

# Hyphens Pharma International Limited

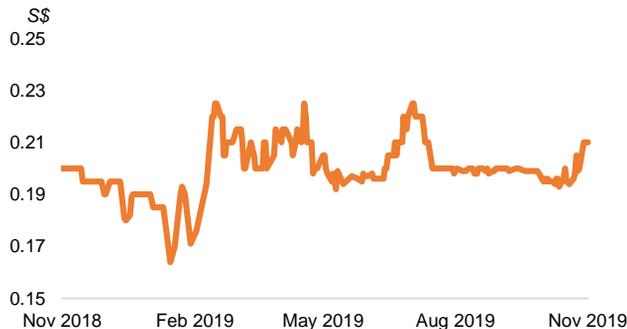
Date: 22 November 2019

**BUY**  
(Maintained)

**Target price: S\$0.285**  
(+36%)

**HYP SP**

**Price: S\$0.210** (as at 21 November 2019)



| Share price    | 1M   | 3M    | 6M    | 1Y     |
|----------------|------|-------|-------|--------|
| Hyphens Pharma | 7.7% | 5.5%  | 2.4%  | 5.0%   |
| Catalist Index | 4.2% | -1.6% | -5.5% | -17.2% |

|                                        |                                                       |
|----------------------------------------|-------------------------------------------------------|
| <b>Market capitalisation</b>           | S\$63.1 million                                       |
| <b>Current price</b>                   | S\$0.210                                              |
| <b>Shares outstanding</b>              | 300.4 million                                         |
| <b>Free Float</b>                      | 20.1%                                                 |
| <b>Substantial shareholders</b>        | Inomed Holding Pte Ltd 65.3%<br>Tan Chwee Choon 14.6% |
| <b>Recommendation of other brokers</b> | 1 Buy                                                 |

Source: Annual Report, SGX StockFacts, Bloomberg, SAC Capital

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## Key Historical Financials

| Year ended 31 Dec (S\$'000)                 | FY2017A  | FY2018A  | FY2019E  | FY2020E  | FY2021E  |
|---------------------------------------------|----------|----------|----------|----------|----------|
| <b>Revenue (S\$)</b>                        | 112,652  | 120,930  | 121,902  | 132,183  | 142,797  |
| <b>% Growth</b>                             | 11.6%    | 7.3%     | 0.8%     | 8.4%     | 8.0%     |
| <b>Gross profit (S\$)</b>                   | 36,968   | 40,805   | 40,988   | 45,470   | 49,999   |
| <b>Gross profit margin</b>                  | 32.8%    | 33.7%    | 33.6%    | 34.4%    | 35.0%    |
| <b>Profit/(loss) before tax (S\$)</b>       | 7,160    | 7,000    | 7,330    | 7,950    | 9,649    |
| <b>Profit/(loss) before tax margin</b>      | 6.4%     | 5.8%     | 6.0%     | 6.0%     | 6.8%     |
| <b>Profit/(loss) attributable to owners</b> | 6,088    | 5,410    | 6,018    | 6,527    | 7,922    |
| <b>EPS/(LPS) (Singapore cents)</b>          | 2.54     | 1.95     | 2.00     | 2.17     | 2.64     |
| <b>P/E (x)</b>                              | 8.3      | 10.8     | 10.5     | 9.7      | 8.0      |
| <b>P/B (x)</b>                              | 3.4      | 1.6      | 1.5      | 1.4      | 1.2      |
| <b>Net Debt/Equity</b>                      | Net cash |

Source: Annual Report, SAC Capital

FY2018 and FY2017 figures may not be comparable with FY2019 due to preparation under SFRS (I)

## 3Q2019 net profit surged 51.5%

Hyphens Pharma International Limited ("Hyphens Pharma", "Company", or the "Group") recorded a 51.5% year on year increase in net profit from S\$1.2 million in 3Q2018 to S\$1.8 million in 3Q2019, on the back of 4.2% revenue growth from S\$29.4 million to S\$30.7 million. This was driven by revenue improvement across all three business segments.

### Specialty pharma principals on track to stabilisation.

Sales from the specialty pharma principals segment rose 6.0% to S\$16.9 million in 3Q2019 compared to S\$15.9 million in 3Q2018, as a result of higher demand in most of the geographical regions that the Group operates in. This follows through from the 13.0% quarter-on-quarter increase in sales from 1Q2019 to 2Q2019.

