

HYPHENS PHARMA INTERNATIONAL LIMITED

NON-RATED

Share Price: **S\$0.42**

COMPANY DESCRIPTION

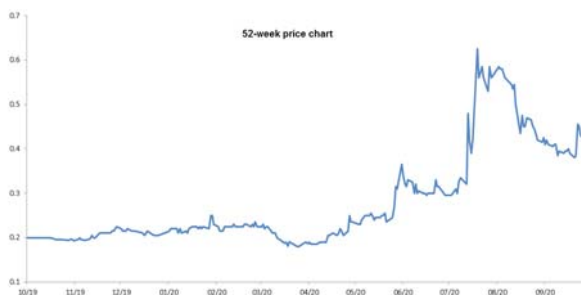
Hyphens Pharma is a Singapore-based specialty and consumer healthcare group with a direct presence in 5 ASEAN countries – Singapore (HQ), Indonesia, Malaysia, the Philippines and Vietnam, and are supplemented by a marketing and distribution network covering eight other markets – Bangladesh, Brunei, Cambodia, Hong Kong, Myanmar, Oman, Macau and China.

Name	HYPHENS PHARMA INTERNATIONAL LTD
Bloomberg Code	HYP SP Equity
3M Avg Daily Trading Vol (k)	8818.9
3M Avg Daily Trading Val (\$'000)	4434.9
Major Shareholder / Holdings	Inomed Holding (65.3%) / Tan Chwee Choon (12.7%)
Shares Outstanding (m)	300.4
Market Capitalisation (\$m)	127.7
52 week Share Price High/Low	S\$0.180 / S\$0.625

STOCK PRICE PERFORMANCE

	1M	3M	12M
Absolute Return (%)	1.2	37.1	122.7

PRICE CHART



Source : Bloomberg, LTS Research

Executive Summary

▶ We initiate non-rated coverage on Hyphens Pharma at the current share price of S\$0.42.

Company Background

▶ As a consumer healthcare and pharmaceutical investment holding company, Hyphens Pharma operates in 3 key segments:

Specialty Pharma Principals - Hyphens Pharma markets and sells a range of specialty pharmaceutical products in selected ASEAN countries through exclusive distributorship or licensing and supply agreements with specialty pharma principals mainly from Europe and the United States. They target specialty pharmaceutical products around therapeutic areas such as dermatology, paediatrics and neonatology, allergy, otorhinolaryngology (ear, nose and throat), orthopaedic and rheumatology, radiology, cardiology and interventional cardiology, ophthalmology, gastroenterology, child psychiatry and family medicine. As of 31 December 2019, their specialty pharmaceutical product portfolio comprises more than 30 products. The major products in their product portfolio include Contrast Media products, Stérimar nasal sprays, Bausch+Lomb eye drops, Vivomixx, Fenosup Lidose and Piascledine.

Proprietary Brands - This segment develops, markets and sells their own proprietary range of dermatological products and health supplement products through Hyphens and Ocean Health Singapore. Their key proprietary products comprise dermocosmetic products marketed under their Ceradan and TDF brands as well as health supplement products marketed under their Ocean Health brand, which was acquired in 2016. They market Ceradan and TDF products primarily through medical professionals, including general practitioners, dermatologists, paediatricians and pharmacists. Ocean Health products are marketed directly to consumers in Singapore via retail chains and e-commerce platforms.

Medical Hypermart and Digital - This segment engages in the wholesale of pharmaceuticals and medical supplies in Singapore through Pan-Malayan, which they position as a Medical Hypermart for healthcare professionals, healthcare institutions and retail pharmacies. Pan-Malayan's wholesale business has been ongoing since the late 1940s, making Pan-Malayan one of the oldest and most established pharmaceutical wholesalers in Singapore.

Besides the conventional business model of tele-sales and sales representatives, they have also established an online platform to support the needs of their customers. This online B2B platform, which is referred to as their online Medical Hypermart, allows registered customers to browse through their wholesale product offerings and also serves as a platform for specialty pharma principals to provide information regarding their products as well as educational materials to the medical professionals.

