



Hyphens Pharma Intl Ltd

(HYP SP/HYPH.SI)

Short term speed bump in the pursuit of growth

Tan Jiunn Chyuan (Kenny) / 65 6202 1196 / kenny.tan@kgi.com

- **Hyphens reported 3Q20 results** with S\$31.4mn sales (+2.4% YoY), S\$1.1mn PBT (-52% YoY) and S\$847k PATMI (+53% YoY).
- **Largely one-off mishaps.** Proprietary brands segment maintained a strong trajectory in 3Q20, but profitability took a hit due to inventory write-downs.
- **Proprietary brands to chug along.** With new marketing updates and expansion of distribution reach, we expect continued double-digit growth of the proprietary brands segment. However, we also expect costs to follow suit.
- **Downgrade to NEUTRAL with lower TP of S\$0.36.** We expect FY21F gross margins to normalise back to the 34-35% range, and net profit margin to come in below 5% instead of the previously estimated 6%. We take a moderate 10% YoY growth assumption for the proprietary brands segment, thus there could be further upside risk, especially if B2C online sales take off.

Financials & Key Operating Statistics

YE Dec (S\$ '000)	2018A	2019A	2020F	2021F	2022F
Revenue	120,930	119,442	127,784	133,981	140,534
PATMI	5,410	6,530	7,194	6,386	7,126
EPS (cents)	2.24	2.19	2.55	2.13	2.37
EPS grth (%)	-11.1	20.6	10.1	-11.2	11.6
P/E (x)	19.1	15.9	14.4	16.2	14.5
DPS (SGCents)	0.6	1.0	0.6	0.5	0.6
Div Yield (%)	1.6	2.9	1.7	1.5	1.7
Net Margin (%)	4.5	5.5	5.6	4.8	5.1
Gearing (%)	net cash	net cash	net cash	net cash	net cash
Price / Book (x)	2.6	2.4	2.0	1.8	1.6
ROE (%)	18.7	15.7	15.1	11.7	11.6

Source: Company Data, KGI Research

Hyphens grew the top line at a modest 2.4% YoY, largely due to strong sustained growth from Ceradan and Ocean Health under the Proprietary Brands segment. Specialty pharma was flat YoY, while medical hypermart business is down 1.4% YoY. Gross margins fell to 32.9% with weaker margins across all business segments – 9M20 gross, PBT and profit margin are now 40-60 bps below our FY20F expectations.

Triple one-off whammy. Hyphens recorded ~S\$400k inventory write-down of personal protective equipment for 9M20. Normalised gross profit margin would have been 34.2% in 9M20 without this adjustment. Additionally, other losses expanded significantly, with ~S\$565k allocated by Hyphens to inventory obsolescence, as well as another S\$217k due to FX loss from the rising EUR rate. However, 9M20 numbers are still fairly intact, largely offset by COVID-19 government grants.

Continued expansion. We continue to expect Hyphens' proprietary brands segment to grow at a double-digit rate. Apart from SUTL HK last quarter, Hyphens has partnered with Healthguard in Sri Lanka for the exclusive distribution of

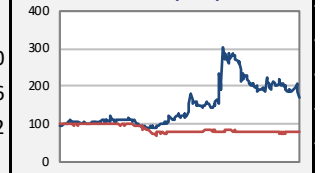
Neutral (Downgrade)

Price as of 13 Nov 20 (SGD)	0.35	Performance (Absolute)	
12M TP (S\$)	0.36	1 Month (%)	-18.8
Previous TP (S\$)	0.48	3 Month (%)	-30.3
Upside (%)	4.7	12 Month (%)	81.7

Trading data

Mkt Cap (S\$m)	104
Issued Shares (mn)	300
Vol - 3M Daily avg (mn)	2.6
Val - 3M Daily avg (\$mn)	1.2
Free Float (%)	22.0%

Perf. vs STI Index (Red)



Major Shareholders

Inomed	65.3%
Tan Chwee Choon	12.7%

Previous Recommendations

6-Nov-20	OP S\$0.48
----------	------------

Ocean Health. Hyphens has also found a Mainland China distributor in Shanghai Good Luck for the exclusive distribution of Ceradan. Recently, we note that Hyphens has participated in 11/11 Singles' Day sales event through B2C proprietary brands, in which mgmt. commented that sales in this one-day event exceeded an entire month's sales.

