Hyphens Pharma Intl Ltd

Leveraging on trust with doctors for profitability

SINGAPORE | HEALTHCARE | UPDATE

- Specialty pharmaceuticals the major earnings driver, rising from 52% of total revenue in FY15 to 57% in FY18.
- High product barriers, brand reputation and product efficacy will enable Hyphens to maintain its premium pricing and product loyalty.
- Revenue generated outside of Singapore to increase as Hyphens intensify presence in existing countries and diversify to new geographies.
- The stock trades at around 10.2x price to earnings and 1.5x price to book and offers a decent dividend yield of 2.8%.

Company Background

Hyphens Pharma International Limited (Hyphens) is a Singapore-based specialty pharmaceutical and consumer healthcare group with a footprint in ASEAN countries. The Group has a direct presence in five ASEAN countries, namely, Singapore, Vietnam, Malaysia, Indonesia and the Philippines, supplemented by a marketing and distribution network covering five additional jurisdictions, namely, Hong Kong, Myanmar, Brunei, Cambodia and Oman. Besides marketing and selling a range of specialty pharmaceutical products in selected ASEAN countries through exclusive distributorship or licensing and supply agreements with brand principals mainly from Europe and the United States, the Group also develops, markets and sells its own proprietary range of dermatological products and health supplement products. In addition, the Group operates a medical hypermart for healthcare professionals, healthcare institutions and retail pharmacies, to supply pharmaceutical products and medical supplies.

1. **High product loyalty or stickiness for specialty pharmaceutical due to efficacy and trust.** Specialty pharmaceuticals are drugs or treatments prescribed by doctors. There is generally product stickiness because doctors are inherently prudent and they prefer proven products as they are responsible for the well-being of their patients. Hence, doctors require extensive convincing through scientific evidence and past experience to make a switch. Once converted, doctors will gain product confidence gradually and stay with the brands which they prescribe. In addition, Hyphens operates in a tightly regulated market with drug registrations taking as long as two to three years with significant recurring financial and compliance costs to renew licenses and permits.

2. **High product differentiation for proprietary brands equal healthier margins and low price sensitivity.** Hyphens enjoy higher margins due to the way they market their proprietary products as premium branded products with innovative and differentiated offerings. Hyphens has the full right to set prices in the countries they operate and since their products are mostly imported and with good efficacy, Hyphens is able to price appropriately. Hyphens ultimately compete based on value rather than price. In respect of Hyphens' proprietary brands (e.g. Ceradan® and TDF®), Hyphens' ability to develop a brand reputation and establish product quality differentiation from generic brands, will enable Hyphens to maintain its premium pricing and better margins.

3. **Growing ASEAN network in tandem with strong economic growth in the region.** Hyphens has five focus countries (Singapore, Malaysia, Indonesia, Philippines and Vietnam) with the percentage of revenue generated from markets outside of Singapore expected to increase as Hyphens continue to increase their presence in existing focus countries and expand to new geographies.

In terms of valuation, the stock trades at around 10.2x price to earnings and 1.5x price to book. The stock currently offers a decent dividend yield of 2.8%.

22 October 2019

Non-rated

LAST CLOSE PRICE	SGD 0.195
FORECAST DIV	N.A.
TARGET PRICE	N.A.
TOTAL RETURN	**N.A.**

COMPANY DATA

BLOOMBERG CODE	HYP SP
O/S SHARES (MN) :	300
MARKET CAP (USD mn / SGD mn) :	43 / 58.6
52 - WK HI/LO (SGD) :	0.24 / 0.16
3M Average Daily T/O (mn) :	0.06

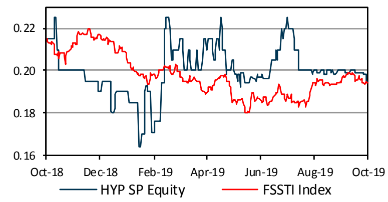
MAJOR SHAREHOLDERS (%)

INOMED HOLDING PTE LTD	65.3%
TAN CHWEE CHOON	14.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(2.5)	(11.4)	(6.9)
STI RETURN	(0.6)	(5.7)	6.5

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, (S$'000)	FY15	FY16	FY17	FY18
Revenue	78,278	100,970	112,652	120,930
EBITDA	6,314	6,545	8,113	8,952
NPAT	5,058	5,240	6,088	5,410
EPS (S$ Cents)	1.7	1.7	2.0	1.8
P/E (x)	11.6	11.2	9.6	10.8
P/B (x)	3.8	3.0	3.1	1.5
Div Yield	-	-	-	2.8%
ROE	-	30.0%	31.7%	18.7%

Source: Company Data

VALUATION METHOD

N.A.

