

4 March 2020

Consumer Non-cyclical | Pharmaceuticals

Hyphens Pharma (HYP SP)

Buy (Maintained)

Near-Term Outlook Uncertain Due To COVID-19

Target Price (Return): SGD0.27 (+17%)
 Price: SGD0.23
 Market Cap: USD49.6m
 Avg Daily Turnover (SGD/USD) 0.08m/0.06m

- **Maintain BUY, new DCF-based SGD0.27 TP from SGD0.25, 17% upside plus c.5% FY20F yield.** Hyphens Pharma's 4Q19 NPAT of SGD1.7m (+104.5% YoY) took FY19 NPAT to SGD6.5m (+20.7% YoY), which exceeded our full-year forecast by 6.5%. DPS of SGD0.01 was also better than its guidance of SG0.0055. We cut FY20-21F earnings by 7% and 9% on near-term uncertainties brought upon by the COVID-19 outbreak, but maintain FY22 estimates, as we remain positive on the medium to long-term outlook of the company.

- **All segments achieved growth in 4Q19.** The group registered a record revenue of SGD32.7m in 4Q19 (+9.2% YoY). All segments (specialty pharma principals, proprietary brands, medical hypermart and digital) recorded higher sales. In line with revenue growth, 4Q19 gross profit rose 14.9% YoY to SGD12.2m. GPM widened by 1.8ppt to 37.2% due to the higher revenue mix generated from proprietary brands (which yielded a higher margin) and lower purchase cost due to weakness in the EUR. As a result of the bigger GPM (FY19: 35.7%, FY18:33.7%) in FY19, gross profit grew 4.6% YoY despite a 1.2% drop in revenue to SGD120.9m. Full-year NPAT increased by 20.7% to SGD6.5m.

- **Impact of COVID-19.** It is hard to ascertain the impact the COVID-19 outbreak has had on the business at this juncture, given the uncertainty surrounding the development of the outbreak. However, we understand from management that the business is not impacted as of now, and the company has actively engaged its suppliers. So far, it is business as usual, and there is no visibility of supply chain disruption.

- **Focus still on proprietary brands.** The group will continue to focus on growing its proprietary brands – Ceradan and TDF – in the skin health portfolio and Ocean Health under its nutritional supplements portfolio. In FY19, it launched two major products, Ceradan Advanced and Fairence T-Complex. It also introduced Ceradan products to retail pharmacies on top of the rebranding exercise for Ocean Health. As a result, revenue grew by 9.9% YoY to SGD14.5m. The group intends to grow this segment in FY20 through introducing new products under its Ocean Health brand and gaining market share for Ceradan and TDF brand products locally and regionally.

- **We lower our earnings forecasts by 7-9% for FY20-21F and keep FY22F forecasts unchanged.** The medium- to long-term growth strategy of growing its skin health portfolio remains intact. The company's net cash position also increased to SGD25.9m in FY19, from SGD19.4m in FY18. As such, we lift our DCF-based TP to SGD0.27 as we roll over our numbers to a new financial year.

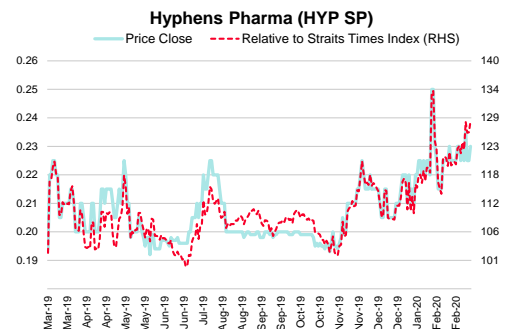
Analyst

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



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	9.5	2.2	7.0	16.2	18.6
Relative	15.8	5.3	11.8	18.5	24.8
52-wk Price low/high (SGD)	0.19 – 0.25				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	121	119	126	137	141
Recurring net profit (SGDm)	5	7	7	8	9
Recurring net profit growth (%)	(11.1)	20.7	1.7	24.1	11.5
Recurring P/E (x)	12.75	10.58	10.40	8.38	7.51
P/B (x)	1.8	1.6	1.4	1.3	1.2
P/CF (x)	9.15	7.44	16.85	23.48	9.28
Dividend Yield (%)	2.4	4.3	4.4	3.6	4.0
EV/EBITDA (x)	7.02	5.42	5.46	4.55	3.89
Return on average equity (%)	18.7	15.7	14.5	16.3	16.2
Net debt to equity (%)	(49.4)	(58.7)	(52.1)	(43.5)	(42.4)

