

Hyphens Pharma International Ltd

Shaking off COVID-19 woes with expanded portfolio



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SINGAPORE | HEALTHCARE | 1H20 Results

- Earnings of S\$4.28mn make up 64% of our FY20e estimates.
- Revenue growth of 10% YoY in 1H20 was held up by an all-around stronger 1Q20 result as well as a 24% growth YoY in revenue from proprietary brands in 2Q20.
- Cash flow for 1H20 was down S\$1.7mn as inventory levels were elevated in anticipation of disruptions arising from product license renewals in Vietnam.
- Group continues to invest into building its proprietary brands portfolio with acquisition of haircare product CG 210® and new product launches across its Ceradan® and Ocean Health® brand portfolio.
- Maintain ACCUMULATE with upward revision in TP to S\$0.495 (prev S\$0.435).** We revise FY20e earnings upwards by 25% to reflect strong revenue growth and income recognised from Job Support Scheme in 2H20.

Results at a glance

SGD '000	1H20	1H19	YoY	Comments
Specialty pharma principals	31,408	29,470	7%	Steady growth was achieved across both 1Q20 and 2Q20 (+11% YoY and +3% YoY) despite slower business momentum in 2Q20.
Proprietary brands	9,167	7,064	30%	Strong demand for products under Ceradan® and Ocean Health® brand portfolio which benefited from moving to online sales channels.
Medical hypermart and digital	21,065	19,472	8%	Stellar 1Q20 sales (+17% YoY) within segment weighed down in 2Q20 when Singapore entered Circuit Breaker period. Revenue for the segment fell 0.7% YoY in 2Q20.

Revenue	61,640	56,006	10%	
Cost of sales	(40,535)	(36,382)	11%	
Gross profit	21,105	19,624	8%	
Distribution costs	(12,373)	(11,067)	12%	
Administrative expenses	(4,716)	(4,850)	(3%)	
Finance costs	(51)	(74)	(31%)	
Other income and gains/(losses)	1,184	82	n.m.	Recognised S\$900k of Job Support Scheme (JSS) from government grant in 2Q20.
Profit/(loss) before tax	5,149	3,715	39%	
Income tax expense	(867)	(651)	33%	
Profit, net of tax	4,282	3,064	40%	

Source: Company, PSR

The Positives

+ Proprietary brands revenue benefited (+24% YoY) from online sales channel during Circuit Breaker period in the second quarter.

Strong revenue growth within the proprietary brands segment was sustained throughout 1H20 with 1Q20 growth of 36% YoY and 2Q20 growth of 24% YoY. Demand across Ceradan® and Ocean Health® brand portfolio in 1H20 benefited from the Group's move towards online sales channels in late FY19.

+ Underlying revenue growth intact despite slower second quarter.

Specialty pharma principals as well as medical hypermart and digital saw modest growth of 7% and 8% YoY in 1H20 respectively despite business slowdown during the second quarter as a result of disruption from COVID-19 across various geographies.

The medical hypermart and digital segment fell 0.7% YoY in the second quarter due to the nationwide Circuit Breaker implemented which saw dampened demand for medical supplies and prohibition of face-to-face interactions.

20 August 2020

ACCUMULATE (MAINTAINED)

LAST CLOSE PRICE	SGD 0.450
FORECAST DIV	SGD 0.010
TARGET PRICE	SGD 0.495
TOTAL RETURN	12.2%

COMPANY DATA

BLOOMBERG CODE	HYP SP
O/S SHARES (MN):	300
MARKET CAP (USD mn / SGD mn):	101.3 / 138.2
52 - WK HI/LO (SGD):	0.625 / 0.180
3M Average Daily T/O (mn):	9.95

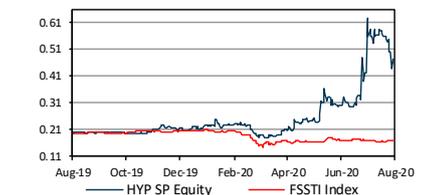
MAJOR SHAREHOLDERS (%)

INOMED HOLDING PTE LTD	65.3%
TAN CHWEE CHOON	12.7%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	13.1	102.1	147.6
STI RETURN	(1.6)	3.1	(14.5)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, (S\$'000)	FY19	FY20e	FY21e	FY22e
Revenue	119,442	131,776	144,982	160,729
EBITDA	10,130	12,564	12,222	12,801
NPAT	6,530	8,243	7,778	8,261
EPS (S\$ Cents)	2.2	2.7	2.6	2.7
P/E (x)	20.7	16.4	17.4	16.4
P/B (x)	3.1	2.7	2.5	2.3
Div Yield	1.2%	2.2%	2.2%	2.2%
ROE	18.7%	15.7%	17.7%	15.0%

Source: Company Data

VALUATION METHOD

DCF @ WACC = 7.2%, g = 2.0%

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The Negatives

- Inventory stock-up in anticipation of product license renewals weigh on cash flows.