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MCI (P) 006/10/2019
Ref. No.: SG2019_0171

Milestones

Date	Event
1998	Started with investment in Pan-Malayan Pharmaceuticals.
2001	Acquisition of Hyphens Pharma.
2004	Started operation in Malaysia.
2007	Started operation in the Philippines.
2008	Completed the acquisition of Pan-Malayan Pharmaceuticals from founders.
2010	Hyphens received the prestigious E50 Award.
2011	Started operation in Indonesia. Launch of Ceradan, the first proprietary brand owned by Hyphens Pharma.
2013	Transformation of Pan-Malayan Pharmaceuticals as a wholesaler to "The Medical Hypermart. Pan-Malayan Pharmaceuticals received the prestigious E50 Award.
2016	Acquisition of Ocean Health. Hyphens Pharma and Singapore's Agency for Science, Technology and Research (A*STAR) inked MoU to be Strategic Dialogue Partners in the Field of Dermatology.
2017	Filed for a patent in the UK.
2018	Listed on Catalist, SGX-ST. Moved into Corporate Headquarters and Integrated Facility.
2019	Official Opening of Hyphens Pharma International Limited's Corporate Headquarters and Integrated Facility

Revenue

Revenue for Hyphens grew 54% from S$78mn in FY15 to S$121mn in FY18. Hyphens' revenue is broken down into three segments.

- **Specialty pharmaceuticals:** The major driver to earnings has been specialty pharmaceuticals, rising from 52% of total revenue in FY15 to 57% in FY18.
- **Proprietary brands:** Despite being the weakest revenue contributing segment, proprietary brands remained resilient, maintaining an 11% contribution of total revenue consistently over the past three years.
- **Medical hypermart and digital platform:** Revenue contribution from medical hypermart and digital has been decreasing over the years, from 45% in FY15 to 32% in FY18. Revenue from this segment fell 3.1% YoY in FY18. However, with cost reduction measures and growth in Hyphens' house brand product range which typically carries higher profit margins, profit before tax of this business segment grew 2.5% YoY despite recording a lower revenue.

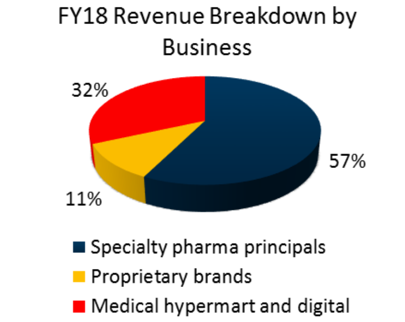
1. Specialty pharmaceuticals

Hyphens engages in the business of selling and marketing specialty pharmaceutical products. Hyphens maintains long-term relationships with many of its brand principals and, through exclusive distributorship or licensing and supply agreements with the relevant brand principals, Hyphens markets and sells a range of specialty pharmaceutical products in the relevant ASEAN countries. Revenue from this segment accounted for 57% of FY18's total revenue (Figure 1).

To sell these specialty pharmaceuticals, Hyphens has to secure the rights from brand principals which are mainly from Europe and the United States. Some of the principals that Hyphens represents are:

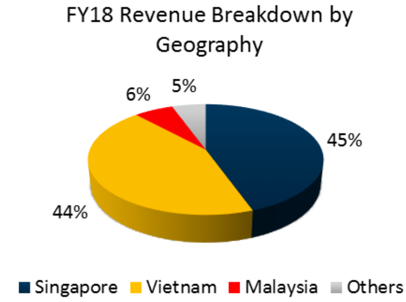
(i) Guerbet SA: Contrast media such as XENETIX®, DOTAREM®, LIPIODOL® are used for X-Rays, CT scans and MRI (Figure 3). Contrast media alone contributed to 13.7% of FY18's total revenue.
(ii) Biosensors International: Coronary stents
(iii) Sofibel S.A.S.: Stérimar® nasal sprays
(iv) Bausch+Lomb: Bausch+Lomb eye drops
(v) Next Gen Pharma India: Vivomixx ™
(vi) SMB Technology: Fenosup® Lidose®
(vii) J Uriach y Compañía: Rupafin

