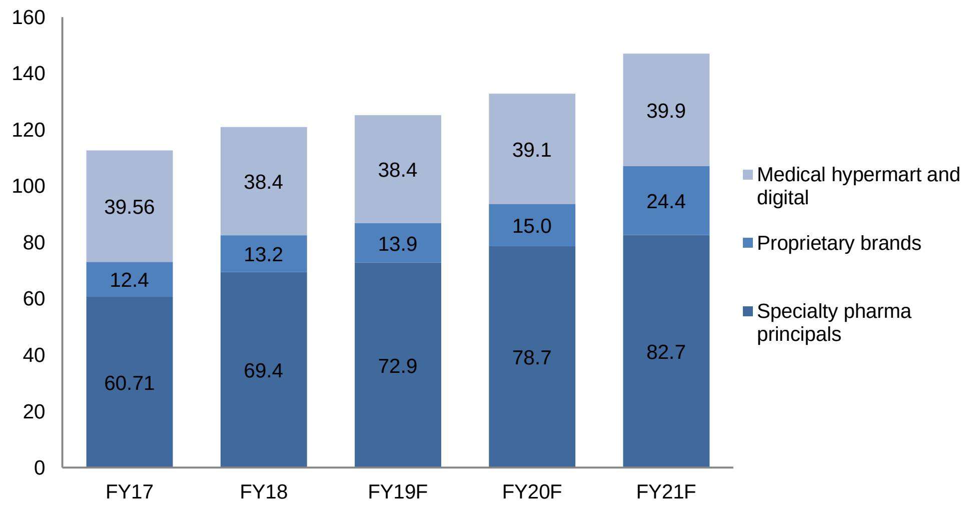
Well-positioned for growth. We expect revenue to grow 3.5%, 6.1%, and 10.7% for FY19F-21F, driven by the growth of the specialty pharma principals and proprietary brands segments.

Expanding the specialty pharma principals portfolio. Specialty pharma principal – Hyphens' mainstay – registered a 14.3% YoY growth in FY18. This growth momentum will likely sustain, in our view, as we estimate Vietnam sales to continue expanding by 5-8% pa. There are also other ongoing pipelines supporting growth in this segment, eg bringing an ear, nose & throat product into the Singapore market and introducing *D-Cure* into Malaysia. The group is targeting to open new customer accounts for existing products, as it furthers its reach to medical practitioners.

As such, we forecast revenue in the specialty pharma principals segment to grow by 5-8% pa to reach SGD82.7m in FY21, as well as a reasonable 3% increase for the following two FYs.

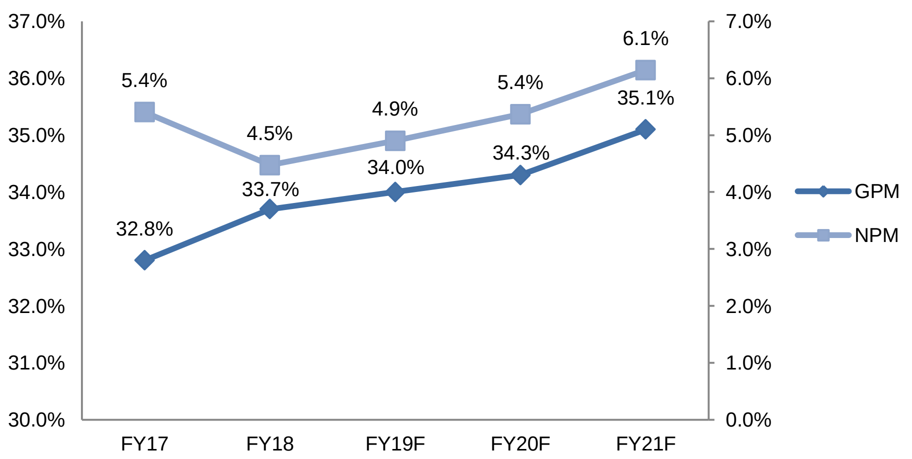
New product launches for the proprietary brands segment. With the acquisition of the *Ocean Health* brand, revenue increased to SGD11.35m in FY16 and SGD13.17m in FY18 from SGD2.71m in FY15. We forecast this segment to have a slower growth rate of between 6-7% in FY19F-20F, as new key hires will take time to ramp up sales. We expect sales to reach SGD24.4m in FY21, marking an 86% increase from FY18's revenue. Hyphens recently added the following key positions – business director for Hyphens Dermatology, business development director, vice-president for the Philippines, and associate marketing director.