KEY FINANCIALS

December YE	FY15	FY16	FY17	FY18	FY19
Revenue (S\$'000)	78,278	100,970	113,157	120,930	119,442
EBITDA (S\$'000)	6,314	6,545	8,113	8,952	10,130
EBITDA margin (%)	8.1	6.5	7.2	7.4	8.5
Net income attributable to shareholders (S\$'000)	5,058	5,240	6,088	5,410	6,530
EPS (S¢)	2.1	2.2	2.5	2.0	2.2
EPS Growth (%)	NA	4.8	13.6	-22.0	11.3
P/E (x)	20.0	19.1	16.8	21.5	19.4
P/B (x)	6.6	5.1	5.4	3.2	2.9
ROE (%)	33.0	26.7	32.3	13.8	14.8
DPS (S¢)	NA	NA	NA	0.55	1.00
Dividend Yield (%)	NA	NA	NA	1.3	2.4

Source : Bloomberg, LTS Research

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Exhibit 1: Hyphens' Specialty Pharma Products

OUR SPECIALTY PHARMA PRODUCTS

Singapore's Leading Specialty Pharmaceutical and Consumer Healthcare Group

Source: Hyphens Pharma, LTS Research

Exhibit 2: Hyphens' Proprietary Brands

BRANDS WE OWN

**NO. 1
TOP OF MIND BRAND**
By Private Dermatologists*

CLINICALLY PROVEN
Photoaging & Acne Scars

WINNER
Superbrands Status since 2004

Singapore's Leading Specialty Pharmaceutical and Consumer Healthcare Group

Source: Hyphens Pharma, LTS Research

Investment Highlights

- ▶ **Product stickiness from both consumers and doctors.** Generally, when consumers find a pharmaceutical product suited to their needs, they tend to be price inelastic. This is due to the fact that health and skincare problems such as eczema are unique to individuals, and even products which are similar in nature are likely to have varying effects on different consumers. Similarly, when it comes to doctors, product efficacy is of utmost importance since their prescriptions will affect the well-being of their patients. Once doctors establish a working relationship with medical suppliers, they tend to be less willing to change due to proven product efficacy. Hyphens maintains close relationships with various doctors to ensure that they have a large base to introduce products to. They also pride themselves on on-the-ground market research via doctors to constantly understand the numerous healthcare problems that consumers face, allowing them to then engage principals with applicable solutions. When seeking new distributors for their proprietary brands in different markets, Hyphens also ensures that these distributors have a strong network of doctors to access before granting them distributorship rights.

Growing proprietary brands segment offers Hyphens less reliance on its brand principals. Contract terms with Hyphens' specialty pharma principals are on a renewable basis, approximately 2 to 5 years per contract. In-licensing arrangements typically range from 7 to 10 years in contract duration and are renewable as well. This ensures that Hyphens retains exclusive distributorship for a decent amount of time while they build their proprietary brand segment to reduce reliance on their specialty pharma principals. Hyphens launched their first proprietary product, Ceradan, in 2011. Since then, they've expanded their portfolio to also include TDF through their acquisition of Ocean Health Singapore in 2016. Recently, they've introduced Ceradan Advanced, an enhanced variation of the original Ceradan for consumers who also suffer from eczema. As of 13 July 2020, Ceradan Advanced was granted a patent in the UK with patents pending in 13 other countries / regions. Upon the release of this news, Hyphens' share price ran up from S\$0.32 to S\$0.48. However, it has since retraced to S\$0.42 as at the time of writing.

Hyphens has also recently released more offerings under their Ceradan brand, such as the Ceradan Hand Lotion Sanitiser and Gentle Cleanser in light of COVID-19. Over time, as Hyphens builds upon its proprietary brand segment with more offerings, this will provide them with diversification of their sources of income.

