

Hyphens Pharma International Limited

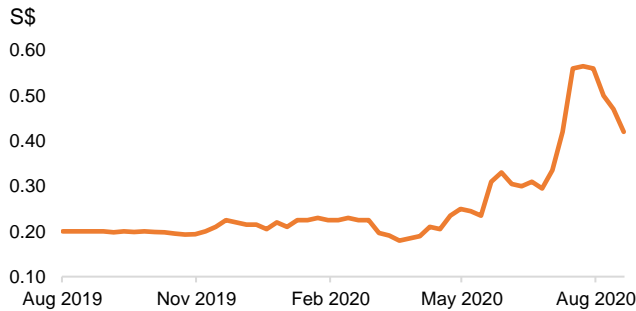
Date: 31 August 2020

BUY
(Maintained)

Target Price: S\$0.540
(+28.6%)

HYP SP

Price: S\$0.420 (as at 28 August 2020)



Share price	1M	3M	6M	1Y
Hyphens Pharma	-25.7%	+35.5%	+86.7%	+110.0%
Catalist Index	+13.8%	+42.6%	+33.4%	+23.2%

Market Capitalisation	S\$126.2 million
Current Price	S\$0.420
Shares Outstanding	300.4 million
Free Float	22.0%
Major Shareholder	Inomed Holding Pte Ltd 65.3%
Recommendation of other brokers	1 Buy 1 Accumulate

Source: Company data, Bloomberg, SAC Capital

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Broadening product range and footprints

Increased demand for healthcare products fuelled by COVID-19 drove higher 1HFY20 earnings. Revenue increased 10.1% yoy to S\$61.6 million. Proprietary brands segment in particular led with 29.8% increase in revenue due to higher demand for healthcare supplements during COVID-19. Net profit increased a larger 39.8% yoy to S\$4.3 million, also lifted by job support scheme, of which about half (or S\$0.5m) was recognized.

Secured UK patent for flagship Ceradan® Advanced. Hyphens has secured a patent for Ceradan® Advanced, a medical skincare and pharmaceutical product, in the UK. Patent is pending in another 13 regions, including Singapore, Malaysia, Vietnam, China, Europe and the United States. A patent strengthens the product's market position and enhances brand recognition.

Extending footprints into North Asia. Hyphens announced the appointment of SUTL HK as an exclusive distributor of Ocean Health® healthcare supplements in HK, Macau and duty-free channels in China. The partnership extends the group's presence into North Asia. Hyphens also expanded proprietary brands portfolio with the procurement of CG210® hair-growth product series for Singapore and Malaysia.

Maintain BUY rating and raise fair value to S\$0.540 (from S\$0.285). Our DCF-derived target price translates into a FY21E P/E of 23.7x. While we expect the net margin to fall back to previous levels in the absence of government grants, with the increase in demand for healthcare and supplements and the new partnership with SUTL HK and acquisition of CG210®, we believe the Group's strategy will drive earnings going forward. Our target price implies a 28.6% upside.

Key Risks: High geographical concentration risk in Singapore and Vietnam markets and the ability to differentiate itself from competitors.

Key Financials

Year ended 31 Dec	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
Revenue (S\$'000)	120,930	119,442	129,141	130,695	135,595
% Growth	7.3%	-1.2%	8.1%	1.2%	3.7%
Profit/(loss) before tax (S\$'000)	7,000	7,987	9,682	8,353	9,383
Profit/(loss) before tax margin	5.8%	6.7%	7.5%	6.4%	6.9%
Profit/(loss) attributable to owners (S\$'000)	5,410	6,530	8,121	6,851	7,695
EPS (Singapore cents)	1.95	2.17	2.70	2.28	2.56
P/E (x)	23.3	19.3	15.5	18.4	16.4
P/B (x)	3.2	2.9	2.9	2.6	2.4
Net Debt/Equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

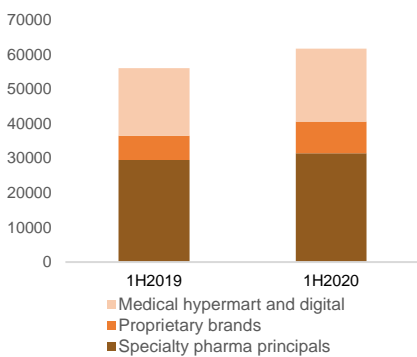
Singapore Financial Reporting Standards (International) ("SFRS(I)") SFRS 16 has been implemented in FY2019. In FY2020, Hyphens received a one-off S\$1 million in government grants for COVID-19 support.