Figure 6: Revenue (FY17-21F)



Source: Company data, RHB

Figure 7: GPM and NPM (FY17-21F)



Source: Company data, RHB

Key Risks

Unsuccessful outcomes or challenges faced in new/renewal of product registrations. Product registration/renewal must be granted by the relevant regulatory authority in its respective jurisdictions, before Hyphens can start marketing and selling them. The product registration process is an extensive and lengthy one, with uncertain outcomes. The group may face delays or unsuccessful registration due to reasons such as:

i. Incomplete product registration applications;

ii. Failure to validate the safeness and effectiveness of a product to satisfactory levels set by the regulatory authorities.

Furthermore, a regulatory authority may revoke licenses granted for products at any time. In the event Hyphens is unable to continue with the distribution of its products, or on-boarding new ones, its businesses and prospects may be adversely affected.

Reliance on relationships with brand principals. Under the specialty pharma business segment, the group procures products from its brand principals and sells them to the local and ASEAN markets. Most of these distributorship agreements are on fixed terms. Hyphens may lose the portion of sales generated from the distribution of products from a particular brand principal, should the principal decide not to renew its agreement with the group. In addition, Hyphens is also required to meet the terms laid out in the agreement, such as minimum order quantities. If the group fails to meet the terms stipulated in such agreements, it may face the risk of said principal terminating the agreement or appointing other agents – this should result in a loss of exclusivity to distribute.

High inherent risks due to the nature of the pharmaceutical industry. Hyphens, being the distributor – and also the principal for its proprietary brands – is exposed to risks inherent to the development, distribution, and selling of pharmaceutical products. The group may be subject to product liability, personal injury claims, wrongful death claims, or product recalls if products are found to be unsafe, defective, contaminated, or inaccurately labelled. Other risks include misrepresentation of the products by the distributors or sales representatives, which could lead to incorrect usage. If the abovementioned scenarios occur, it may cause material impact to Hyphens revenue and profitability. Its reputation will also be at risk.

FX fluctuation risks. The fluctuation in foreign currencies, particularly the EUR, USD, and VND, may impact Hyphens' bottomline if it is not hedged effectively. The group sources its specialty pharmaceutical products from the US and Europe, and distributes it to the countries in ASEAN. Hyphens may incur FX losses if there are significant appreciations in the USD or EUR against the SGD or VND. Similarly, any significant depreciation in the VND, IDR, MYR or PHP against the SGD may incur losses to the group.

Approximately half of Hyphens' revenue (45-50%) and purchases (55-60%) are denominated in SGD. The rest are denominated in foreign currencies (20-25% in EUR, 15-20% in USD, and more than 10% in other currencies), with a similar proportion between revenue and purchases. Hence, the natural hedge helps to mitigate the risk of drastic fluctuations to a certain extent and, in cases where there are drastic fluctuations – eg the PHP – the group is able to adjust its prices.

Industry Overview

Increasing healthcare expenditure by the Government. The public sector has seen healthcare expenditure grew by double-digits in the last couple of years up to 2015 (data shown on Data.gov.sg, the Government's one-stop portal for publicly-available data sets). Expenditures reached SGD8.7bn (12.9% of total government spending) in 2015 from SGD2bn (6.74% of total government spending) in 2006. As the country's population ages, demand for health and aged care services will continue to trend up – so will the Government's healthcare expenditure. The estimated healthcare expenditure for FY19 is SGD11.72bn, up 10.3% YoY from a revised FY18 total expenditure of SGD10.63bn.

Vietnam recorded a GDP of USD223.86bn in 2017 – an all-time high – from a record low of USD6.29bn in 1989. According to the World Bank, the country is estimated to grow between 6.5% and 6.6% in 2009-2022.

Demand for healthcare services in Vietnam is growing, not just in Hanoi and Ho Chi Minh City, but also in the country's lower-tier cities. The Vietnamese Government is funding the facilities upgrades of its public provisional-level hospitals. The drivers behind the rapid growth in demand for healthcare products and services are:

i. A changing demographic;

ii. A growing population;

iii. Robust economic growth;

iv. Rising income;

v. Increasing health awareness;

vi. Better access to healthcare services.