Providing doctors and healthcare institutions with a one stop shop for their medical supply needs. Hyphens' medical hypermart Pan Malayan allows for healthcare professionals and institutions to purchase medical supplies at wholesale quantities and prices. This results in an ecosystem where Hyphens is able to leverage on their existing relationships to have them purchase medical supplies as well. Amidst the backdrop of COVID-19, they were allowed to continue operating as an essential service. Management has guided that the pandemic has increased consumer awareness amongst doctors regarding Pan Malayan's digital platform, which should bring about more purchases in the long run.

Intending to pay 30% NPAT in dividends going forward. Since IPO in 2018, management declared their intention to distribute at least 30% of NPAT for FY18 and FY19. They have since declared dividends of 0.55 cents and 1 cent for FY18 and FY19, representing a dividend payout ratio of 30.5% and 46.0% respectively. Moving forward, to reward shareholders, Hyphens remains committed to paying 30% of NPAT as dividends, subject to the Board's approval. Based on the current share price of S\$0.42, dividend yield is at 2.4%.

Earnings Review

Revenue

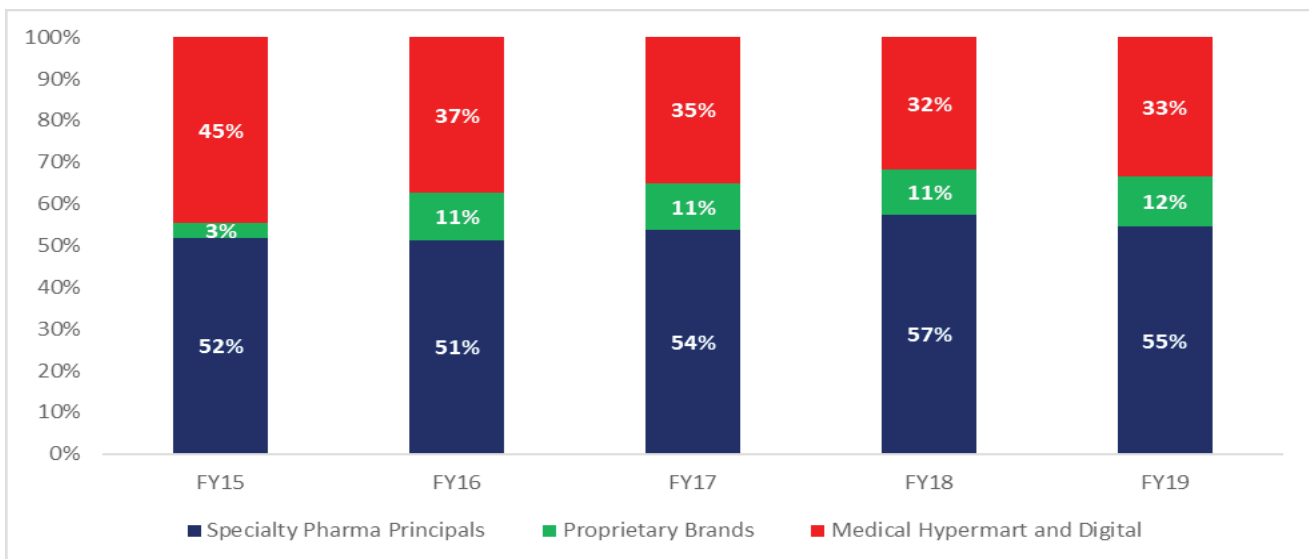
Hyphens' revenue comes from their 3 key operating segments: Specialty Pharma Principals, Proprietary Brands and Medical Hypermart and Digital. Overall, revenue grew at a 5-year CAGR of 11.1% from FY15 to FY19.

Specialty Pharma Principals: As a distributor of specialty pharmaceutical products, this segment is the largest contributor to earnings, hovering between 52-57% of total revenue from FY15 to FY19. Revenue grew from S\$40.6mln in FY15 to S\$65.2mln in FY19, representing a CAGR of 10% over 5 years. Revenue growth is also largely attributable to increased market penetration in all of their markets which led to increased sales volumes. Gross profit margins for this segment ranged between 38.4% to 43.1% from FY15 to FY17.

