

15 May 2020

Consumer Non-cyclical | Pharmaceuticals

## Hyphens Pharma (HYP SP)

**Buy** (Maintained)

### Numbers Improve During Pandemic; Stay BUY

Target Price (Return): SGD0.27 (+12%)  
 Price: SGD0.24  
 Market Cap: USD51.0m  
 Avg Daily Turnover (SGD/USD) 0.23m/0.16m

- **Maintain BUY, DCF-based SGD0.27 TP, 12% upside with c.4% FY20F yield.** Hyphens Pharma's 1Q20 NPAT surged 48.6% YoY to SGD2.1m on higher revenue of SGD31.4m (+16.4% YoY), largely driven by growth in proprietary brands and its virtual medical hypermart. While we see resilience in its business, we believe that the group will experience some impact in 2Q20 due to the Government-mandated "circuit breaker", and remain cautious on how the COVID-19 situation will pan out.

- **1Q20 revenue and earnings comprise 25% and 32% of our full-year forecasts.** 1Q20 gross and net margins stood at 34.7% and 6.8%, vs our previous estimates of 34.1% and 5.3% (annualised). The extension of its Ceradan® brand products to the retail sales channel, coupled with the launch of Ceradan® Advanced last year, contributed significantly to the growth in proprietary brands' revenue. 1Q20 revenue grew by 35.9% YoY to SGD4.6m. Nutritional supplements – its Ocean Health brand – also clocked higher sales, as consumers bought health supplements to improve immunity against COVID-19. Similarly, the pandemic has driven sales growth in the company's medical hypermart and digital segment, due to the uptick in online order volumes, as well as the higher demand for personal protective equipment. Revenue for this segment expanded by 17% YoY to SGD11.4m. We see the higher revenue as sustainable, as digitalisation will be an important part of the healthcare industry going forward. Revenue from specialty pharmaceutical principals grew 11.2% YoY to SGD15.4m, due to a combination of a low base in 1Q19, as well as higher demand for certain products. To further drive this segment's revenue, Hyphens Pharma is also planning to add new principals this year.

- **War chest of SGD27.1m enables it to tide through uncertainties.** The group's 1Q20 cash flow from operations was at SGD2.2m, bringing net cash to SGD27.1m as at end-1Q20. It is committed to maintaining its dividend policy of paying at least 30% of PATMI. With a war chest of SGD27.1m, Hyphens Pharma is also in an excellent position to seize any opportunities as and when they arise. Due to its strong balance sheet, the group is also committing SGD150,000 to support frontline healthcare professionals in the region, as well as to donate to marginalised communities affected by COVID-19.

- **Maintain BUY.** Hyphens Pharma's medium- to long-term strategy of growing its skin health portfolio remains intact, despite the ongoing pandemic. This is evidenced by the sales growth of Ceradan® and TDF® products in 1Q20. We maintain BUY, with an unchanged TP of SGD0.27. We also make no changes to our forecasts, as we expect some business disruption in 2Q20 – and will closely watch to see how the COVID-19 situation will pan out.

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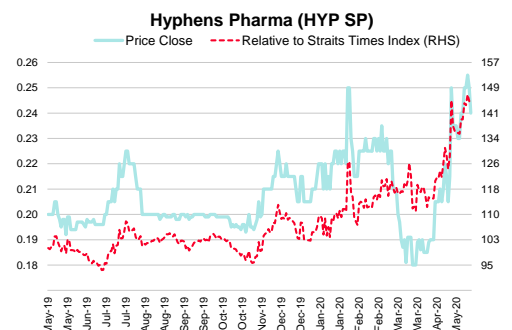


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.3	17.1	6.7	20.6	21.2
Relative	34.5	19.5	26.8	41.0	41.4
52-wk Price low/high (SGD)	0.18 – 0.26				



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)	13.31	11.04	10.85	8.74	7.84
P/B (x)	1.8	1.6	1.5	1.3	1.2
P/CF (x)	9.55	7.77	17.58	24.50	9.68
Dividend Yield (%)	2.3	4.2	4.2	3.4	3.8
EV/EBITDA (x)	7.44	5.80	5.83	4.85	4.16
Return on average equity (%)	18.7	15.7	14.5	16.3	16.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

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## Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	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
<b>Hyphens Pharma</b>	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						
	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Valuation basis</b>	Recurring P/E (x)	13.31	11.04	10.85	8.74	7.84
DCF-based TP of SGD0.26	P/B (x)	1.8	1.6	1.5	1.3	1.2
	FCF Yield (%)	5.8	12.2	2.9	1.3	6.9
<b>Key drivers</b>	Dividend Yield (%)	2.3	4.2	4.2	3.4	3.8
i. An undervalued counter – it is trading at 8.7 FY21F P/E;	EV/EBITDA (x)	7.44	5.80	5.83	4.85	4.16
ii. Expanding and strengthening its proprietary brands product range;	EV/EBIT (x)	7.44	5.80	5.83	4.85	4.16
iii. M&A opportunities						
	<b>Income statement (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Key risks</b>	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
<b>Company Profile</b>						
Hyphens Pharma is one of Singapore's leading specialty pharmaceutical and consumer healthcare groups, with a presence in ASEAN. Its core businesses are specialty pharmaceutical principals, proprietary brands, and a medical hypermart and digital platform.	<b>Cash flow (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	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
	<b>Balance sheet (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	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
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	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
2020-03-04	Buy	0.27	0.22
2019-11-20	Buy	0.25	0.21
2019-08-20	Buy	0.25	0.20

Source: RHB, Bloomberg

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Analyst	Company
-	-

(2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.



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