Due to expected delays in product license renewals typically observed in Vietnam operations, the company has started building up inventory to ensure supply in Vietnam is not disrupted. Inventory levels increased by S\$4.7mn in the quarter as a result. This was partially offset by a strong set of operating performance to see the group record a net cash outflow of S\$1.7mn for 2Q20.

Nevertheless, inventory levels should normalize in FY21 and the Group continues to maintain a healthy cash balance of S\$26mn despite the tougher operating environment in 1H20.

Outlook

Active expansion of product portfolio continues to provide growth catalysts.

During the quarter, the Group acquired hair growth product brand CG 210[®] to strengthen its proprietary brands portfolio. CG 210[®] will be sold through medical channels in Singapore and retail channels in Malaysia at the onset with plans to shift sales to retail channels for the Singapore market. New product launches across existing brand portfolios Ceradan[®] and Ocean Health[®] also provides the Group with new revenue streams.

Expanded product portfolio will contribute positively to the Group's top line from FY20 but the impact of contribution will be contingent on the uptake of new products.

Ocean Health[®] enters Hong Kong market with the inking of partnership deal with SUTL.

Hyphens Pharma enters the US\$722mn vitamins and dietary supplements market in Hong Kong with the inking of a Distribution Agreement of Ocean Health[®] products with lifestyle group SUTL.

SUTL is known for its extensive distribution network of Fast-Moving Consumer Goods (FMCG) brands across 14 markets in Asia and Ocean Health[®] is the first health supplement product to be distributed under the Company.

The deal will provide the Group with an established retail sales channel for its Ocean Health[®] products to enter a competitive market.

Investment Actions

We maintain our ACCUMULATE recommendation with a revised TP of S\$0.495 (prev S\$0.435).

FY20e earnings was adjusted upwards by 25% to reflect strong top-line growth and income recognised from the Job Support Scheme in Singapore. We also adjusted terminal growth rate from 1.5% to 2.0% to represent the plentiful organic and inorganic growth opportunities in the long term within the fragmented industry.

Financials

Income Statement

Y/E Dec, S\$'000	FY17	FY18	FY19	FY20e	FY21e
Revenue	112,652	120,930	119,442	131,776	144,982
Cost of sales	(75,684)	(80,125)	(76,773)	(86,223)	(94,465)
Gross profit	36,968	40,805	42,669	45,553	50,517
Marketing and distribution costs	(20,402)	(21,736)	(24,837)	(24,984)	(27,898)
Administrative expenses	(8,472)	(10,422)	(9,772)	(11,703)	(12,829)
Finance costs	(206)	(129)	(138)	(145)	(162)
Other income and gains	268	279	546	1,411	79
Other losses	(996)	(1,797)	(481)		
Profit before tax	7,160	7,000	7,987	10,131	9,707
Income tax expense	(1,072)	(1,590)	(1,457)	(1,889)	(1,928)
Profit after tax	6,088	5,410	6,530	8,243	7,778

Per share data

Y/E Dec, SG cents	FY17	FY18	FY19	FY20e	FY21e
EPS	2.0	1.8	2.2	2.7	2.6
DPS	0.0	0.6	1.0	1.0	1.0
BVPS	6.3	13.1	14.7	16.4	18.0

Cash Flows

Y/E Dec, S\$'000	FY17	FY18	FY19	FY20e	FY21e
Profit before tax	7,160	7,000	7,987	10,131	9,707
Adjustments	1,391	2,946	1,937	2,276	2,358
Working capital changes	(3,250)	(1,255)	935	(1,730)	(3,185)
Operating cash flow	5,301	8,691	10,859	10,677	8,880
Taxes paid, others	(683)	(1,154)	(1,406)	(1,459)	(1,889)
Net operating cash flow	4,618	7,537	9,453	9,218	6,991
CFI					
CAPEX, net	(171)	(3,378)	(606)	(1,613)	(576)
Acquisition of subsidiaries	-	-	-	-	-
Others	9	54	157	-	-
Net investing cash flow	(162)	(3,324)	(449)	(1,613)	(576)
CFE					
Proceeds from issuance of shares	-	15,605	-	-	-
IPO expenses	(310)	(1,670)	-	-	-
Dividends	(1,000)	(7,000)	(1,650)	(3,004)	(3,004)
Loans, net of repayments	(3,476)	(1,088)	(3,542)	(745)	(783)
Net financing cash flow	(4,786)	5,847	(5,192)	(3,749)	(3,787)
Net change in cash	(330)	10,060	3,812	3,856	2,628
CCE, end	12,293	22,353	26,165	30,021	32,649

Source: Company, PSR Estimates

Balance Sheet

Y/E Dec, S\$'000	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
Plant and equipment	630	3,464	2,888	3,349	2,701
Right-of-use asset	-	-	3,060	2,262	1,464
Intangible assets	9,105	7,764	7,462	7,124	6,794
Others	315	210	105	105	105
Total non-current assets	10,050	11,438	13,515	12,840	11,064
Inventories	13,178	10,863	11,431	14,440	13,138
Trade and other receivable	23,775	29,833	28,654	28,961	37,088
Cash and cash equivalents	12,293	22,353	26,165	30,021	32,649
Others	245	492	366	409	495
Total current assets	49,491	63,541	66,616	73,830	83,369
Total assets	59,541	74,979	80,131	86,670	94,433