Proprietary Brands: Before acquiring Ocean Health in 2016, Hyphens' proprietary brands segment only contributed to c.3% of their overall revenue. The increase to contribution levels of 11-12% per annum was largely due to the acquisition of Ocean Health Singapore as well as the increased sales volume of their Ceradan products. Gross profit margins for this segment tends to be the highest, contributing up to 64.2% in FY16 and its lowest at 61.0% in FY15.

Medical Hypermart and Digital: Revenue from the Medical Hypermart and Digital Segment has remained relatively stable, growing from S\$34.9mln in FY15 to S\$39.8mln in FY19. This resulted in the decrease in its revenue contribution from 45% in FY15 to 33% in FY19 as the other two segments had shown increased sales. Gross profit margins for this segment ranged between 15.4% to 17.2% from FY15 to FY17.

Exhibit 3: Revenue By Operating Segment (%)

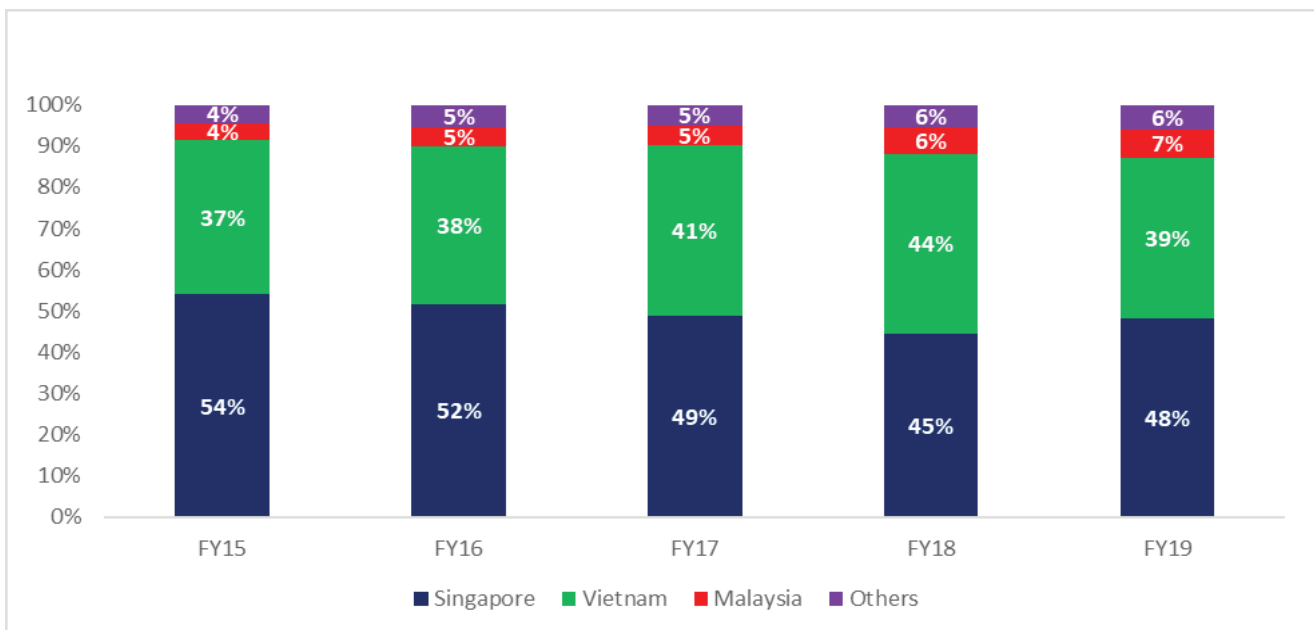


Source: Hyphens Pharma, LTS Research

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In terms of geographical sales, Singapore's sales contribution decreased from 54% in FY15 to 48% in FY19 despite the growth in sales from S\$42.2mln to S\$57.5mln. Sales in Vietnam had grown from S\$29.5mln in FY15 to S\$46.7mln in FY19, allowing its revenue contribution to hover between 37% to 44%. However, this is also testament to Hyphens' diversification efforts as the company continues to grow its global presence and not remain overly reliant on any of the countries it is currently present in.