**Efforts to grow proprietary brands are paying off.** The proprietary brands segment saw an 8.3% increase in revenue driven by higher sales of Ceradan products. This came on the back of over-the-counter ("OTC") availability of Ceredan and the launch of Ceradan Advanced in July. Earlier in the year the Group organised media launch events and roadshows at pharmacies to promote the Ceradan brand, which are starting to bear fruit.

**Gross margin improved by 3.1 percentage points, rising to 35.4% in 3Q2019.** This was due to a larger proportion of revenue generated by the higher margin specialty pharma principals and proprietary brands segments. The lower margin medical hypermart and digital segment saw a slight improvement in revenue, rising 0.2% year on year in 3Q2019. We believe margins could improve further as the higher margin segments continue to expand.

**Maintain BUY.** In view of the continued improvement of the Group's core specialty pharma business, strong showing for proprietary brands and stable performance in its wholesale medical supplies segment, we maintain our target price of S\$0.285. Our DCF-derived target price translates into FY19E P/E of 14.2x.

**Key risks:** (i) Regulatory risk and (ii) dependence on brand principals.

### 3Q2019 net profit surged 51.5%

Hyphens Pharma International Limited (“Hyphens Pharma”, “Company”, or the “Group”) recorded a 51.5% year on year increase in net profit from S\$1.2 million in 3Q2018 to S\$1.8 million in 3Q2019, on the back of 4.2% revenue growth from S\$29.4 million to S\$30.7 million. This was driven by revenue improvement across all three business segments.

| Revenue Contribution (S\$ million) | 3Q19 | 3Q18 |
|------------------------------------|------|------|
| Specialty pharma principals        | 16.9 | 15.9 |
| Proprietary brands                 | 3.6  | 3.3  |
| Medical hypermart and digital      | 10.2 | 10.2 |
| Total                              | 30.7 | 29.4 |

Source: Company data, SAC Capital  
 Figures are rounded to the nearest S\$100,000

**Specialty pharma principals on track to stabilisation.** Sales from the specialty pharma principals segment rose 6.0% to S\$16.9 million in 3Q2019 compared to S\$15.9 million in 3Q2018, as a result of higher demand in most of the geographical regions that the Group operates in. On a quarterly basis, the improvement was 8.1% over 2Q2019 revenue. This follows through from the 13.0% quarter-on-quarter increase in sales from 1Q2019 to 2Q2019. In the nine months ended 30 September 2019 (“9M2019”), segment revenue was 10.5% lower than 9M2018 when there was higher demand ahead of product licensing renewals in Vietnam. However this was an improvement from 1H2019 when sales were 17.8% lower than 1H2018. We expect the shortfall to narrow further as revenue stabilises moving into 4Q2019.

#### Business Overview:

Hyphens Pharma International Limited is primarily engaged in the marketing, distribution and sales of specialty pharmaceutical products in countries in the ASEAN region. The Group also develops and sells a range of proprietary dermatological and health supplement products, which fall under its Proprietary Brands business segment. The Group’s wholly owned subsidiary Pan-Malayan is a wholesale provider of pharmaceutical and medical supplies in Singapore.

**Efforts to grow proprietary brands are paying off.** The proprietary brands segment saw an 8.3% year on year increase in revenue from S\$3.3 million to S\$3.6 million driven by higher sales of Ceradan products. This came on the back of OTC availability of Ceredan and the launch of Ceradan Advanced in July. Earlier in the year the Group organised media launch events and roadshows at pharmacies to promote the Ceradan brand, which are starting to bear fruit.

Hyphens Pharma launched three proprietary products, *Ceredan Advanced*, *TDF Fairence* and *TDF Metabiotic Facial Wash* in the current year, and has several products in the R&D pipeline undergoing development or pending registration. We expect proprietary products to grow its revenue share as more products are added to the family.

**Gross margin improved by 3.1 percentage points, rising to 35.4% in 3Q2019 from 32.3% in 3Q2018.** This was due to a larger proportion of revenue generated by the higher margin specialty pharma principals and proprietary brands segments. The lower margin medical hypermart and digital segment saw a slight improvement in revenue, rising 0.2% year on year in 3Q2019. We believe overall gross margin should improve further as the higher margin segments continue to grow.

