

20 November 2019

Healthcare | Pharmaceuticals

Hyphens Pharma (HYP SP)

Buy (Maintained)

Banking On Ceradan Products; Keep BUY

Target Price (Return) SGD0.25 (+19%)
 Price: SGD0.21
 Market Cap: USD46.4m
 Avg Daily Turnover (USD/SGD) 0.06m/0.05m

- **Maintain BUY, DCF-based SGD0.25 TP, 19% upside plus c.3% FY20F yield.** Hyphens Pharma's 3Q19 revenue grew 4.2% YoY to SGD30.7m, vs a decline of 6.1% YoY last quarter. Improvement was seen across all segments during the quarter – specialty pharmaceutical principals (+6% YoY), proprietary brands (+8.3%) and medical hypermart and digital (0.2% YoY).
- **3Q19 net profit surged 51.5% YoY to SGD1.8m.** 3Q19 revenue improved by 4.2% YoY to SGD30.7m, and GPM widened to 35.4% from 32.3% on higher revenue contributions from its specialty pharmaceutical segment and proprietary brands, which recorded higher GPMs. Distribution costs, meanwhile, rose 15.4% to SGD6.2m due to higher promotional efforts and an increase in human capital. We expect distribution costs to increase, as the group continues to strengthen its human resource capability. Hyphen Pharma recorded PATMI of SGD1.8m (+51.5% YoY) and SGD4.9m (5.9% YoY) for 3Q19 and 9M19, which puts it on track to meet our full-year forecast of SGD6.1m.
- **Proprietary brands segment grew 8.3% in 3Q9** to SGD3.6m from SGD3.3m on higher sales of *Ceradan* dermatological products. Sales of *Ceradan Advanced* – which is only available in clinics and hospital retail pharmacies – have increased gradually since its launch earlier this year. Other products under the *Ceradan* brand also recorded higher revenue, since the group expanded the range through over-the-counter channels. *Ceradan* products are currently sold in Singapore and Malaysia. Moving forward, the group has plans to launch these products in another country. As Vietnam is its second largest market, we think that this is the most likely destination.
- **Specialty pharmaceutical segment's revenue grew 6% YoY** to SGD16.9m, from SGD15.6m (-14.1% YoY) in 2Q19. The increase in demand came from most of its regional markets – particularly in Singapore, where there has been a pick-up in demand for D-Cure, which is used to prevent and treat Vitamin D deficiency. As Vitamin D may play a vital role in the prevention and treatment of illnesses associated with ageing, we believe demand for this product will continue to be healthy.
- **Possibility of higher dividends.** With net cash of SGD23m and positive operating cash flow, we believe Hyphens Pharma is likely to reward shareholders with higher dividends. Based on a payout ratio of 30%, which is similar to that of the last financial year, estimated DPS for FY19F could be SGD0.006. This signifies a 10% increase, from SGD0.0055 in FY18.
- **Trading below its SGD0.26 IPO price.** At its last close of SGD0.21, Hyphens Pharma was trading at a 19% discount to its IPO price, with a FY20F dividend yield of 3.4%. We think *Ceradan* product sales will continue to be robust. Key downside risks to our call include unsuccessful product registrations, reliance on relationships with brand principals, and FX fluctuations.

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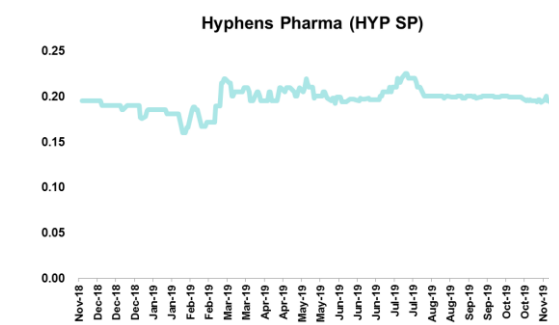


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	7.7	6.1	5.0	5.0	5.0
Relative	2.2	2.1	1.5	4.0	(0.6)
52-wk Price low/high (SGD)	0.16 – 0.24				



Source: Bloomberg

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)	6.4	6.4	6.1	7.1	9.0
Recurring net profit growth	22.1	0.1	(4.2)	16.2	26.7
Recurring P/E (x)	9.8	9.8	10.3	8.8	7.0
P/BV (x)	3.3	1.6	1.4	1.3	1.1
P/CF (x)	11.9	7.2	10.4	9.1	7.7
Dividend Yield (%)	0.0	2.6	2.9	3.4	4.3
EV/EBITDA (x)	6.7	5.5	4.6	3.9	3.0
ROE (%)	34.0	16.4	14.1	14.7	16.5
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

Financial Exhibits

Asia	Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Singapore	Recurring EPS (SGD)	0.02	0.02	0.02	0.02	0.03
Health Care	EPS (SGD)	0.02	0.02	0.02	0.02	0.03
Pharmaceuticals	DPS (SGD)	0.00	0.01	0.01	0.01	0.01
	BVPS (SGD)	0.06	0.13	0.14	0.16	0.18
	ROE (%)	34.0	16.4	14.1	14.7	16.5
	ROA (%)	10.2	7.2	7.8	8.4	9.7
Valuation basis						
DCF-derived TP of SGD0.25						
Key drivers	Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
i. An undervalued counter – it is trading at 10.3x FY19F P/E;	Core P/E (x)	9.8	9.8	10.3	8.8	7.0
ii. Growth opportunity in Vietnam for the specialty pharma principals segment;	P/B (x)	3.3	1.6	1.4	1.3	1.1
iii. Expanding and strengthening its proprietary brands product range.	Dividend Yield (%)	0.0	2.6	2.9	3.4	4.3
	EV/EBITDA (x)	6.7	5.5	4.6	3.9	3.0
Key risks	Income statement (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Downside risks include:	Total turnover	113	121	125	133	147
i. Unsuccessful outcomes or challenges faced in the new/renewal of product registrations;	Gross profit	37	41	43	46	52
ii. Reliance on relationships with brand principals;	EBITDA	8	8	9	11	14
iii. High inherent risks;	Operating profit	7	7	8	9	12
iv. FX fluctuation.	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
Company Profile	Cash flow (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
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.	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	-3
	Cash at beginning of period	13	12	22	23	24
	Net change in cash	0	10	1	1	1
	Ending balance cash	12	22	23	24	25
	Balance sheet (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Total cash and equivalents	12	22	23	24	25
	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	85	93
	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	43	48	55
	Minority interests	0	0	0	0	0
	Total equity	19	39	43	48	55
	Total liabilities & equity	60	75	79	85	93
	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	29.4	30.0	30.0

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

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Figure 1: 3Q19 results summary

SGDm	3Q19	3Q18	YoY	9M19	9M18	YoY
Revenue	30.7	29.4	4.2%	86.7	91.0	-4.7%
Gross Profit	10.9	9.5	14.5%	30.5	30.2	1.0%
Gross Profit Margin	35.4%	32.3%		35.2%	33.2%	
Profit Before Tax	2.2	1.4	54.2%	5.9	5.8	1.8%
PATMI	1.8	1.2	51.5%	4.9	4.6	5.9%
PATMI Margin	5.9%	4.0%		5.6%	5.1%	

Source: Company data

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