Exhibit 4: Revenue By Geography (%)

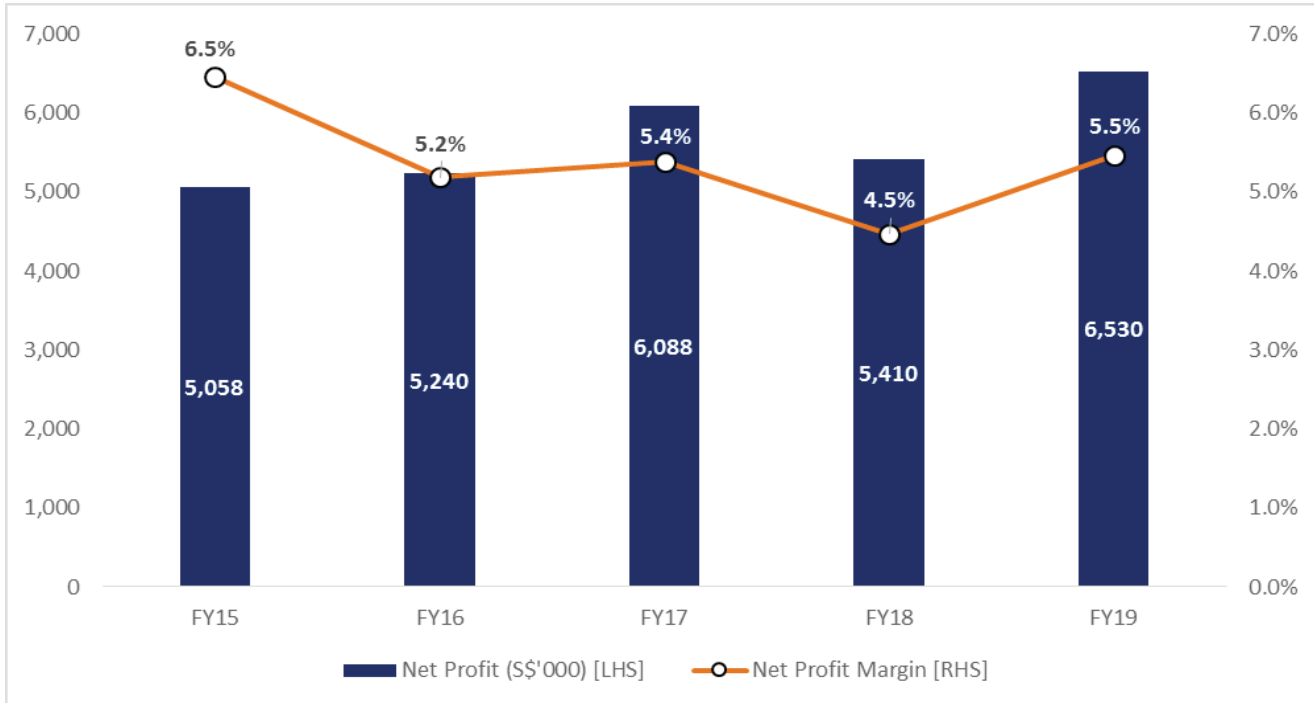


Source: Hyphens Pharma, LTS Research

From FY15 to FY19, net profit grew from S\$5.1mln to S\$6.5mln, representing a CAGR of 6.6%. However, net profit margin fell from 6.5% to 5.5% within the same time frame as the group faced increased distribution costs and tax expenses despite a growth in gross profit. Gross profit margin grew from 32.2% in FY15 to 35.7% in FY19.