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Regional	Recurring EPS	0.02	0.02	0.02	0.03	0.03
Consumer Non-cyclical	DPS	0.01	0.01	0.01	0.01	0.01
Hyphens Pharma	BVPS	0.13	0.15	0.16	0.18	0.20
HYP SP	Return on average equity (%)	18.7	15.7	14.5	16.3	16.2
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	12.75	10.58	10.40	8.38	7.51
DCF	P/B (x)	1.8	1.6	1.4	1.3	1.2
	FCF Yield (%)	6.1	12.7	3.0	1.4	7.2
Key drivers	Dividend Yield (%)	2.4	4.3	4.4	3.6	4.0
i. An undervalued counter – it is trading at 10 FY20F P/E;	EV/EBITDA (x)	7.02	5.42	5.46	4.55	3.89
ii. Expanding and strengthening its proprietary brands product range;	EV/EBIT (x)	7.02	5.42	5.46	4.55	3.89
iii. M&A opportunities.						
	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	121	119	126	137	141
i. Unsuccessful outcomes or challenges faced in the new/renewal of product registrations;	Gross profit	41	43	43	47	49
ii. Reliance on relationships with brand principals;	EBITDA	7	8	8	10	11
iii. High inherent risks;	Operating profit	7	8	8	10	11
iv. FX fluctuation.	Net interest	(0)	0	0	0	0
	Pre-tax profit	7	8	8	10	11
	Taxation	(2)	(1)	(1)	(2)	(2)
	Reported net profit	5	7	7	8	9
	Recurring net profit	5	7	7	8	9
Company Profile						
Hyphens Pharma 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 (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(8.3)	1.4	(4.1)	(7.2)	(4.0)
	Cash flow from operations	7.5	9.3	4.1	2.9	7.4
	Capex	(3.3)	(0.5)	(2.0)	(2.0)	(2.5)
	Cash flow from investing activities	(3.3)	(0.4)	(2.0)	(2.0)	(2.5)
	Dividends paid	(7.0)	(1.7)	(3.1)	(2.5)	(2.8)
	Cash flow from financing activities	5.8	(5.2)	(3.1)	(2.5)	(2.8)
	Cash at beginning of period	12.3	22.4	26.2	25.2	23.6
	Net change in cash	10.1	3.6	(1.0)	(1.5)	2.2
	Ending balance cash	22.4	26.0	25.2	23.6	25.7
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	22.4	26.2	25.2	23.6	25.7
	Tangible fixed assets	3.5	2.9	3.7	4.3	5.0
	Total assets	75.0	80.1	83.0	90.5	96.7
	Short-term debt	3.0	0.3	0.3	0.3	0.3
	Total liabilities	35.8	36.1	35.3	37.0	36.8
	Total equity	39.2	44.1	47.7	53.4	59.9
	Total liabilities & equity	75.0	80.1	83.0	90.5	96.7
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	7.3	(1.2)	5.5	9.0	3.0
	Recurrent EPS growth (%)	(11.1)	20.6	1.7	24.1	11.5
	Gross margin (%)	33.7	35.7	34.1	34.2	34.7
	Operating EBITDA margin (%)	5.9	6.7	6.4	7.3	7.9
	Net profit margin (%)	4.5	5.5	5.3	6.0	6.5
	Capex/sales (%)	2.8	0.4	1.6	1.5	1.8
	Interest cover (x)	54.8	57.7	58.7	72.9	81.4

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-11-20	Buy	0.25	0.21
2019-08-20	Buy	0.25	0.20

Source: RHB, Bloomberg

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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
Revenue Tower, 11th Floor, District 8
- SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

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

BANGKOK

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
Fax : +65 6532 6211