

Hyphens Pharma International Ltd

Repositioning for growth



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SINGAPORE | HEALTHCARE | 3Q20 Results

- 9M20 earnings of S\$5.1mn were 17% below our estimate due to other losses arising from inventory obsolescence.
- 3Q revenue grew 2% YoY to S\$31.4mn as strength in proprietary brands offset specialty pharma and medical hypermart weakness.
- COVID-19 led to S\$565k in inventory obsolescence and S\$217k FX losses.
- Short-term weakness expected as company reorganises operations to manage thinning margins and heightened inventories.
- Signed two distribution agreements in past month, to develop proprietary-brand business.
- Maintain ACCUMULATE with reduced DCF TP (WACC 7.2%) of S\$0.365 from S\$0.495.** We cut FY20e and FY21e earnings by 20% to reflect a recovery only in FY22.

Results at a glance

SGD '000	3Q20	3Q19	YoY	Comments
Specialty pharma principals	16,956	16,900	0%	
Proprietary brands	4,411	3,589	23%	Segment continued to benefit from moving sales online.
Medical hypermart and digital	10,069	10,210	-1%	Despite flat revenue YoY, segment revenue grew 4% QoQ as business resumed across healthcare providers.
Revenue	31,436	30,699	2%	
Cost of sales	(21,089)	(19,826)	6%	Included S\$80k in mark down on net realisable value for medical PPEs.
Gross profit	10,347	10,873	-5%	
Distribution costs	(6,325)	(6,190)	2%	
Administrative expenses	(2,537)	(2,395)	6%	
Finance costs	(26)	(32)	-19%	
Other income and gains/(losses)	(406)	(47)	n.m.	S\$565k of inventory write-down and S\$217k of foreign exchange losses were partially offset by S\$200k of Job Support Scheme (JSS) recognised in 3Q20. Carrying value of S\$200k may be further written down in subsequent quarter.
Profit/(loss) before tax	1,053	2,209	-52%	
Income tax expense	(206)	(408)	-50%	
Profit, net of tax	847	1,801	-53%	

Source: Company, PSR

The Positive

+ Proprietary brands sustained growth

Proprietary-brand revenue grew 23% YoY as the company continued to move sales online. Revenue was down 2% QoQ due to S\$1mn of exceptional corporate sales of Ocean Health® supplements in the previous quarter. Stripping that out, QoQ growth would have been 26%, underscoring the strong organic growth of proprietary-brand products.

Specialty pharma and medical hypermart revenue was flat YoY though up 6%/4% QoQ. This reflected their recovery as Singapore gradually reopened.

16 November 2020

ACCUMULATE (MAINTAINED)

LAST CLOSE PRICE	SGD 0.345
FORECAST DIV	SGD 0.010
TARGET PRICE	SGD 0.365
TOTAL RETURN	8.7%

COMPANY DATA

BLOOMBERG CODE	HYP SP
O/S SHARES (MN):	300
MARKET CAP (USD mn / SGD mn):	76.9 / 103.6
52 - WK HI/LO (SGD):	0.625 / 0.180
3M Average Daily T/O (mn):	2.54

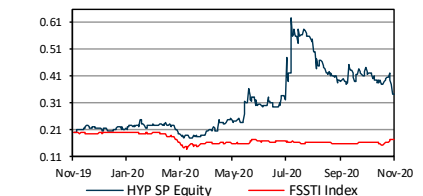
MAJOR SHAREHOLDERS (%)

INOMED HOLDING PTE LTD	65.3%
TAN CHWEE CHOON	12.7%

PRICE PERFORMANCE (%)

	1M T H	3 M T H	1Y R
COMPANY	(22.5)	(36.7)	75.5
STI RETURN	5.9	5.6	(12.6)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, (S\$'000)	FY18	FY19	FY20e	FY21e
Revenue	120,930	119,442	126,470	137,587
EBITDA	7,959	10,130	10,524	10,362
NPAT	5,410	6,530	6,595	6,187
EPS (S\$ Cents)	1.8	2.2	2.2	2.1
P/E (x)	25.0	20.7	20.5	21.9
P/B (x)	3.4	3.1	2.8	2.7
Div Yield	1.2%	2.2%	2.2%	2.2%
ROE	18.7%	15.7%	14.4%	12.6%

Source: Company Data

VALUATION METHOD

DCF @ WACC = 7.2%, g = 2.0%

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The Negatives

- Inventory obsolescence hurt earnings

Inventory in excess of S\$600k was marked down as a result of disruptions from COVID-19 across products:

- Personal protective equipment like masks was marked down due to high supply resulting in lower selling prices and an influx of supply in the market, resulting in a net realisable value write-down of S\$80k under cost of sales.
- COVID-19 test kits that were procured in anticipation of high demand from widespread testing in Singapore had to be written off after the Singapore authorities centralised supply of test kits. However, the company is exploring options to re-sell the kits to other markets. About S\$300k in value was written off with S\$200k on the books remaining. This may be written off subsequently if no buyers are found.
- S\$100k of flu vaccines had to be written off due to lack of demand following travel restrictions. Flu vaccines have short shelf lives due to the different seasonal strains of flu viruses.
- A further S\$200k was written down for an assortment of products due to lockdowns in different markets which affected demand.

- FX exposure

About S\$217k in FX losses was recognised from SGD weakness against the USD/EUR as well as depreciation of the rupiah and peso.