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Exhibit 5: Net Profit vs Net Profit Margin



Source: Hyphens Pharma, LTS Research

Valuations

Exhibit 6: Bloomberg Consensus Figures

Year	FY20F	FY21F	FY22F
Revenue	129,000	141,000	151,000
Operating Profit	8,000	10,000	11,000
Net Income	7,620	7,890	8,630
P/E (x)	16.6	16.0	14.6
EPS (S\$)	0.025	0.026	0.029

* Figures in S\$'000

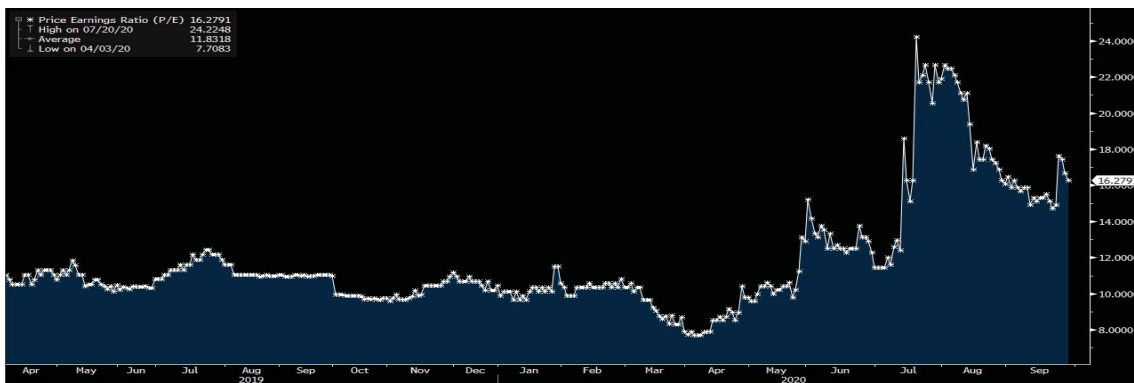
Source: Bloomberg, LTS Research

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Based on Bloomberg's consensus figures, revenue is expected to come in at S\$129m for FY20F while net income attributable to shareholders is expected to be approximately S\$7.6m. Net profit is anticipated to grow at 3.5% and 9.4% YoY for FY21F and FY22F respectively. The average consensus target price stands at S\$0.52 at the time of writing, with the most bullish expectation being S\$0.54 and the least bullish at S\$0.50.

According to these numbers, assuming a minimum dividend payout ratio of 30% and shares outstanding of 300,430,000, the conservative expected dividend per share for FY20F and FY21F will be 0.76 S cents and 0.79 S cents respectively. At the current price of S\$0.42, this represents an estimated forward dividend yield of 1.81% and 1.88% respectively. Current TTM P/E stands at 16.3x, P/B is at 2.8x and dividend yield is at 2.4%.

Exhibit 7: P/E Chart Since IPO To Date



Source: Bloomberg, LTS Research

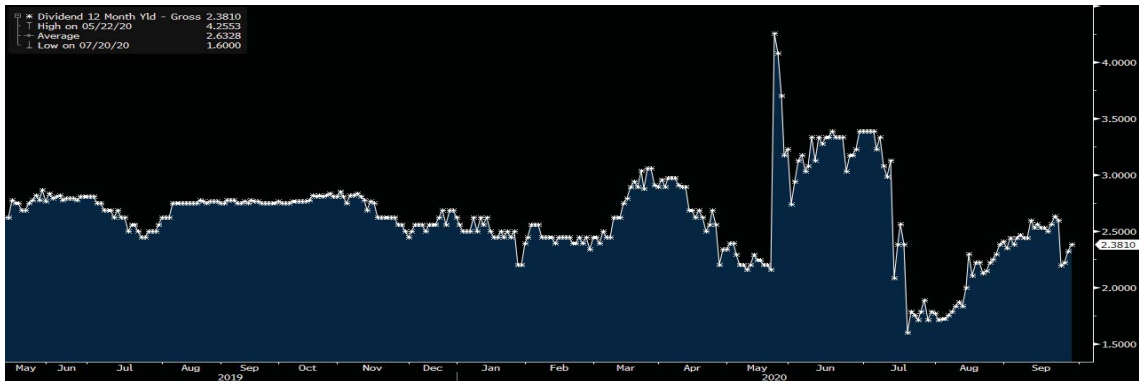
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Exhibit 8: P/B Chart Since IPO To Date



Source: Bloomberg, LTS Research

Exhibit 9: Dividend Yield Chart Since IPO To Date



Source: Bloomberg, LTS Research

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