



Hyphens Pharma Intl Ltd

(HYP SP/HYPH.SI)

A hair-raising first half

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- **Hyphens Pharma reported 2Q20 and 1H20 results** – 1H20 sales are +10.1% YoY and 1H20 profit is +39.8% YoY.
- **Hyphens' expansion plans are bearing fruit despite COVID-19**, with a long awaited patent finally granted in the United Kingdom. Hyphens has also expanded their proprietary portfolio with a Greater China partnership and the partial acquisition of hair growth product CG 210's brand.
- **Stronger outlook into 2H20.** Hyphens' increased product portfolio should provide sufficient sales growth, but this will depend on market receptiveness of the new products, and whether Hyphens can keep a tight handle on cost.

Hyphens Pharma International Limited is one of Singapore's leading specialty pharmaceutical and consumer healthcare groups, whom market and distribute branded specialty pharmaceutical products to medical specialists, primary care physicians and pharmacies. Additionally, Hyphens develops, markets and distributes their own proprietary dermatological and health supplement products under three key brands: Ceradan, TDF and Ocean Health.

Hyphens reported 1H20 results with commendable sales growth (S\$61.6mn, +10.1% YoY) and strong PATMI growth (S\$4.3mn, +39.8% YoY). Proprietary brands segment led sales growth, as Hyphens launched new products under the Ceradan and Ocean Health brand. Despite being able to operate as an essential service, business was still partially affected as sales representatives were unable to conduct offline meetings to reach potential clients.

Hyphens' stock attracted substantial investor attention in recent months with strong outperformance against peers, due to various positive business activities. On 13 July, Hyphens announced a patent grant in United Kingdom for Ceradan Advanced, a patent applied for back in 2017. Ceradan Advanced is still pending patent approval in 13 other countries including Hyphen's key markets in Singapore, Malaysia and Vietnam. The product is already being sold in the market, hence mgmt. expects little impact on financial performance, but we expect future patent approvals to be swift, which will improve Hyphens' branding and intangible asset value, and potentially grant Hyphens greater financial access. Hyphens has also recently been featured under Intellectual Property Office of Singapore's (IPOS) intangible asset report, and are presenting in an upcoming panel discussion hosted under IPOS IP Week 2020.

Unrated

Price as of 21 Aug 20 (SGD)	0.47	Performance (Absolute)	
12M TP (S\$)	-	1 Month (%)	-16.1
Previous TP (S\$)	-	3 Month (%)	87.7
Upside (%)	-	12 Month (%)	146.2
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (S\$m)	141		
Issued Shares (mn)	300		
Vol - 3M Daily avg (mn)	10.0		
Val - 3M Daily avg (\$mn)	4.7		
Free Float (%)	22.0%		
Major Shareholders		Previous Recommendations	
Lim See Wah	65.3%		
Tan Chwee Choon	14.6%		

Financials & Key Operating Statistics

YE Dec (S\$ '000)	2015A	2016A	2017A	2018A	2019A
Revenue	78278	100970	112652	120930	119442
PATMI	5058	5240	6088	5410	6530
Core PATMI	5058	5240	6088	6713	6564
Core EPS	1.69	1.75	2.03	2.42	2.19
Core EPS grth (%)	-	3.6	16.2	19.3	(9.7)
Core P/E (x)	27.9	26.9	23.2	24.1	21.6
DPS (SGCents)	0.0	0.0	0.0	0.6	1.0
Div Yield (%)	0.0	0.0	0.1	1.2	2.1
Net Margin (%)	6.5	5.2	5.4	4.5	5.5
Gearing (%)	net cash	net cash	net cash	net cash	net cash
Price / Book (x)	9.2	7.2	7.5	3.3	3.2
ROE (%)	33.0	30.0	31.7	18.7	15.7

Source: Company Data, KGI Research

Hyphens employed two other business strategies in this half to expand upon its proprietary brands portfolio business. Firstly, the appointment of SUTL HK as its exclusive distributorship of Ocean Health supplements in HK, Macau and duty-free channels in China. SUTL is known for its consumer and lifestyle brand distributions, and health supplements were a complementary addition to its portfolio.