Figure 1: Specialty pharma is the major revenue contributor



Source: Company, PSR

Figure 2: Singapore and Vietnam are the major contributing geographies



Source: Company, PSR

Figure 3: Contrast media being used in a scan

Source: Company

Figure 4: Specialty pharmaceutical products

Source: Company

Business model of specialty pharma

1. **Identify:** Hyphens' business development team to research new drugs to license through conferences, online research and talking to doctors in Singapore.
2. **Contract signing:** Hyphens will only sign exclusive agreements with mid-sized pharmaceutical companies with a 3-5 years contractual period from the date of launch of the product. Some contracts do include an auto-renewal clause.
3. **Drug registration:** Depending on the product, drugs take approximately 2-3 years to be registered, medical device: 6 months, and cosmetics: 3 months.
4. **Pre-launch marketing:** Hyphens will engage doctors to promote the drug launch and related treatments and obtain support from doctors to get the drugs listed on the hospital drug list.
5. **Ramp-up period:** New drugs usually take a few years to gain traction and awareness. The ramp-up period differs for each drug due to the take-up rate and usage pool.

The therapeutic focuses which Hyphens targets its specialty pharmaceuticals:
Dermatology, paediatrics and neonatology, allergy, otorhinolaryngology (ear, nose and throat), orthopaedic and rheumatology, radiology, cardiology and interventional cardiology, ophthalmology, gastroenterology, child psychiatry and family medicine.

The major specialty product brands for Hyphens include contrast media products, Stérimar® nasal sprays, Bausch+Lomb eye drops, Vivomixx ™, Fenosup® Lidose® and Piascledine®.

2. Proprietary brands

Hyphens develops, markets and sells its own proprietary range of dermatological products under their Ceradan® and TDF® brands, and health supplement products under their Ocean Health® brand. Hyphens own the formulation, trademark and right to appoint contract manufacturers to produce the products, and sell it anywhere in the world. Revenue from this segment accounted for 11% of total revenue in FY18 (Figure 1).

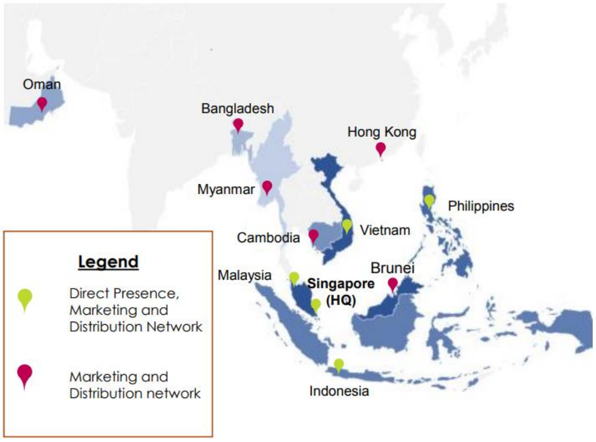
Figure 5: Proprietary brands

Source: Company

Business model of Proprietary brands

1. Hyphens develops and owns the product formulation, and the world is their market.
2. Engages and appoint manufacturers in product development.
3. Contract manufacture these products which bears the Hyphens trademark under their Ceradan®, TDF® and Ocean Health® brands.

Figure 6: Exposure to 11 geographic markets



Source: Company

3. Medical hypermart and digital platform

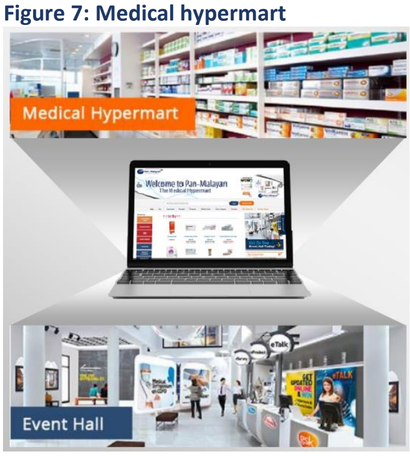
Hyphens engages in the wholesale of pharmaceuticals and medical supplies in Singapore through Pan-Malayan, which is a medical hypermart for healthcare professionals, healthcare institutions and retail pharmacies. Revenue from this segment accounted for 32% of FY18's total revenue (Figure 1).