Investment Highlights

Hyphens' 1HFY20 NPAT increased 39.8% on higher healthcare and supplements demand

Revenue in 1HFY20 grew 10.1% yoy to S\$61.6 million, on the back of revenue increase from all three segments. Proprietary brands segment led with 29.8% increase in revenue due to higher demand for healthcare supplements during COVID-19. While the medical channel faced a slowdown as clinics and pharmacies' operations were curtailed by mobility restrictions in 2QFY20, there was a jump in demand from the retail and online channels, especially in Singapore. Sales of the specialty pharma principals and the medical hypermart and digital segments grew by 6.6% and 8.2% respectively.

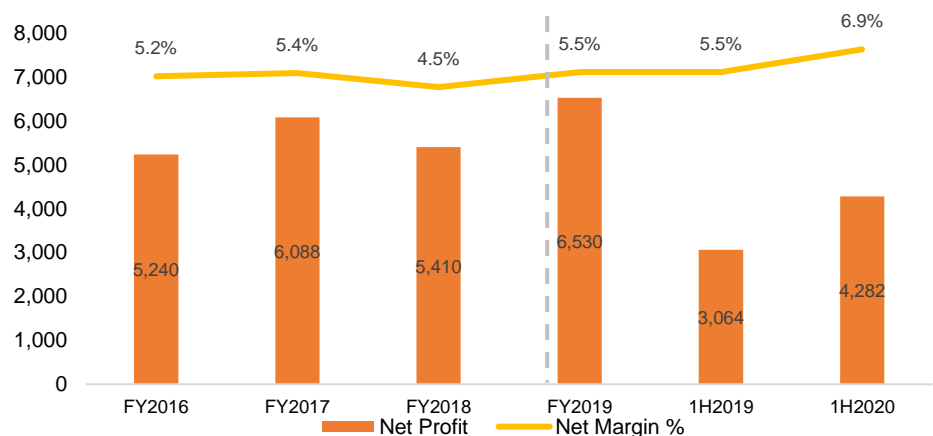
Revenue Segments (in S\$'000)



Source: Company Data, SAC Capital

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.



Source: Company Data, SAC Capital

In terms of geographical segments, Singapore saw the highest dollar increase of S\$2.7 million, to S\$30.8 million in revenue. Following that, the "Others" region rose S\$1.8 million in revenue to S\$5.0 million, or a 57.1% increase. Net profit for the Group increased by 39.8% yoy, to S\$4.3 million, also aided by half of S\$1 million government support grant recognised. The Group will recognise the remaining half of the grant in 2HFY20. Consequently, net margin in 1HFY20 increased to 6.9%, but is likely to return to previous levels in FY2021E.

The extent of economic recovery and control measures in Hyphens' key markets will have an impact on its near-term performance. However, we believe consumers' greater healthcare awareness is likely to underpin demand for Hyphens' products.

Successful UK Patent for Ceradan® Advanced

Hyphens Pharma successfully patented Ceradan® Advanced in the United Kingdom, with patents in 13 other countries/regions, including Singapore, Malaysia, Vietnam, China, Europe and the United States, pending approval. Ceradan® Advanced is a next-generation emollient therapy scientifically formulated for eczema-prone skin conditions. It contributes to Proprietary Brands segment, which as a whole makes up c. 14.8% of total revenue in 1HFY20.

Taking on new ventures

Hyphens announced a partnership agreement to appoint SUTL HK as an exclusive distributor of Ocean Health® supplements. Under the agreement, Hyphens aims to broaden and establish a stronger brand awareness for Ocean Health® by bringing products to Hong Kong Special Administrative Region (“HK SAR”), Macau and Duty-Free Channels in China.

Hyphens also expanded proprietary brands portfolio with the procurement of CG210® product series for Singapore and Malaysia. CG210® is a patented botanical hair-growth product, which will be promoted to medical professionals in the relevant fields in Singapore and Malaysia, and is also available in retail outlets in Malaysia. With these new ventures, Hyphens aim to grow its presence, bringing it nearer to its goal of being “Asia’s No.1 skin-health firm”.

New launches of existing brands

Hyphens expanded its product offerings under their Ceradan® and Ocean Health® brands. Under Ceradan® brand, Hyphens launched a gentle cleanser and a new hand lotion sanitiser. These are beneficial for users of more specific needs, especially those with eczema-prone, dry and sensitive skin conditions, thus differentiating Hyphens and positions its products at higher end of the range.

Under the Ocean Health® brand, new launches include a high strength Omega-3 that is enriched with Vitamin D3, a High Strength Omega-3 liquid, and an Iron Energy Powder. Constant improvement and roll-out of new products help it gain customer stickiness.