According to Business Monitor International, healthcare expenditure stood at 7.5% (an estimated USD16.1bn) of GDP in 2017. It is forecasted to increase at a CAGR of 12.5% to USD22.7bn in 2021. The market growth rate of the pharmaceutical products sector averaged 17-20% in 2010-2015, according to the General Statistics Office of Vietnam in 2017. This is one of the fastest-growing markets in the region, making it very attractive for foreign investments.

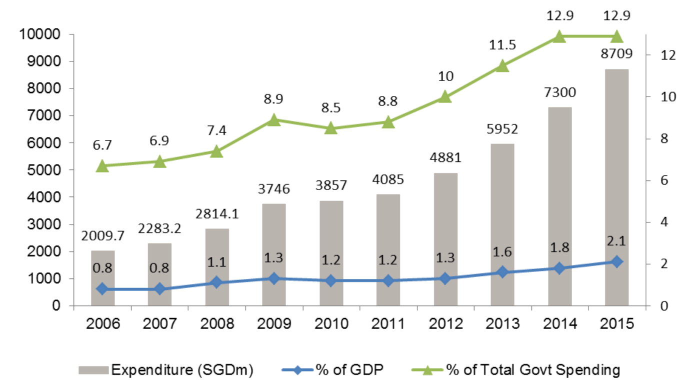
Introduction of a pharmacy law in Vietnam. This new law has come into force since 1 Jan 2017 and is expected to affect the domestic industry significantly. It is aimed at prioritising the purchase of locally-produced products. At present, the domestic industry mainly produces generic drugs, while foreign players dominate in the high-quality non-generic drugs segment.

However, it must be stated that this law also favours foreign investment enterprises being established in the pharmaceutical sector – this is to provide better access to innovative drugs and advanced techniques.

Overall, we think that there is rapid and sustainable growth in the demand for pharmaceutical products in Vietnam. On the supply front, whilst the Vietnam Government is actively pushing for the purchase of domestically-produced products, it may take some time before local players and manufacturers are able to produce high-quality drugs that meet international standards. Consequently, hospitals and clinics in Vietnam are more likely to procure overseas products from distributors like Hyphens to meet their needs.

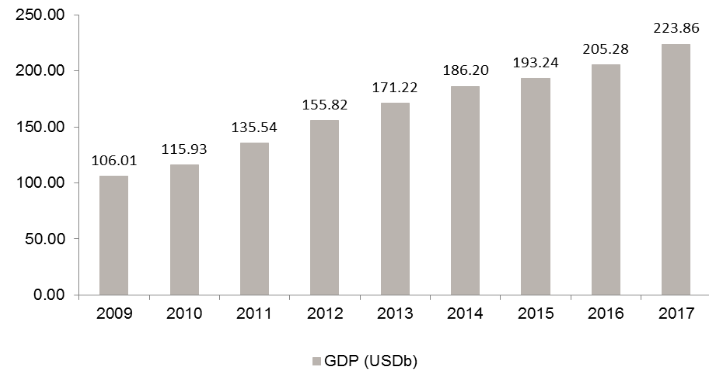
Global atopic dermatitis treatment market size is growing. The prevalence rate of atopic dermatitis – commonly known as eczema – is increasing, with the urbanisation trend being one of the reasons behind this chronic disease. Coupled with rising treatment costs, the global treatment market size for this disease is set to increase to USD24bn in 2027 from USD5.8bn in 2016, according to a 2017 market report from Future Market Insights. In ASEAN, the market is estimated to grow to USD596m in 2027, from USD210m in 2016.

Figure 8: Singapore Government's health expenditure



Source: [Data.gov.sg]

Figure 9: Vietnam's GDP



Source: [Trading Economics]

Company Background

Hyphens started off when Inomed – incorporated by the group's chairman, executive director (ED) & CEO Mr Lim See Wah and non-ED Dr Tan Kia King – and Mr Lim acquired Pan-Malayan Pharmacy (Pan-Malayan). The latter, established in the 1940s, was involved in the wholesale supply of pharmaceutical products and medical supplies in Singapore.