Outlook

Repositioning business to capture long-term growth

The company continued to expand its proprietary-brand business with the signing of two distribution agreements: one for the distribution of Ocean Health® in Sri Lanka with Healthguard Pharmacy Limited (non-listed) and another for Ceradan® in China with Shanghai Good Luck International Trading Co. Ltd. (non-listed). We expect the company to continue investing in this business on account of better margins.

Normalisation expected in FY22

Inventories, receivables and payables may only normalise in FY22 after the company's reorganisation of its operations.

Investment Action

Maintain ACCUMULATE with reduced DCF TP of S\$0.365 from S\$0.435

FY20e and FY21e earnings have been shaved by 20% to reflect a total write-off of COVID-19 test kits in the fourth quarter and a pushout in recovery to FY22e. We have also reduced margin expectations from their high base in FY19 and incorporated higher expenses from possible reinvestments in its own-brand business.

Financials

Income Statement

Y/E Dec, S\$'000	FY17	FY18	FY19	FY20e	FY21e
Revenue	112,652	120,930	119,442	126,470	137,587
Cost of sales	(75,684)	(80,125)	(76,773)	(82,751)	(89,646)
Gross profit	36,968	40,805	42,669	43,719	47,940
Marketing and distribution costs	(20,402)	(21,736)	(24,837)	(24,515)	(26,670)
Administrative expenses	(8,472)	(10,422)	(9,772)	(11,466)	(13,466)
Finance costs	(206)	(129)	(138)	(142)	(159)
Other income and gains	268	279	546	511	75
Other losses	(996)	(1,797)	(481)		
Profit before tax	7,160	7,000	7,987	8,106	7,721
Income tax expense	(1,072)	(1,590)	(1,457)	(1,511)	(1,534)
Profit after tax	6,088	5,410	6,530	6,595	6,187

Per share data

Y/E Dec, SG cents	FY17	FY18	FY19	FY20e	FY21e
EPS	2.0	1.8	2.2	2.2	2.1
DPS	0.0	0.6	1.0	1.0	1.0
BVPS	6.3	13.1	14.7	15.9	16.9

Cash Flows

Y/E Dec, S\$'000	FY17	FY18	FY19	FY20e	FY21e
CFI					
Profit before tax	7,160	7,000	7,987	8,106	7,721
Adjustments	1,391	2,946	1,937	2,261	2,484
Working capital changes	(3,250)	(1,255)	935	(4,158)	3,904
Operating cash flow	5,301	8,691	10,859	6,209	14,108
Taxes paid, others	(683)	(1,154)	(1,406)	(1,459)	(1,511)
Net operating cash flow	4,618	7,537	9,453	4,750	12,597
CFI					
CAPEX, net	(171)	(3,378)	(606)	(1,548)	(1,341)
Acquisition of subsidiaries	-	-	-	-	-
Others	9	54	157	-	-
Net investing cash flow	(162)	(3,324)	(449)	(1,548)	(1,341)
CFI					
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)	(742)	(780)
Net financing cash flow	(4,786)	5,847	(5,192)	(3,746)	(3,784)
Net change in cash	(330)	10,060	3,812	(544)	7,472
CCE, end	12,293	22,353	26,165	25,621	33,093

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	3,297	3,283
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	12,787	11,646
Inventories	13,178	10,863	11,431	17,863	13,085
Trade and other receivable	23,775	29,833	28,654	33,274	31,828
Cash and cash equivalents	12,293	22,353	26,165	25,621	33,093
Others	245	492	366	392	469
Total current assets	49,491	63,541	66,616	77,151	78,476
Total assets	59,541	74,979	80,131	89,938	90,122
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	37,549	35,305
Others	3,462	4,480	2,516	2,589	2,634
Total current liabilities	38,563	35,315	33,144	40,138	37,939
Total liabilities	40,711	35,817	36,055	42,271	39,272
EQUITY					
Share capital	1,521	32,555	32,641	32,641	32,641
Retained earnings	17,191	21,587	26,467	30,058	33,241
Others	118	(14,980)	(15,032)	(15,032)	(15,032)
Total equity	18,830	39,162	44,076	47,667	50,850

Valuation Ratios

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/E (x)	22.2	25.0	20.7	20.5	21.9
P/B (x)	7.2	3.4	3.1	2.8	2.7
EV/EBITDA (x)	11.8	10.8	10.7	10.4	9.8
Dividend Yield	0.0%	1.2%	2.2%	2.2%	2.2%

Growth & Margins

	FY17	FY18	FY19	FY20e	FY21e
Growth					
Revenue	11.6%	7.3%	-1.2%	5.9%	8.8%
Gross profit	5.3%	10.4%	4.6%	2.5%	9.7%
EBITDA	38.0%	-1.9%	27.3%	3.9%	-1.5%
Net Profit	16.2%	-11.1%	20.7%	1.0%	-6.2%
Margins					
Gross margin	32.8%	33.7%	35.7%	34.6%	34.8%
EBITDA margin	7.2%	6.6%	8.5%	8.3%	7.5%
Net Profit Margin	5.4%	4.5%	5.5%	5.2%	4.5%

Key Ratios

	FY17	FY18	FY19	FY20e	FY21e
ROE	32.3%	18.7%	15.7%	14.4%	12.6%
ROA	10.2%	8.0%	8.4%	7.8%	6.9%
Net gearing (x)	Net cash	Net cash	Net cash	Net cash	Net cash



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