Forecasts: We revise down revenue growth expectations in FY20F. We reduced proprietary brands gross margin % from 63.3% to 62.5% to match the low-growth case as we expect Hyphens to take a smaller cut from the incoming sales through online platforms. We also trimmed specialty pharma gross margin % from FY21 onwards to 37%, roughly 70bps less from previous estimate, to be more conservative with our valuations. We increased distribution and admin expenses to 28.5% of sales (prev. at 27.6%) to account for incremental marketing expenses of proprietary brands. We also introduced an annual S\$400k+ inventory write-off into Other Losses (modelled at 3% prev. year inventory).

Valuation & Action: Downgrade to NEUTRAL, with lower 12M Target Price of S\$0.36. We maintain 17x and 14x P/E peg for base case and low-growth case. Low growth case valuation is at S\$0.28. DCF valuation of the base case is trimmed from S\$0.65 to S\$0.53, while the low growth case drops from S\$0.56 to S\$0.47. The disconnect between the DCF valuation and P/E valuation indicates that while Hyphens is still a decent, cash generating long-term play, earnings impact in the short-medium term is still substantial as the company looks to grow out its proprietary brands.

Risks: COVID-19 operational risk, Forex risk, product licensing delays leading to missed revenue streams.

Figure 1: Results comparison to prior FY20 forecast and 9M19

Values in SGD '000	Old FY20F	9M20	% of estimate	Variance
Revenue	130,603	93,076	71.3%	
Cost of sales	-86,005	-61,624	71.7%	
Gross Profit	44,599	31,452	70.5%	
Operating expenses	-35,186	-25,951	73.8%	
Profit from Operations	9,412	5,501	58.4%	
Other income/(losses)	1,074	701	65.3%	
Profit before Tax	9,496	6,202	65.3%	
Net profit	7,787	5,129	65.9%	
<i>Gross Margin</i>	<i>34.1%</i>	<i>33.8%</i>		<i>-0.4%</i>
<i>PBT Margin</i>	<i>7.3%</i>	<i>6.7%</i>		<i>-0.6%</i>
<i>Net Profit Margin</i>	<i>6.0%</i>	<i>5.5%</i>		<i>-0.5%</i>
EPS (in Scents)	2.59	1.71	66.0%	

Values in SGD '000	9M20	9M19	yoy % chg
Revenue	93,076	86,705	7.3%
Cost of sales	-61,624	-56,208	9.6%
Gross Profit	31,452	30,497	3.1%
Operating expenses	-25,951	-24,503	5.9%
Profit from Operations	5,501	5,994	-8.2%
Other income/(losses)	701	-70	-1101.4%
Profit before Tax	6,202	5,924	4.7%
Net profit	5,129	4,865	5.4%
<i>Gross Margin</i>	<i>33.8%</i>	<i>35.2%</i>	<i>-1.4%</i>
<i>PBT Margin</i>	<i>6.7%</i>	<i>6.8%</i>	<i>-0.2%</i>
<i>Net Profit Margin</i>	<i>5.5%</i>	<i>5.6%</i>	<i>-0.1%</i>
EPS (in Scents)	1.71	1.62	5.6%

Source: Company data, KGI Research

Figure 2: Updated base/low-growth assumptions

Base case	2016	2017	2018	2019	2020	2021	2022	2023	2024
Specialty Pharma YoY% growth	27.7%	17.0%	14.3%	-6.1%	4.5%	4.0%	4.0%	4.0%	4.0%
Proprietary Brands YoY% growth	319.4%	9.1%	6.3%	9.9%	25.0%	10.0%	10.0%	10.0%	10.0%
Medical Hypermart YoY% growth	8.0%	4.8%	-3.1%	3.8%	4.5%	4.0%	4.0%	4.0%	4.0%
Overall revenue YoY% growth	29.0%	11.6%	7.3%	-1.2%	7.0%	4.8%	4.9%	4.9%	5.0%
Specialty Pharma gross margin %	41.7%	38.4%	37.8%	39.2%	36.6%	37.0%	37.0%	37.0%	37.0%
Proprietary Brands gross margin %	64.2%	61.2%	62.5%	63.7%	62.2%	62.5%	62.5%	62.5%	62.5%
Medical Hypermart gross margin %	16.4%	15.4%	16.5%	19.9%	17.6%	17.6%	17.6%	17.6%	17.6%
Overall gross margin %	34.8%	32.8%	33.7%	35.7%	34.0%	34.5%	34.8%	35.0%	35.3%
Specialty Pharma % of sales	51.4%	53.9%	57.4%	54.5%	53.3%	52.8%	52.4%	51.9%	51.4%
Proprietary Brands % of sales	11.2%	11.0%	10.9%	12.1%	14.2%	14.9%	15.6%	16.3%	17.1%
Medical Hypermart % of sales	37.4%	35.1%	31.7%	33.3%	32.6%	32.3%	32.0%	31.7%	31.4%
Low growth case	2016	2017	2018	2019	2020	2021	2022	2023	2024
Specialty Pharma YoY% growth	27.7%	17.0%	14.3%	-6.1%	4.0%	2.0%	2.0%	2.0%	2.0%
Proprietary Brands YoY% growth	319.4%	9.1%	6.3%	9.9%	22.0%	4.0%	4.0%	4.0%	4.0%
Medical Hypermart YoY% growth	8.0%	4.8%	-3.1%	3.8%	4.0%	2.0%	2.0%	2.0%	2.0%
Overall revenue YoY% growth	29.0%	11.6%	7.3%	-1.2%	6.2%	2.3%	2.3%	2.3%	2.3%
Specialty Pharma gross margin %	41.7%	38.4%	37.8%	39.2%	36.6%	37.0%	37.0%	37.0%	37.0%
Proprietary Brands gross margin %	64.2%	61.2%	62.5%	63.7%	62.2%	62.5%	62.5%	62.5%	62.5%
Medical Hypermart gross margin %	16.4%	15.4%	16.5%	19.9%	17.6%	17.6%	17.6%	17.6%	17.6%
Overall gross margin %	34.8%	32.8%	33.7%	35.7%	34.0%	34.3%	34.4%	34.5%	34.5%
Specialty Pharma % of sales	51.4%	53.9%	57.4%	54.5%	53.4%	53.3%	53.1%	53.0%	52.8%
Proprietary Brands % of sales	11.2%	11.0%	10.9%	12.1%	13.9%	14.2%	14.4%	14.6%	14.9%
Medical Hypermart % of sales	37.4%	35.1%	31.7%	33.3%	32.7%	32.6%	32.5%	32.4%	32.3%