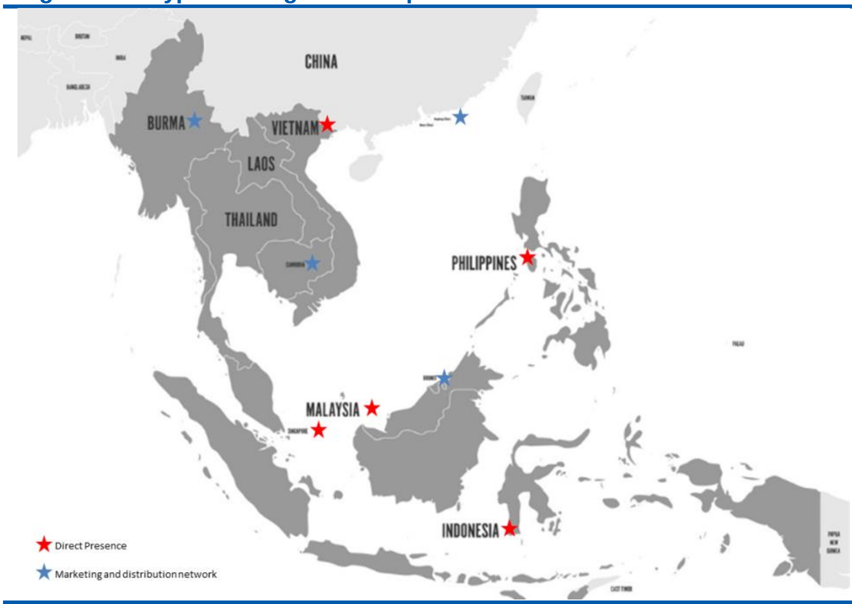
Hyphens Singapore, established in Jan 1986, was acquired by Inomed in Sep 2001 with an initial shareholding of 25%. At that time, the firm was involved in business development activities for pharmaceutical principals. Group ED Mr Tan Chwee Choon invested in Hyphens Singapore in Jan 2004 and, during this period, Inomed, Pan-Malayan, and Dr Tan collectively held the firm's entire issued share capital.

Following a restructuring exercise in Nov 2010, Pan-Malayan became a wholly-owned subsidiary of Hyphens Singapore, while Inomed and Dr Tan held 81.8% and 18.2% of the issued capital of Hyphens.

In 2016, the group bought the entire issued share capital of Ocean Health Singapore, which owned the *TDF* and *Ocean Health* brands, as well as Ocean Health Malaysia. Hyphens currently comprises three main business entities: Hyphens Singapore, Pan-Malayan, and Ocean Health Singapore.

The group moved into an integrated facility – comprising an office, warehouse, and packaging space – in 2018, in view of unlocking synergies through the consolidation of its different business units.

Figure 10: Hyphens' regional footprint



Source: VectorStock, RHB

Hyphens' core businesses comprise:

i. Specialty pharma principals;

ii. Proprietary brands;

iii. Medical hypermart and digital platform.

Specialty pharma principals

The group signs exclusive distributorship, licensing, and supply agreements with brand principals to market and sell a range of specialty pharmaceutical products in relevant ASEAN markets. The principals are located mainly in the US and Europe. Three of the brand principals, whose products have contributed significantly to the group, are Guerbet, Biosensors Interventional Technologies (Biosensors) and Sofibel. Other principals include Bausch+Lomb and Chiesi Farmaceutici. As at 31 Dec 2017, Hyphens carries more than 30 products under its portfolio.

The renewal of the exclusive distributorship with Biosensors – which was set to expire on 1 Apr – is currently undergoing, and the group does not foresee any issues with regards to this renewal. Hyphens' others agreements are also expected to go through the normal renewal processes as they approach expiry. Revenue from this segment accounted for 57% of the group's total topline in FY18.