Boost in going digital

Hyphens' main digital foray has been its B2B portal which caters to customers such as private clinics, pharmacies, polyclinics, and nursing homes. Hyphens has now also gone online in B2C, with its proprietary brands on e-commerce platforms such as Shopee, Lazada, Qoo10, and RedMart.

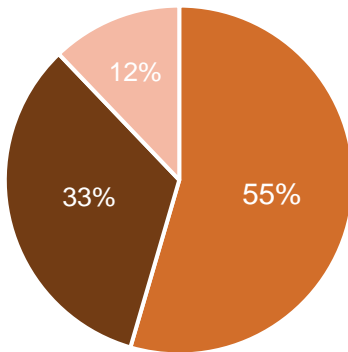
On top of that, looking at how COVID-19 has increased acceptance of telemedicine, Hyphens seeks to capture this growth opportunity by speeding up its investment in e-commerce for consumer healthcare brands and stepping up digital engagement with medical professionals.

Maintain BUY rating at higher target price of S\$0.540

We maintain a BUY rating on Hyphens Pharma. Our DCF-derived target price translates into a FY21E P/E of 23.7x. While we expect the net margin to fall back to previous levels in the absence of government grants, with the increase in demand for healthcare and supplements and the new partnership with SUTL HK and acquisition of CG210®, we believe the Group's strategy will drive earnings going forward. Our target price implies a 28.6% upside to the last traded price.

Business Segments

FY2019 Revenue



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

Source: Company Data, SAC Capital

Hyphens 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. In addition, the Group develops, markets and sells its range of proprietary dermatological and health supplements under its Proprietary Brands segment, and also engages in the wholesale of pharmaceuticals and medical supplies in Singapore through wholly-owned subsidiary Pan Malayan Pharmaceuticals Pte Ltd.

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

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.

Source: Company Data

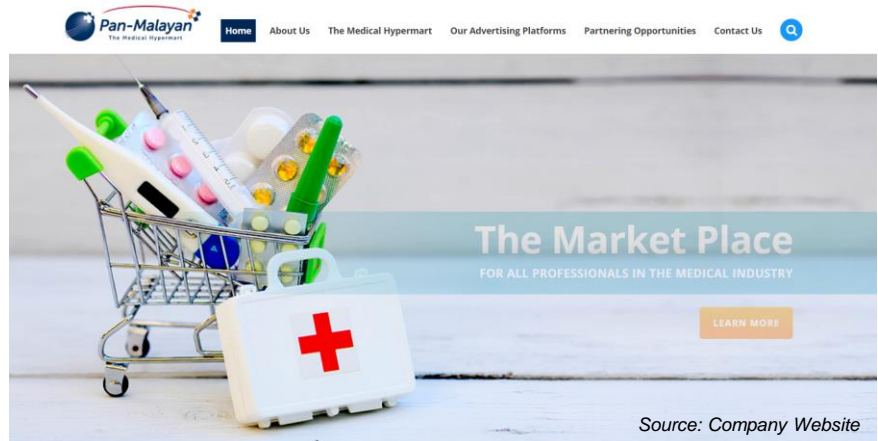
Proprietary Brands



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 dermo-cosmetic products, and Ocean Health® for health supplements, through the acquisition of Ocean Health® Singapore in 2016. Ceradan® Advanced was launched in July 2019. The procurement of CG 210 hair-loss product line in August 2020 makes it the latest addition to the Group's proprietary brands products.

Medical Hypermart and Digital



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

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. With the partnership with SUTL HK, the Group seeks to target the markets in Hong Kong Special Administrative Region (“HK SAR”), Macau and Duty-Free Channels in China.

Income Statement

\$'000	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
Revenue	120,930	119,442	129,141	130,695	135,595
Cost of sales	(80,125)	(76,773)	(84,963)	(85,876)	(88,331)
Gross profit	40,805	42,669	44,178	44,819	47,263
Interest Income	54	157	157	157	157
Other income and gains	225	389	1,477	277	277
Distribution costs	(21,736)	(24,837)	(24,924)	(25,224)	(26,170)
Administrative expenses	(10,422)	(9,772)	(10,530)	(10,764)	(11,221)
Finance costs	(129)	(138)	(138)	(138)	(138)
Other losses	(1,797)	(481)	(537)	(774)	(786)
Profit before tax from continuing operations	7,000	7,987	9,682	8,353	9,383
Income tax expense	(1,590)	(1,457)	(1,561)	(1,502)	(1,687)
Profit, net of tax	5,410	6,530	8,121	6,851	7,695
Earnings Per Share (cents)					
Basic and Diluted	1.95	2.17	2.70	2.28	2.56