Source: Company data, KGI Research

Figure 3: Updated FY20 and FY21 forecasts

Values in SGD '000	New FY20F	Old FY20F	Variance
Revenue	127,784	130,603	-2.2%
Cost of sales	-84,289	-86,005	-2.0%
Gross Profit	43,495	44,599	-2.5%
Operating expenses	-34,806	-35,186	-1.1%
Profit from Operations	8,690	9,412	-7.7%
Other income/(losses)	674	1,074	-37.2%
Profit before Tax	8,773	9,496	-7.6%
Net profit	7,194	7,787	-7.6%
<i>Gross Margin</i>	<i>34.0%</i>	<i>34.1%</i>	<i>-0.1%</i>
<i>PBT Margin</i>	<i>6.9%</i>	<i>7.3%</i>	<i>-0.4%</i>
<i>Net Profit Margin</i>	<i>5.6%</i>	<i>6.0%</i>	<i>-0.3%</i>
EPS (in Scents)	2.39	2.59	-7.6%
Values in SGD '000	New FY21F	Old FY21F	Variance
Revenue	133,981	136,957	-2.2%
Cost of sales	-87,728	-88,848	-1.3%
Gross Profit	46,253	48,109	-3.9%
Operating expenses	-38,589	-37,800	2.1%
Profit from Operations	7,664	10,309	-25.7%
Other income/(losses)	-281	125	-325.0%
Profit before Tax	7,787	10,434	-25.4%
Net profit	6,386	8,556	-25.4%
<i>Gross Margin</i>	<i>34.5%</i>	<i>35.1%</i>	<i>-0.6%</i>
<i>PBT Margin</i>	<i>5.8%</i>	<i>7.6%</i>	<i>-1.8%</i>
<i>Net Profit Margin</i>	<i>4.8%</i>	<i>6.2%</i>	<i>-1.5%</i>
EPS (in Scents)	2.13	2.85	-25.4%