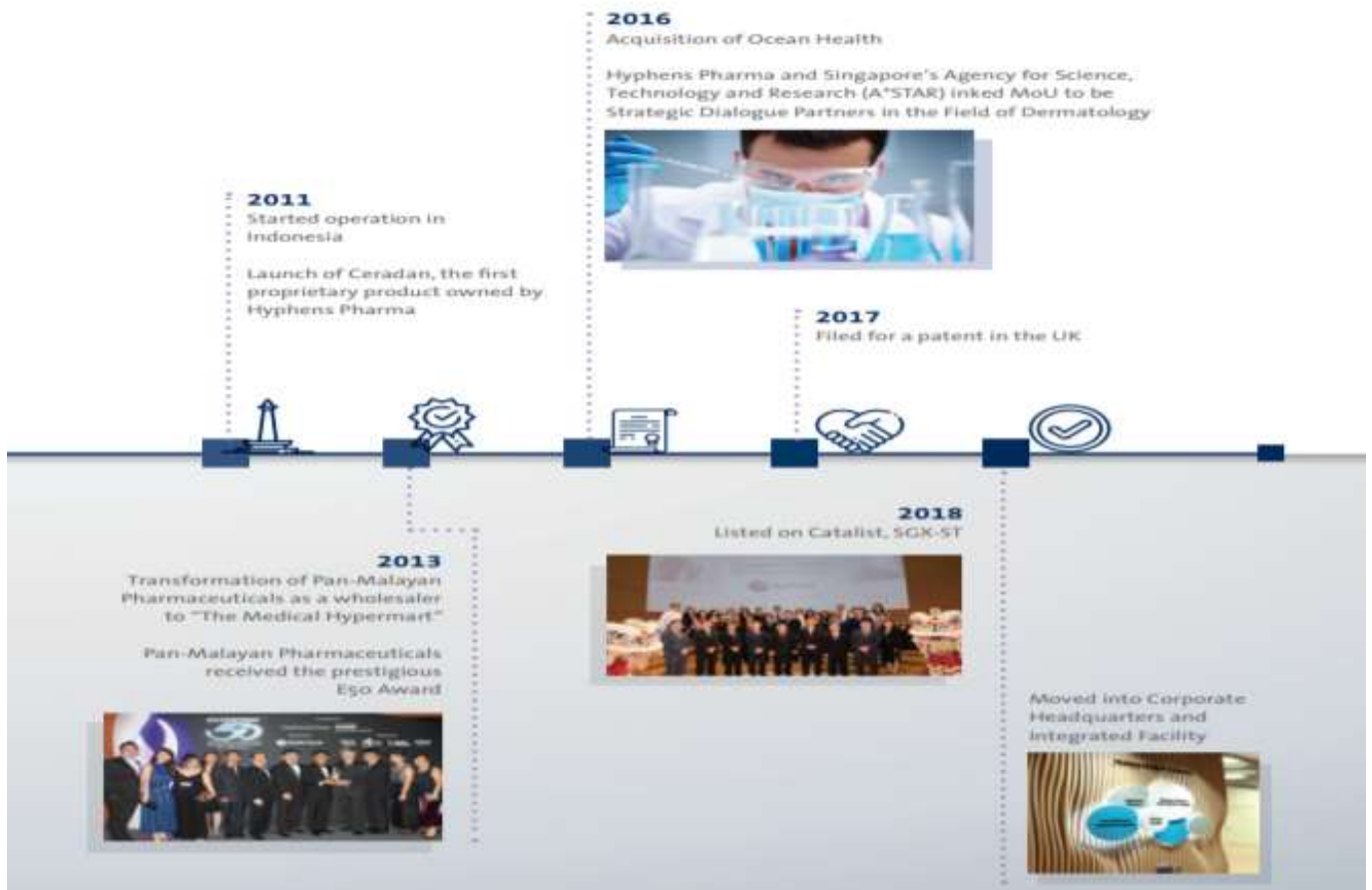
Secondly, Hyphens has acquired the rights, titles and trademarks of the CG 210 scalp care product for the Singapore and Malaysia market. It will be promoted to medical professionals, as well as retail outlets in Malaysia. With an estimated S\$10mn market size in SG and MY, CG 210 can potentially eclipse various generic products in the market and capture a decent amount of market share.