Figure 11: Hyphens' major products

Principals	Products	Territory exclusivity	Expiry
Guerbet	Contrast media	Vietnam	31 Dec 2020
Biosensors	Coronary stents	Vietnam	1 Apr 2019
Sofibel	*Stérimar* nasal sprays	Singapore, Vietnam, Malaysia, the Philippines, and Cambodia	31 Dec 2019
Bausch+Lomb	Bausch+Lomb eye drops	Vietnam	1 Jan 2019
Next Gen Pharma India	*Vivomixx*	Singapore	27 Aug 2025
SMB Technology	*Fenosup Lidose*	Singapore	n/a
J Uriach y Compañía	*Rupafin*	Singapore, Vietnam, Indonesia, and the Philippines	1 Feb 2023

Source: Company data

Figure 12: *Xenetix*

Source: Company

Figure 13: Biosensors' coronary stents

Source: Company

Figure 14: *Stérimar* nasal sprays

Source: Company

Figure 15: Bausch+Lomb eye drops

Source: Company

Proprietary brands

Under this segment, Hyphens develops, markets, and sells its own proprietary range of dermatological products and health supplements. The former is marketed under the *Ceradan* and *TDF* brands, while the latter are sold under the *Ocean Health* name.

Dermocosmetic products are primarily sold through medical professionals, which include general practitioners, dermatologists, paediatricians, and pharmacists. Health supplements are marketed directly to the consumers in Singapore via retail channels. Aside from the island republic, this division's products are also sold to customers in Vietnam, Malaysia, Indonesia, the Philippines, and other ASEAN states. Revenue from this business accounted for 11% of total revenue in FY18.

Figure 16: *Ceradan* eczema medication

Source: Company

Medical hypermart and digital platform

Hyphens is also engaged in the wholesaling of pharmaceuticals and medical supplies. Its customer base is made up of healthcare professionals, healthcare institutions, and retail pharmacies. It also operates an online platform, where the group allows registered customers to browse its wholesale product offerings.

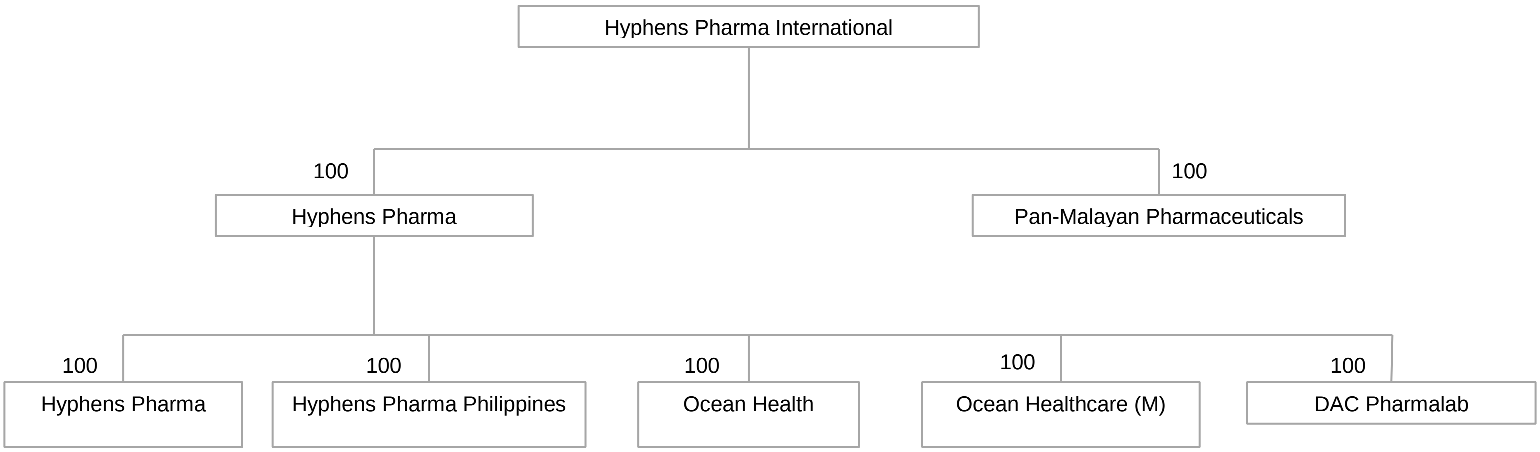
Revenue from this segment accounted for 32% of total revenue in FY18.