Source: Company data, KGI Research

Financials

YE 31 Dec

INCOME STATEMENT (\$\$mn)	2018A	2019A	2020F	2021F	2022F
Core Revenue	120.9	119.4	127.8	134.0	140.5
Cost of sales	(80.1)	(76.8)	(84.3)	(87.7)	(91.7)
Gross Profit	40.8	42.7	43.5	46.3	48.8
D&A expense	(2.2)	(2.1)	(2.1)	(2.2)	(2.2)
Distribution & admin expenses	(32.2)	(34.6)	(35.4)	(38.2)	(39.9)
Other operating income/(expenses)	(1.6)	(0.1)	0.6	(0.4)	(0.4)
Profit from Operations	7.1	8.0	8.7	7.7	8.5
Finance income/(expenses)	(0.1)	0.0	0.1	0.1	0.2
Exceptionals/Investment income	0.0	0.0	0.0	0.0	0.0
Profit before Tax	7.0	8.0	8.8	7.8	8.7
Income tax	(1.6)	(1.5)	(1.6)	(1.4)	(1.6)
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
PATMI	5.4	6.5	7.2	6.4	7.1
BALANCE SHEET (\$\$mn)	2018A	2019A	2020F	2021F	2022F
Cash and cash equivalents	22.4	26.2	31.2	37.8	45.3
Trade and other receivables	29.8	28.7	30.7	32.2	33.7
Inventory	10.9	11.4	13.5	14.0	14.7
Other current assets	0.5	0.4	0.4	0.4	0.4
Current Assets	63.5	66.6	75.7	84.4	94.0
Property, plant and equipment	3.5	5.9	4.9	4.0	3.1
Intangibles	7.8	7.5	7.9	7.7	7.4
Other non-current assets	0.2	0.1	1.8	2.0	2.2
Non-current Assets	11.4	13.5	14.6	13.7	12.7
Total assets	75.0	80.1	90.3	98.1	106.8
Trade and other payables	30.8	30.6	33.7	35.1	36.7
Borrowings (current)	3.0	1.1	1.1	1.1	1.1
Other current liabilities	1.5	1.5	1.5	1.5	1.5
Current Liabilities	35.3	33.1	36.2	37.6	39.2
Borrowings (non-current)	0.0	2.4	2.4	2.4	2.4
Other non-current liabilities	0.5	0.5	0.4	0.4	0.4
Non-current liabilities	0.5	2.9	2.8	2.8	2.8
Shareholders equity	39.2	44.1	51.3	57.7	64.8
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Total Equity	39.2	44.1	51.3	57.7	64.8
Total Liabilities and Equity	75.0	80.1	90.3	98.1	106.8
CASH FLOW STATEMENT (\$\$mn)	2018A	2019A	2020F	2021F	2022F
Net income before tax	7.0	8.0	8.8	7.8	8.7
Depreciation & Amortisation	0.8	2.0	2.1	2.2	2.2
Other non-cash adjustments	2.1	(0.1)	(0.1)	(0.1)	(0.2)
Change in Working Capital	(1.3)	0.9	(1.0)	(0.7)	(0.6)
Income Tax Paid	(1.2)	(1.4)	(1.6)	(1.4)	(1.6)
CF from operating activities	7.5	9.5	8.2	7.8	8.6
Purchase/Disposal of PPE	(3.3)	(0.5)	(0.6)	(0.9)	(1.0)
Other CFI	0.0	0.1	(0.6)	0.1	0.2
CF from investing activities	(3.3)	(0.4)	(1.3)	(0.8)	(0.8)
Dividends Paid	(7.0)	(1.7)	(1.8)	(1.6)	(1.8)
Debt Raised / (Repaid)	(1.0)	(3.4)	0.0	0.0	0.0
Equity Raised / (Bought Back)	13.9	0.0	0.0	0.0	0.0
Other Cash from Financing	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
CF from financing activities	5.8	(5.2)	(1.9)	(1.7)	(1.9)
Net increase in cash & cash equiv.	10.1	3.8	5.0	6.7	7.4
Beginning Cash	12.3	22.4	26.2	31.2	37.8
Ending Cash	22.4	26.2	31.2	37.8	45.3
KEY RATIOS	2018A	2019A	2020F	2021F	2022F
Profitability					
Core EPS	0.0180	0.0217	0.0239	0.0213	0.0237
Core EPS Growth (%)	-11.1%	20.6%	10.1%	-11.2%	11.6%
DPS (SGD Cents)	0.6	1.0	0.6	0.5	0.6
Dividend Yield (%)	1.6	2.9	1.7	1.5	1.7
Profitability (%)					
Gross margin	33.7%	35.7%	34.0%	34.5%	34.8%
EBITDA margin	7.7%	8.4%	8.4%	7.4%	7.7%
Net margin	4.5%	5.5%	5.6%	4.8%	5.1%
ROE	18.7%	15.7%	15.1%	11.7%	11.6%
ROA	8.0%	8.4%	8.4%	6.8%	7.0%
Financial Structure					
Interest coverage (x)	54.8	57.7	nm	nm	nm
Total Debt/Equity (%)	7.7	7.9	6.8	6.1	5.4
Net Gearing (%)	net cash	net cash	net cash	net cash	net cash
Market Valuation (x)					
Price / Earnings	19.1	15.9	14.4	16.2	14.5
Price / Book	2.6	2.4	2.0	1.8	1.6
Price / Sales	0.9	0.9	0.8	0.8	0.7
EV / EBITDA	9.0	8.1	7.1	7.0	5.7

KGI's Ratings

Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

Disclaimer

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2020. KGI Securities (Singapore) Pte. Ltd. All rights reserved.