In addition, the online platform was also upgraded with educational materials, some of which are recognised under the Singapore Medical Association's Continuing Medical Education ("CME") programme which allows doctors to earn CME points as part of their practicing requirements. This expands the appeal of the online Medical Hypermart to beyond inventory restocking.

Business model of Medical Hypermart and Digital Platform

1. Wholesaler of pharmaceutical products and medical supplies
2. Cater largely to private clinics and pharmacies that want a one-stop vendor for their medical supplies.
3. More than 3,000 customers and 4,000 items in its inventory.
4. Has a B2B e-commerce platform as well that facilitates 24/7 ordering.
5. Currently the only medical hypermart and digital platform in Singapore.

Figure 7: Medical hypermart



Source: Company

Margins

Gross profit margin improved from 32.8% in FY2017 to 33.7% in FY2018 and this was largely attributable to the increased contribution from the specialty pharma principals and proprietary brands segments, which have comparatively higher margins than the medical hypermart and digital segment.

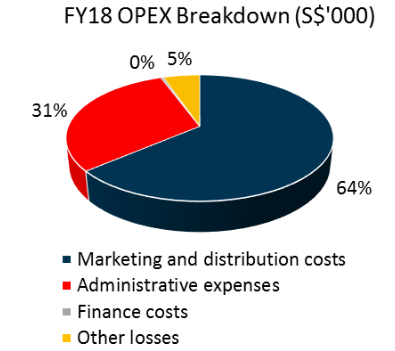
Dividends

Hyphens does not have a fixed dividend policy. However, the Board intends to recommend and distribute dividends of at least 30% of its net profits attributable to our Shareholders for each of 2018 and 2019, as they wish to reward Shareholders for participating in the Group's growth.

Cost

Large cost components are marketing and distribution costs, making up 64% of total OPEX in FY18 (Figure 8). Hyphens' ability to scale its business is contingent on its ability to grow its marketing and distribution network to enhance its presence in existing jurisdictions and expand its product reach in new geographical markets. Hence a large proportion of spending is allocated to increase the quality and size of Hyphens' marketing and distribution network, which will affect its distribution capacity, and, accordingly, sales volumes.

Figure 8: Marketing & distribution the major cost drivers at 64% of total OPEX.



Source: Company, PSR

Cash-flow

A strength of Hyphens' business model is the minimal capital expenditure required in the business. PPE only make up only 5% of FY18's total assets. With minimal capex required, FCF yield stood at 7.0% in FY18. This allows Hyphens to sustain its dividend of S$0.0055 per share in FY19, translating into a modest 2.8% yield. High FCF also helps the group to build its war chest for future acquisitions.

Balance Sheet

Assets: Of the S$75mn total assets, almost 32% is cash (S$24mn), 35% is trade and other receivables (S$26mn) and 14% is inventories (S$10mn).
Liabilities: Hyphens' total liabilities stand at S$34mn, with trade and other payables accounting for 83%.

Competitors

Some of Hyphens' competitors include:

1. **Specialty pharmaceuticals:** DKSH and DCH Auriga.
2. **Proprietary brands:** Cetaphil, Physiogel, Blackmores, Swisse and Neostrata.
3. **Medical hypermart and digital platform:** Apex Pharma Marketing.

Customers

Hyphens' customers for each segment:

1. **Specialty pharmaceuticals:** Demand for specialty pharma has been rising in Vietnam, with revenue contribution from Vietnam rising from 37% of total revenue in FY15, to 44% in FY18.
2. **Proprietary brands:** Dermocosmetic products are primarily sold through medical professionals, including general practitioners, dermatologists, paediatricians and pharmacists; and more recently, major retail pharmacies. Health supplement products are marketed directly to consumers in Singapore via retail channels, including major retail pharmacies. Customers are mainly from Singapore, Vietnam, Malaysia, Indonesia and the Philippines, as well as Hong Kong, Myanmar, Brunei and Cambodia. Revenue from this segment contributed to 11% of total revenue in FY18 (FY15: 3%).
3. **Medical hypermart and digital platform:** Customers include healthcare professionals (e.g. GPs and specialists), healthcare institutions, and retail pharmacies. Revenue from this segment contributed to 32% of total revenue in FY18 (FY15: 45%).

Figure 9: Vietnam's GDP grew at an average pace of 9.5% YoY for the past decade.