Ratios

	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
<i>Adoption of SFRS 16 Leases increased lease liability in FY2019</i>					
Profitability (%)					
Gross profit/(loss) margin	5.8%	6.7%	7.5%	6.4%	6.9%
Profit/(loss) before tax margin	4.5%	5.5%	6.3%	5.2%	5.7%
Liquidity (x)					
Current ratio	1.8	2.0	1.9	2.1	2.2
Quick ratio	1.5	1.7	1.6	1.7	1.9
Interest coverage ratio	55.3	58.9	71.2	61.5	69.0
Net Debt to Equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Valuation (x)					
P/S	1.0	1.1	1.0	1.0	0.9
P/E	23.3	19.3	15.5	18.4	16.4
Core P/E at target price	30.0	24.8	20.0	23.7	21.1
P/B	3.2	2.9	2.9	2.6	2.4
P/NTA	4.0	3.4	3.6	3.1	2.7
Cash Conversion Cycle					
Trade receivable days	81	89	85	89	88
Inventory days	49	54	53	53	53
Trade payable days	132	144	137	143	142
CCC days	-2	0	2	-1	-1

Balance Sheet

(\$'000)	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
Plant and equipment	3,464	5,948	3,082	2,549	1,886
Intangible assets	7,764	7,462	7,435	7,105	6,776
Deferred tax assets	210	105	105	105	105
Total non-current assets	11,438	13,515	10,622	9,760	8,767
Inventories	10,863	11,431	12,336	12,469	12,825
Trade and other receivables	29,833	28,654	31,618	31,999	33,198
Prepayments	492	366	366	366	366
Cash and cash equivalents	22,353	26,165	29,679	34,803	40,849
Total current assets	63,541	66,616	73,999	79,636	87,238
Total assets	74,979	80,131	84,621	89,396	96,005
Share capital	32,555	32,641	32,641	32,641	32,641
Retained earnings	21,587	26,467	25,280	30,075	35,462
Other reserves	(14,980)	(15,032)	(15,032)	(15,032)	(15,032)
Total equity	39,162	44,076	42,889	47,684	53,071
Deferred tax liabilities	502	469	469	469	469
Lease liabilities, non-current	-	2,442	2,442	2,442	2,442
Total non-current liabilities	502	2,911	2,911	2,911	2,911
Income tax payable	1,480	1,459	1,459	1,459	1,459
Trade and other payables	30,835	30,628	36,559	36,538	37,761
Lease liabilities, current	-	757	803	803	803
Other financial liabilities, current	3,000	1,057	-	-	-
Total current liabilities	35,315	33,144	38,821	38,800	40,023
Total liabilities	35,817	36,055	41,732	41,711	42,934
Total equity and liabilities	74,979	80,131	84,621	89,396	96,005

Cash Flows Statement

(\$'000)	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
Profit/(loss) before tax	7,000	7,987	9,682	8,353	9,383
Amortisation of intangible assets	392	406	401	401	401
Depreciation of plant and equipment	439	1,599	1,538	1,669	1,800
Changes in working capital	(1,256)	935	(375)	(153)	(587)
Others	961	(157)	(157)	(157)	(157)
Net cashflows from operating activities	7,536	9,453	9,644	8,785	9,325
Purchase of plant and equipment	(3,334)	(502)	(1,171)	(1,171)	(1,171)
Purchase of intangible assets	(44)	(104)	(72)	(72)	(72)
Interest received	54	157	157	157	157
Net cash flows used in investing activities	(3,324)	(449)	(1,086)	(1,086)	(1,086)
Gross proceeds from issuance of new shares pursuant to incorporation and IPO	15,605	-	-	-	-
Dividends paid to equity owners	(7,000)	(1,650)	(1,992)	(2,436)	(2,055)
Repayment of borrowings	(4,383)	(2,700)	(3,000)	-	-
Proceeds from borrowings	3,425	-	-	-	-
Others	(1,799)	(842)	(52)	(138)	(138)
Net cash flows from (used in) financing activities	5,848	(5,192)	(5,044)	(2,574)	(2,193)
Net increase (decrease) in cash and cash equivalents	10,060	3,812	3,514	5,124	6,046
Cash and cash equivalents at beginning	12,293	22,353	26,165	29,679	34,803
Cash and cash equivalents, ending balance	22,353	26,165	29,679	34,803	40,849

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Analyst name	Quantum of position
Nil	Nil

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