LIABILITIES

Others	2,148	502	2,911	2,133	1,333
Total non-current liabilities	2,148	502	2,911	2,133	1,333
Trade and other payables	35,101	30,835	30,628	32,256	35,983
Others	3,462	4,480	2,516	2,967	3,028
Total current liabilities	38,563	35,315	33,144	35,222	39,011
Total liabilities	40,711	35,817	36,055	37,355	40,344

EQUITY

Share capital	1,521	32,555	32,641	32,641	32,641
Retained earnings	17,191	21,587	26,467	31,706	36,480
Others	118	(14,980)	(15,032)	(15,032)	(15,032)
Total equity	18,830	39,162	44,076	49,315	54,089

Valuation Ratios

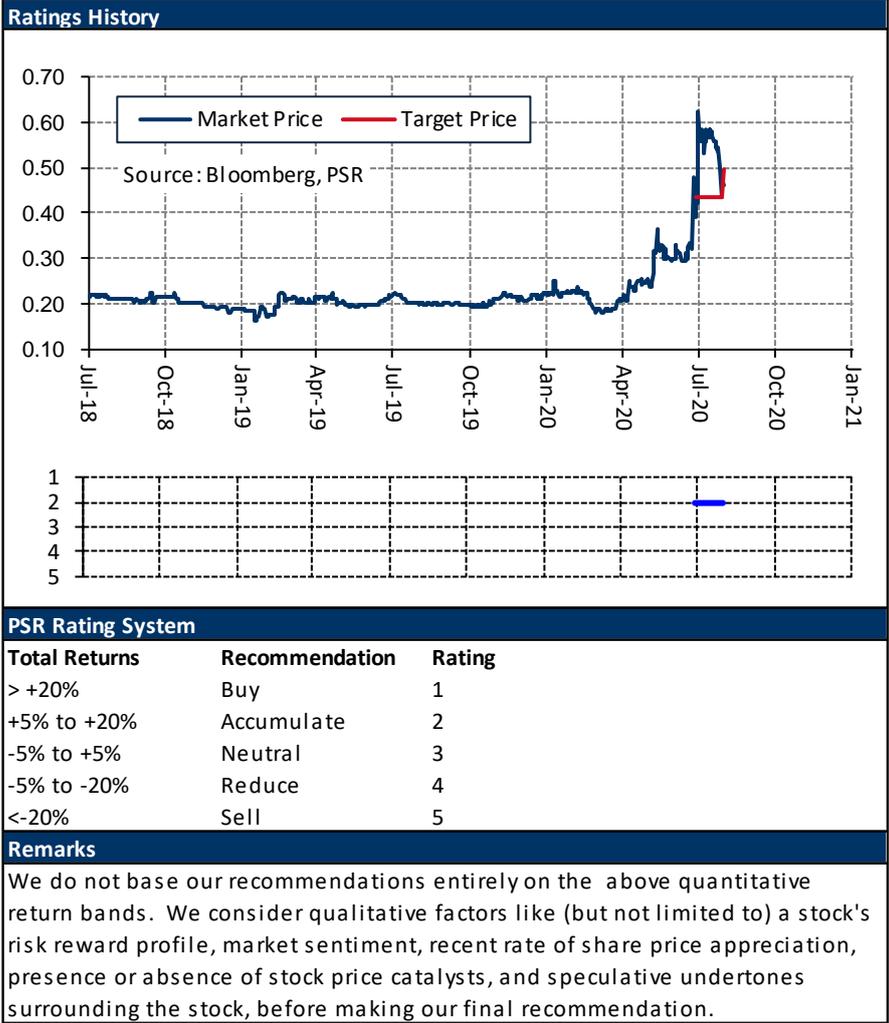
Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/E (x)	23.2	26.1	21.6	17.1	18.2
P/B (x)	7.5	3.6	3.2	2.9	2.6
EV/EBITDA (x)	12.4	11.4	11.3	8.8	8.9
Dividend Yield	0.0%	1.2%	2.1%	2.1%	2.1%

Growth & Margins

Growth					
Revenue	11.6%	7.3%	-1.2%	10.3%	10.0%
Gross profit	5.3%	10.4%	4.6%	6.8%	10.9%
EBITDA	38.0%	-1.9%	27.3%	24.0%	-2.7%
Net Profit	16.2%	-11.1%	20.7%	26.2%	-5.6%
Margins					
Gross margin	32.8%	33.7%	35.7%	34.6%	34.8%
EBITDA margin	7.2%	6.6%	8.5%	9.5%	8.4%
Net Profit Margin	5.4%	4.5%	5.5%	6.3%	5.4%

Key Ratios

ROE	32.3%	18.7%	15.7%	17.7%	15.0%
ROA	10.2%	8.0%	8.4%	9.9%	8.6%
Net gearing (x)	Net cash				



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