Risks: Prolonged restrictions on travel and meetings will continue to impact Hyphens' prospects of new business. Hyphens' new products and CG 210 acquisition may also lead into an uptick in distribution expenses in the early stages, in order to achieve effective market penetration. Weak product launches could lead to underperformance of new products.

Figure 1: Ceradan Advanced available in Singapore, but at select pharmacies

Source: Raffles Health

Figure 2: UK patent listed as a key milestone in 2018's Annual Report



Source: Company data

Figure 3: Peer comparison table

BB ticker	Company Name	Last Price (local \$)	Currency Adj. Market Cap (US\$ m)	Dividend Yield (%)		Net Gearing (%)	P/E (x)		P/B (x)		(YTD) Price Performance	(1YR) Price Performance	(1YR) Total Returns (%)
				FY19	FY20F		12M	Forward	Historical	Forward			
HYP SP	HYPHENS PHARMA INTERNATIONAL	SGD 0.47	103	4.8	2.1	-51.4	18.2	19.6	1.4	2.9	123.8	135.0	146.2
Speciality Pharma peers (average)				3.4	1.4	28.5	20.8	60.4	4.8	4.0	(1.6)	(1.2)	3.4
BKL AU	BLACKMORES LTD	AUD 75.99	1,057	4.2	0.1	45.5	35.3	68.7	7.5	4.4	-10.4	12.7	13.4
1112 HK	HEALTH AND HAPPINESS H&H INT	HKD 30.80	2,560	2.9	3.2	68.3	17.6	15.1	3.6	2.9	-4.5	-15.2	-12.3
VLS AU	VITA LIFE SCIENCES LTD	AUD 0.90	35	5.6	-	-36.1	9.4	-	1.6	-	34.3	30.4	40.8
4911 JP	SHISEIDO CO LTD	JPY 5759.00	21,810	0.8	0.9	36.3	-	97.4	6.2	4.6	-26.0	-32.6	-28.4
Big Pharma (average)				3.3	3.8	43.4	18.8	15.2	6.5	6.0	(6.7)	2.7	6.2
SAN FP	SANOFI	EUR 87.12	129,574	3.5	3.7	26.6	9.8	14.6	1.9	1.7	-2.8	13.1	15.8
NOVOB DC	NOVO NORDISK A/S-B	DKK 421.85	157,302	2.2	2.1	-19.1	23.9	23.7	15.8	16.0	9.1	18.9	23.2
GSK LN	GLAXOSMITHKLINE PLC	Gbp 1529.80	101,018	4.5	5.2	140.1	11.4	13.2	7.8	6.8	-14.0	-8.7	-4.7
ROG SW	ROCHE HOLDING AG-GENUSSCHEIN	CHF 324.00	306,838	2.9	2.9	10.4	21.4	16.0	8.2	6.7	3.2	19.2	21.8
BAYN GR	BAYER AG-REG	EUR 56.79	65,913	3.8	5.1	70.6	-	8.3	1.5	1.2	-22.0	-16.5	-11.4
NOVN SW	NOVARTIS AG-REG	CHF 79.37	215,035	3.1	3.7	32.0	27.4	15.2	3.9	3.4	-13.6	-9.6	-7.1

Source: Bloomberg, KGI Research

Financials

YE 31 Dec

INCOME STATEMENT (\$\$mn)	2015A	2016A	2017A	2018A	2019A
Revenue	78.3	101.0	112.7	120.9	119.4
Cost of sales	(53.1)	(65.9)	(75.7)	(80.1)	(76.8)
Gross Profit	25.2	35.1	37.0	40.8	42.7
Distribution & admin expenses	(18.7)	(28.8)	(28.9)	(32.2)	(34.6)
Other operating income/(expenses)	(0.4)	(0.6)	(0.7)	(1.5)	0.1
Profit from Operations	6.4	6.3	8.1	8.6	8.1
Finance income/(expenses)	(0.0)	(0.3)	(0.2)	(0.1)	0.0
Profit before Tax	6.4	6.0	7.9	8.6	8.1
Income tax	(1.0)	(0.2)	(1.1)	(1.6)	(1.5)
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
PATMI	5.5	5.8	6.8	7.0	6.6