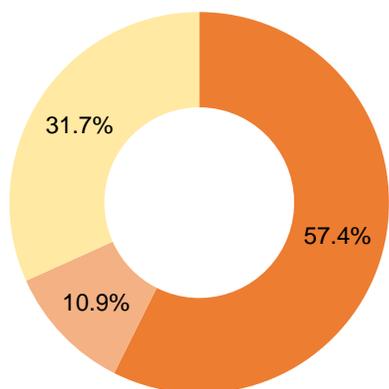
The Group faced higher distribution costs of S\$6.2 million (3Q2018: S\$5.4 million) mainly due to higher advertising and promotional expenses incurred in relation to the OTC rollout of Ceradan, as well as the strengthening of human capital to support the Group’s long-term growth strategy. Administrative expenses were 2.9% lower at S\$2.4 million in 3Q2019, primarily owing to lower R&D expenses. Other income and gains increased to S\$0.2 million from foreign exchange gains. Accordingly, profit before tax increased by 54.2% from S\$1.4 million to S\$2.2 million. Income tax was S\$0.2 million higher than 3Q2018, in line with higher profit before tax for the period. As a result, the Group achieved a net profit of S\$1.8 million, a 51.5% increase from 3Q2018 net profit of S\$1.2 million.

### **3Q2019 net profit surged 51.5%**

**Maintain BUY.** In view of the continued improvement of the Group's core specialty pharma business, strong showing for proprietary brands and stable performance in its wholesale medical supplies segment, we maintain our target price of S\$0.285. Our DCF-derived target price translates into FY19E P/E of 14.2x.

## Company Background

FY2018 Revenue



- Specialty Pharma Principals
- Proprietary Brands
- Medical Hypermart and Digital

Source: Company data, SAC Capital

Hyphens Pharma International Limited is a leading specialty pharmaceutical and consumer healthcare group with a diverse geographical footprint. The Group's primary business is the marketing and sale of specialty pharmaceutical products in selected ASEAN countries through exclusive distributorships or licensing and supply agreements with brand principals. The Group also develops, markets and sells its range of proprietary dermatological and health supplements under its Proprietary Brands segment. Hyphens also engages in the wholesale of pharmaceuticals and medical supplies in Singapore through wholly owned subsidiary Pan-Malayan Pharmaceuticals Pte Ltd, which has been operating since the late 1940s.

The Group's businesses can be categorised into 3 segments:

- a) Specialty Pharma Principals
- b) Proprietary Brands
- c) Medical Hypermart and Digital

### Specialty Pharma Principals



\*Selected Principals  
Source: Company Data

Hyphens markets and distributes specialty pharmaceutical products in ASEAN through distributorship or licensing agreements with brand principals mainly from Europe and the United States. Its core expertise is in the field of dermatology, pediatrics and neonatology, allergy, cardiology and radiology.

### Proprietary Brands

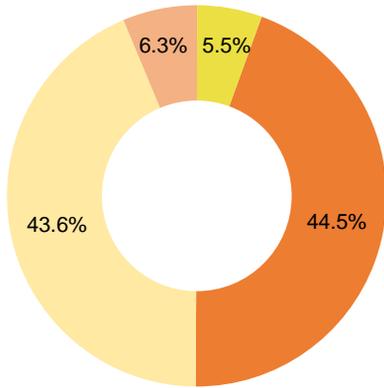


Source: Company Data

The Group's proprietary products are mainly dermatological products and health supplements. Launched in 2011, Ceradan was the first product, which is a dermatological product targeted at eczema patients. It has extended the range to include TDF, a line of dermocosmetic products, and Ocean Health for health supplements, through the acquisition of Ocean Health Singapore in 2016. In July 2019, the Group's latest proprietary product, Ceradan Advanced, was launched.

### Medical Hypermart and Digital

FY2018 Revenue



- Singapore
- Vietnam
- Malaysia
- Others

Source: Company data, SAC Capital



Source: Company website

The Medical Hypermart is an online B2B platform for the wholesale of pharmaceutical and medical supplies in Singapore. It leverages on the network and industry presence of Pan-Malayan, which has been operating in this business segment since late 1940s. Users of the platform include healthcare professionals, healthcare institutions and retail pharmacies. The platform also enables brand principals to publish product information and educational material that will raise awareness and brand profile among the medical professionals.

### Geographical footprint



Source: Annual Report

The Group has a direct presence in Singapore, Indonesia, Malaysia, Philippines and Vietnam, as well as marketing and distribution networks in Bangladesh, Brunei, Cambodia, Hong Kong, Myanmar and Oman. The launch of Ceradan in Bangladesh and Oman marked Hyphens' first foray into the South Asian and Middle Eastern markets.

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