Source: Company, PSR

Industry

Strong economic growth in ASEAN countries with increased health expenditure. In tandem with the economic growth in Singapore, Vietnam, Malaysia, Indonesia and the Philippines, these countries have seen an increase in total health expenditure.

Increased life expectancy with an aging population. Life expectancy in ASEAN countries has increased significantly. This, coupled with decreasing fertility rates, have resulted in an aging population profile across ASEAN countries. An aging population is expected to result in increased healthcare expenditure and continued economic development of ASEAN countries is expected to drive this spending with rising affluence. This may, in turn, increase demand for Hyphens' products.

Increase in Prevalence of Atopic Dermatitis. Studies have shown a statistical correlation between urban environments and atopic dermatitis and accordingly, there is a substantial market for products for the management of atopic dermatitis, such as our Ceradan® products, with the rise in urbanisation of ASEAN countries.

Investment Highlights

1. **High specialty pharmaceutical loyalty or stickiness due to efficacy.** Specialty pharmaceuticals are drugs or treatments prescribed by doctors. There is generally product stickiness because doctors are inherently prudent and they prefer proven products as they are responsible for the well-being of their patients. Hence, doctors require extensive convincing through scientific evidence and past experience to make a switch. Once converted, doctors will gain product confidence gradually and stay with the brands which they prescribe. In addition, Hyphens operates in a tightly regulated market with drug registrations taking as long as two to three years with significant recurring financial and compliance costs to renew licenses and permits.
2. **High barriers to entry for proprietary brands equal healthier margins and low price sensitivity.** Hyphens enjoy higher margins due to the way they market their proprietary products as premium branded products with innovative and differentiated offerings. Hyphens has the full right to set prices in the countries they operate and since their products are mostly imported and with good efficacy, Hyphens is able to price appropriately. Hyphens ultimately compete based on value rather than price. In respect of Hyphens' proprietary brands (e.g. Ceradan® and TDF®), Hyphens' ability to develop a brand reputation and establish product quality differentiation from generic brands, will enable Hyphens to maintain its premium pricing and better margins.
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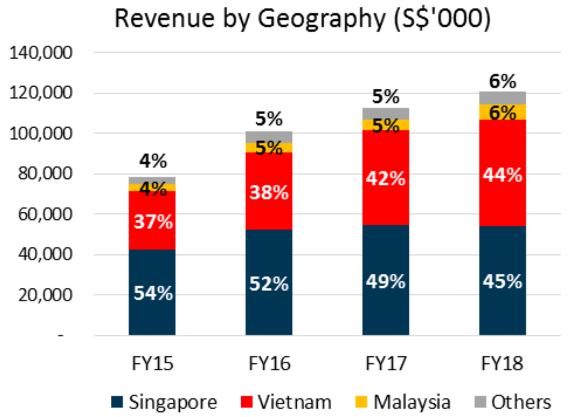
Valuations

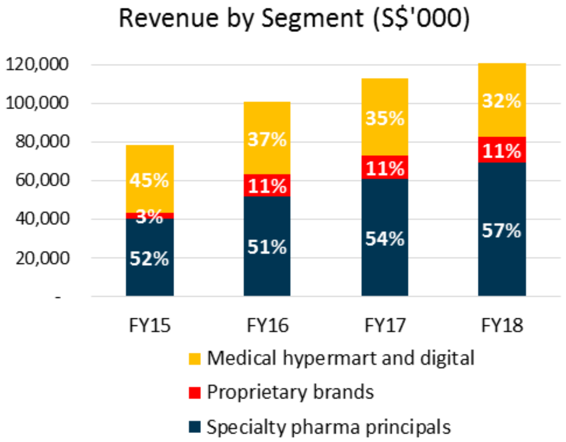
In terms of valuation, the stock trades at around 10.2x price to earnings and 1.5x price to book. The stock currently offers a decent dividend yield of 2.8%.

Figure 10: Vietnam accounted for 44% of total revenue in FY18, achieving growth of 12.5% YoY.



Source: Company, PSR

Figure 11: Revenue from specialty pharmaceuticals grew 14.3% YoY, contributing to 57% of total revenue in FY18.