Figure 17: Hyphens' management team

Name	Position	Profile
Lim See Wah	Chairman, executive director and CEO	Mr Lim has been with the group since its inception in Sep 1998. He is currently responsible for overseeing and managing Hyphens' overall operations and strategic direction. Mr Lim graduated with a Bachelor of Science (Pharmacy) with Honours (Second Class Honours Upper Division) from National University of Singapore in Jun 1992. He obtained a Graduate Diploma in Business Administration from Singapore Institute of Management in May 1994.
Tan Chwee Choon	Executive director	Mr Tan was appointed to the board on 12 Dec 2017. He joined the group in Jan 2004 and is currently responsible for managing its Indochina operations. Mr Tan graduated with a Bachelor of Business (with Distinction) from Curtin University of Technology in Feb 1998.
Fang Lee Wei	CFO	Ms Fang joined the group in Apr 2010. She is responsible for Hyphens' overall financial management. Ms Fang graduated from Nanyang Technology University with a Bachelor of Accountancy (Second Class Honours Upper Division) in Jun 1996, Graduate Diploma in Marketing from the Marketing Institute of Singapore in Nov 1998, and a Master of Commerce (International Business) from the University of New South Wales in Dec 1999. She is a chartered accountant registered with the Institute of Singapore Chartered Accountants.
John Leong	General manager of Hyphens Singapore (Malaysia, Indonesia, and the Philippines)	Mr Leong has been with the group since May 2015. He is responsible for overseeing Hyphens' operations in Malaysia, Indonesia, and the Philippines, Mr Leong graduated from National University of Singapore with a Bachelor of Science (Pharmacy) in July 1987 and obtained a Diploma in Marketing from the Chartered Institute of Marketing, the UK, in Dec 1990.

Source: Company data

Figure 18: Group structure



Source: Company data

Peer Analysis

We have broken down Hyphens' competitors by three key segments, as the group faces different competitions from these various sectors:

i. **Specialty pharma principals.** This industry is highly fragmented and Hyphens faces intense competition from large multi-national manufacturers and distributors, among others. The key competitors include DKSH and DCH Auriga, which both have an ASEAN presence. Other specialty pharma players in Asia include Katakura, Koa Shoji, and Charmacy. Domestically, Pharmaforte Singapore is also a competitor;

ii. **Proprietary brands.** Under the group's proprietary brands, its main competitors for *Ceradan* products are brands like *Cetaphil* and *Physiogel*. As for *Ocean Health*, rival brands include *Blackmores* and *Swisse*. Hyphens' *TDF* products compete with *NeoStrata;*

iii. **Medical hypermart and digital business.** The group's key competitor in this area is Apex Pharma Marketing.

The stock is currently trading at c.9.6x FY19F P/E. Our DCF-backed TP of SGD0.25 implies FY19F P/E of 12.2x, which is well below the peer average of 17.8x. At the current price level, Hyphens offers a decent yield of 2.8%, which is comparable to the industry average of 3.3%.

Figure 19: Peers comparison

Company	Market cap (USDm)	P/E (x)	FY19F P/E (x)	P/BV (x)	Dividend yield (%)	Return on equity (%)	EV/EBITDA (x)	Debt/equity
Hyphens Pharma International	43.5	8.0	9.6	1.5	2.8	18.7	5.0	7.7
Specialty pharma								
DKSH	3,727.5	14.3	18.8	2.1	3.3	13.0	12.1	7.9
Katakura Industries	421.7	31.2	n/a	0.8	0.9	2.6	11.2	27.4
Koa Shoji	78.6	10.9	n/a	0.6	2.8	6.0	5.6	39.7
Charmacy Pharmaceutical	96.8	14.7	6.9	1.4	4.9	10.0	17.6	263.6
Proprietary Brands								
Health & Happiness International	3,615.7	29.4	16.6	5.4	1.1	20.0	11.9	123.0
Blackmores	1,079.8	21.9	26.6	7.4	4.9	36.2	22.4	44.5
Extrawell Pharmaceutical	35.8	7.3	n/a	0.3	n/a	3.7	n/a	3.9
Vita Life Sciences	28.2	16.3	n/a	1.8	7.1	10.3	9.3	9.3
Hypermart								
Apex Healthcare	253.0	18.4	20.3	2.6	1.5	15.1	12.9	7.7
Average		**18.3**	**17.8**	**2.5**	**3.3**	**13.0**	**12.9**	

Source: Bloomberg, RHB

Business Analysis

Hyphens derives its revenue primarily from the sales of goods under its three core business segments:

i. Specialty pharma principals;
ii. Proprietary brands;
iii. Medical hypermart and digital business.