BALANCE SHEET (\$\$mn)	2015A	2016A	2017A	2018A	2019A
Cash and cash equivalents	13.5	12.6	12.3	22.4	26.2
Trade and other receivables	15.3	20.2	23.8	29.8	28.7
Inventory	6.2	9.0	13.2	10.9	11.4
Other current assets	0.1	0.2	0.2	0.5	0.4
Current Assets	35.1	42.1	49.5	63.5	66.6
Property, plant and equipment	0.6	0.8	0.6	3.5	5.9
Intangibles	0.8	9.5	9.1	7.8	7.5
Other non-current assets	0.0	0.4	0.3	0.2	0.1
Non-current Assets	1.4	10.7	10.1	11.4	13.5
Total assets	36.5	52.8	59.5	75.0	80.1
Trade and other payables	19.0	24.6	35.1	30.8	30.6
Borrowings (current)	0.7	4.1	2.4	3.0	1.1
Other current liabilities	1.0	0.7	1.1	1.5	1.5
Current Liabilities	20.8	29.4	38.6	35.3	33.1
Borrowings (non-current)	0.3	3.1	1.6	0.0	2.4
Other non-current liabilities	0.0	0.6	0.6	0.5	0.5
Non-current liabilities	0.4	3.8	2.1	0.5	2.9
Shareholders equity	15.3	19.6	18.8	39.2	44.1
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Total Equity	15.3	19.6	18.8	39.2	44.1
Total Liabilities and Equity	36.5	52.8	59.5	75.0	80.1

CASH FLOW STATEMENT (\$\$mn)	2015A	2016A	2017A	2018A	2019A
Net income before tax	–	–	7.2	7.0	8.0
Depreciation & Amortisation	–	–	0.7	0.8	2.0
Other non-cash adjustments	–	–	0.6	2.1	(0.1)
Change in Working Capital	–	–	(3.3)	(1.3)	0.9
Income Tax Paid	–	–	(0.7)	(1.2)	(1.4)
CF from operating activities	–	–	4.6	7.5	9.5
Purchase/Disposal of PPE	–	–	(0.1)	(3.3)	(0.5)
Other CFI	–	–	(0.0)	0.0	0.1
CF from investing activities	–	–	(0.2)	(3.3)	(0.4)
Dividends Paid	–	–	(1.0)	(7.0)	(1.7)
Debt Raised / (Repaid)	–	–	(3.3)	(1.0)	(2.7)
Equity Raised / (Bought Back)	–	–	0.0	0.0	0.0
Other Cash from Financing	–	–	(0.5)	13.8	(0.8)
CF from financing activities	–	–	(4.8)	5.8	(5.2)
Net increase in cash & cash equiv.	–	–	(0.3)	10.1	3.8
Beginning Cash	–	–	12.6	12.3	22.4
Ending Cash	–	–	12.3	22.4	26.2

KEY RATIOS	2015A	2016A	2017A	2018A	2019A
Profitability					
Core EPS	0.0169	0.0175	0.0203	0.0242	0.0219
Core EPS Growth (%)	–	3.6%	16.2%	19.3%	-9.7%
DPS (SGD Cents)	0.0	0.0	0.0	0.6	1.0
Dividend Yield (%)	0.0	0.0	0.1	1.2	2.1
Profitability (%)					
Gross margin	32.2%	34.8%	32.8%	33.7%	35.7%
EBITDA margin	8.8%	7.0%	7.7%	7.7%	8.4%
Net margin	6.5%	5.2%	5.4%	4.5%	5.5%
ROE	33.0%	30.0%	31.7%	18.7%	15.7%
ROA	13.9%	11.7%	10.8%	8.0%	8.4%
Financial Structure					
Interest coverage (x)	274.7	18.9	35.8	54.8	57.7
Total Debt/Equity (%)	6.9	36.9	21.0	7.7	7.9
Net Gearing (%)	net cash	net cash	net cash	net cash	net cash

Market Valuation (x)	2015A	2016A	2017A	2018A	2019A
Price / Earnings	27.9	26.9	23.2	24.1	21.6
Price / Book	9.2	7.2	7.5	3.3	3.2
Price / Sales	1.8	1.4	1.3	1.1	1.2
EV / EBITDA	18.7	19.3	15.2	11.9	11.8

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