Source: Company, PSR

Financials

Income Statement

Y/E Dec, S$'000	FY15	FY16	FY17	FY18
Revenue	78,278	100,970	112,652	120,930
Cost of sales	(53,111)	(65,866)	(75,684)	(80,125)
Gross profit	**25,167**	**35,104**	**36,968**	**40,805**
Other income and gains	432	674	268	279
Marketing and distribution costs	(13,830)	(20,413)	(20,402)	(21,736)
Administrative expenses	(4,901)	(8,343)	(8,472)	(10,422)
Finance costs	(23)	(310)	(206)	(129)
Other losses	(823)	(1,229)	(996)	(1,797)
Profit before tax	**6,022**	**5,483**	**7,160**	**7,000**
Income tax expense	(964)	(243)	(1,072)	(1,590)
Profit after tax	**5,058**	**5,240**	**6,088**	**5,410**

Per share data

Y/E Dec, SG cents	FY15	FY16	FY17	FY18
EPS	1.7	1.7	2.0	1.8
DPS	0.0	0.0	0.0	0.6
BVPS	5.1	6.5	6.3	13.1

Cash Flows

Y/E Dec, S$'000	FY15	FY16	FY17	FY18
CFO				
Profit before tax	**6,022**	**5,483**	**7,160**	**7,000**
Adjustments	302	1,357	1,391	2,946
WC changes	960	690	(3,250)	(1,255)
Cash flows used in ops	7,284	7,530	5,301	8,691
Taxes paid, others	(974)	(1,048)	(683)	(1,154)
Cash flows used in ops	**6,310**	**6,482**	**4,618**	**7,537**
CFI				
CAPEX, net	(588)	(519)	(171)	(3,378)
Acquisition of subsidiaries	-	(10,745)	-	-
Others	1	3	9	54
Cash flows from investing	**(587)**	**(11,261)**	**(162)**	**(3,324)**
CFF				
Proceeds from issuance of shares	-	-	-	15,605
Loans, net of repayments	261	5,854	(3,476)	(1,088)
Dividends	(2,320)	(2,000)	(1,000)	(7,000)
Others	-	-	(310)	(1,670)
Cash flows from financing	**(2,059)**	**3,854**	**(4,786)**	**5,847**
Net change in cash	**3,664**	**(925)**	**(330)**	**10,060**
CCE, end	**13,548**	**12,623**	**12,293**	**22,353**

Source: Company

Balance Sheet

Y/E Dec, S$'000	FY15	FY16	FY17	FY18
ASSETS				
PPE	619	849	630	3,464
Intangible assets	773	9,470	9,105	7,764
Others	-	420	315	210
Total non-current assets	**1,392**	**10,739**	**10,050**	**11,438**
Inventories	6,190	9,035	13,178	10,863
Trade and other receivable	15,261	20,169	23,775	29,833
Cash and cash equivalents	13,548	12,623	12,293	22,353
Others	92	247	245	492
Total current assets	**35,091**	**42,074**	**49,491**	**63,541**
Total assets	**36,483**	**52,813**	**59,541**	**74,979**
LIABILITIES				
Others	379	3,762	2,148	502
Total non-current liabilities	**379**	**3,762**	**2,148**	**502**
Trade and other payables	19,047	24,604	35,101	30,835
Others	1,718	4,834	3,462	4,480
Total current liabilities	**20,765**	**29,438**	**38,563**	**35,315**
Total liabilities	**21,144**	**33,200**	**40,711**	**35,817**
EQUITY				
Share capital	1,521	1,521	1,521	32,555
Retained earnings	13,863	18,103	17,191	21,587
Others	(45)	(11)	118	(14,980)
Total equity	**15,339**	**19,613**	**18,830**	**39,162**

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18
P/E (x)	11.6	11.2	9.6	10.8
P/B (x)	3.8	3.0	3.1	1.5
EV/EBITDA (x)	5.3	5.2	4.3	4.0
Dividend Yield	0.0%	0.0%	0.0%	2.8%

Growth & Margins

	FY15	FY16	FY17	FY18
Growth				
Revenue		29.0%	11.6%	7.3%
Gross profit		39.5%	5.3%	10.4%
EBITDA		3.7%	24.0%	10.3%
Net Profit		3.6%	16.2%	-11.1%
Margins				
Gross margin		34.8%	32.8%	33.7%
EBITDA margin		6.5%	7.2%	7.4%
Net Profit Margin		5.2%	5.4%	4.5%

Key Ratios

	FY15	FY16	FY17	FY18
ROE		30.0%	31.7%	18.7%
ROA		11.7%	10.8%	8.0%
Net gearing (x)		Net cash	Net cash	Net cash

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