Sales of goods totalled 99.1% of its 2017 revenue. The other revenue came from tprovision of services such as advertisement fees, marketing services/activities, and commissions income from third-party logistics services.

The acquisition of Ocean Health Singapore, as well as increases in sales volume of its *Ceradan* products, has led to an exponential growth in the proprietary brands segment (+SGD8.7m or 322.2% YoY) in FY16. In that same year, the group achieved higher sales volumes of its contrast media and coronary stent products due to deeper market penetration in Vietnam. Overall, total revenue increased SGD22.7m, or 29% YoY, to SGD101m during this period.

In FY17, revenue grew 17% YoY to SGD113.2m on higher contributions from across all three business segments. Hyphens launched new products under its proprietary brands *Ceradan* and *Ocean Health*'s ranges, which contributed to the increase in sales volume. In addition, sales in Vietnam went up SGD8.4m (+21.8% YoY) as a result of higher sales volume of contrast media and coronary stents.

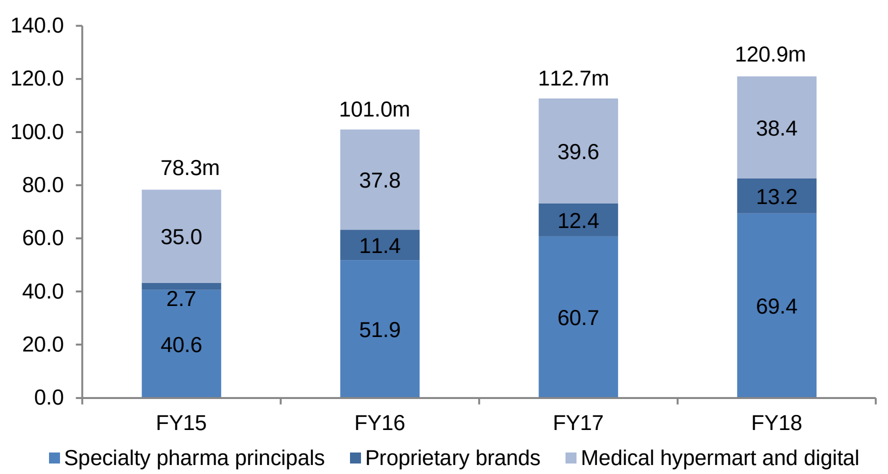
The group's revenue continued to grow at 7.3% to SGD120.9m in FY18 on strong performances from the specialty pharma principals and proprietary brands segments. Due to the high demand for specialty pharma products in Vietnam, the percentage of revenue generated from the ASEAN member state to Hyphens' total revenue grew to 43.6% in FY18 from 37.4% in FY15. Consequently, this segment delivered a CAGR of 20% between FY15 and FY18, which represents c.57% of the group's total revenue last year.

The revenue generated from the speciality pharma products segment is highly concentrated among the three product groups, namely contrast media products, Biosensors' coronary stents, and *Stérimar* nasal sprays, which contributed 14.6%, 11.3%, and 7.5% of FY17 revenue.

The company's GPM has ranged between 32-35% over FY15-18. The fluctuations between the margins were largely due to better margins from Ocean Health products, which were then offset by the declining margins from the specialty pharma principals, and hypermart and digital platform segments. As Hyphens has ownership of the products under the proprietary brands division, it has better control in setting prices, which can then lift up margins.

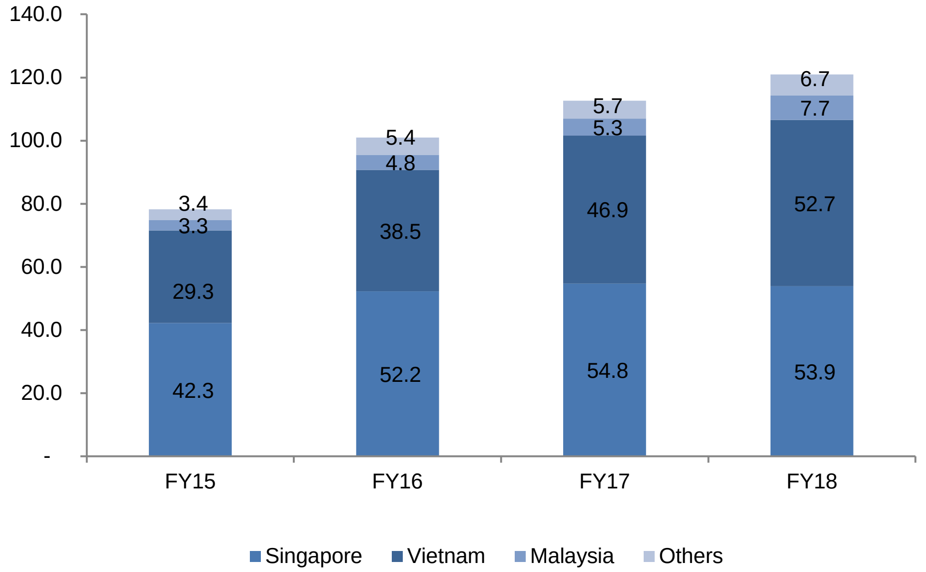
In FY18, gross margins improved to 33.7% due to larger contributions from the specialty pharma principals and proprietary brands businesses, which command a higher margin. However, there was a slight dip in net margin to 4.5%, mainly due to one-off IPO expenses and impairment of goodwill related to the Ocean Health acquisition – this is in view of a slower growth rate against a weaker retail sales backdrop.

Figure 20: Revenue by segment



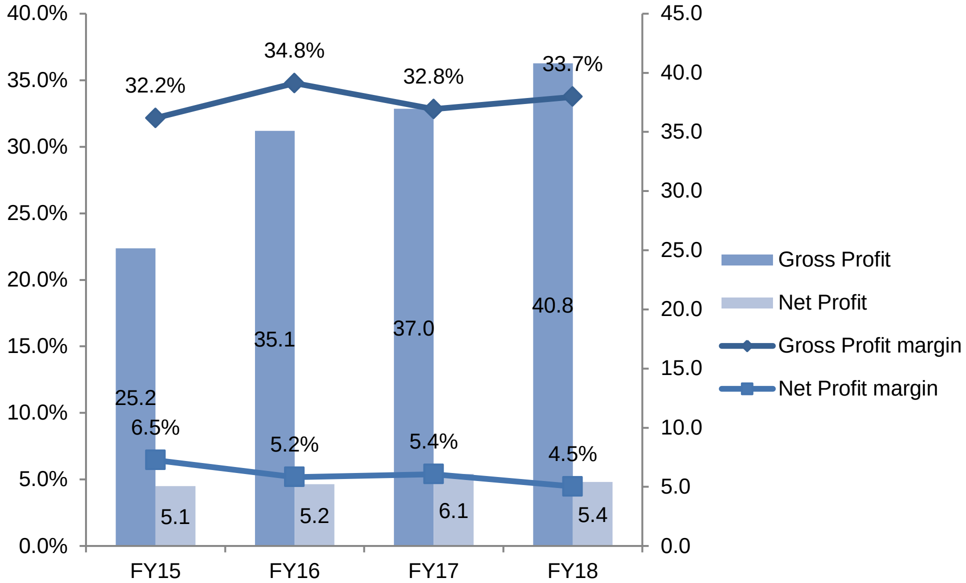
Source: Bloomberg, RHB

Figure 21: Revenue by geography



Source: Bloomberg, RHB

Figure 22: Profit (SGDm) and profit margins (%)



Source: Company data

As at 31 Dec 2018, Hyphens has a net cash of SGD19.4m. Cash & cash equivalents stood at SGD22.4m, with a short-term loan of SGD3m. Out of SGD22.4m in cash, SGD7m has been earmarked for business expansion.

Figure 23: Use of IPO proceeds

SGDm	Allocated	Utilised	Balance
Business expansion	7.0	0.0	7.0
Integrated facility	3.0	3.0	0.0
Working capital	3.6	0.5	3.0
IPO expenses	2.0	2.0	0.0
	15.6	5.6	10.0

Source: RHB

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Wisma Mulia, 20th Floor
Jl. Jenderal Gatot Subroto No. 42
Jakarta 12710
Indonesia
Tel : +6221 2783 0888
Fax :+6221 2783 0777

HONG KONG

RHB Securities Hong Kong Ltd.
12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

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RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

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RHB Securities Singapore Pte Ltd.
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
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