

# Hyphens Pharma International Limited

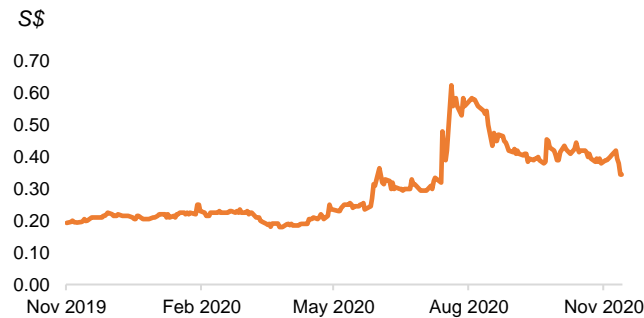
Date: 19 November 2020

**BUY**  
**(Maintained)**

**Target Price: S\$0.390**  
**(+16.7%)**

**HYP SP**

**Price: S\$0.335** (as at 18 November 2020)



Share price	1M	3M	6M	1Y
Hyphens Pharma	-20.2%	-23.0%	+36.7%	+59.5%
Catalist Index	-6.0%	-5.7%	+27.9%	+7.4%

<b>Market Capitalisation</b>	S\$100.6 million
<b>Current Price</b>	S\$0.335
<b>Shares Outstanding</b>	300.4 million
<b>Free Float</b>	22.0%
<b>Major Shareholder</b>	Inomed Holding Pte Ltd 65.31% Tan Chwee Choon 12.66%
<b>Recommendation of other brokers</b>	2 Buys

Source: Company data, Bloomberg, SAC Capital

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## Q3 set-back, longer-term growth is priority

**Product demand stays firm, but provisions dragged profits lower.** 3QFY20 revenue rose 2.4% YoY to S\$31.4m, led by 22.9% jump in sales for proprietary brands segment to S\$4.4m. However, net profit fell 53.0% due to lower gross margins and write-down in inventory and unfavourable forex. In 9MFY20, Hyphens posted a 7.3% YoY increase in total revenue to S\$93.1m and 5.4% increase YoY in net profit to S\$5.1m.

**Increasing focus on Proprietary Brands.** Proprietary brands segment is a key driver for revenue growth and posted a 27.5% increase in sales in 9MFY20. Key products are dermatological products under Ceradan brand and nutritional supplements under Ocean Health brand. Hyphens have pumped more efforts into R&D. R&D spend rose 125.0% YoY for 9MFY20 to S\$0.23 million (3QFY20 YoY growth: 1677.8%). We believe R&D spend will rise in the next 2 years, so will marketing and distribution expenses with its overseas expansion into Sri Lanka for the distribution of Ocean Health, and China for Ceradan. These initiatives will drive longer term earnings potential.

**Revise our earnings estimates.** We have revised revenue estimates (FY2020E -1.0%, FY2021E +2.5%, FY2022E +1.8%) to reflect greater optimism on penetration into the new markets for the proprietary products. We have also lowered net profit estimates (FY2020E -17.0%, FY2021E -18.5%, FY2022E -16.3%) to factor in higher R&D spend and marketing budget for these products. We expect overall gross margin to return to pre-Covid level of about 33%-34%.

**Maintain BUY rating but lower fair value to S\$0.39 (from S\$0.54).** Our DCF-derived target price translates into a FY21E P/E of 21.0x.

**Key Risks:** Product differentiation, foreign exchange uncertainty, supply chain disruption.

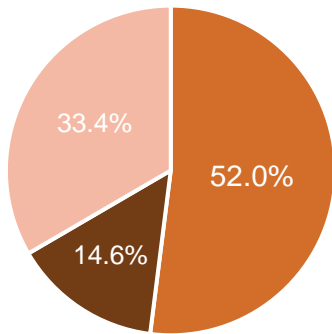
## Key Financials

Year ended 31 Dec	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
<b>Revenue (S\$'000)</b>	120,930	119,442	127,813	134,013	138,096
<b>% Growth</b>	7.3%	-1.2%	7.0%	4.9%	3.0%
<b>Profit/(loss) before tax (S\$'000)</b>	7,000	7,987	7,946	6,753	7,788
<b>Profit/(loss) before tax margin</b>	5.8%	6.7%	6.2%	5.0%	5.6%
<b>Profit/(loss) attributable to owners (S\$'000)</b>	5,410	6,530	6,744	5,585	6,441
<b>EPS (Singapore cents)</b>	1.95	2.17	2.24	1.86	2.14
<b>P/E (x)</b>	18.6	15.4	14.9	18.0	15.6
<b>P/B (x)</b>	2.6	2.3	2.2	2.0	1.9
<b>Net Debt/Equity (%)</b>	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 9MFY20, Hyphens received a S\$1.48 million in government grants mainly for COVID-19 support.

## Investment Highlights

### 9MFY20 Revenue



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

Source: Company Data, SAC Capital

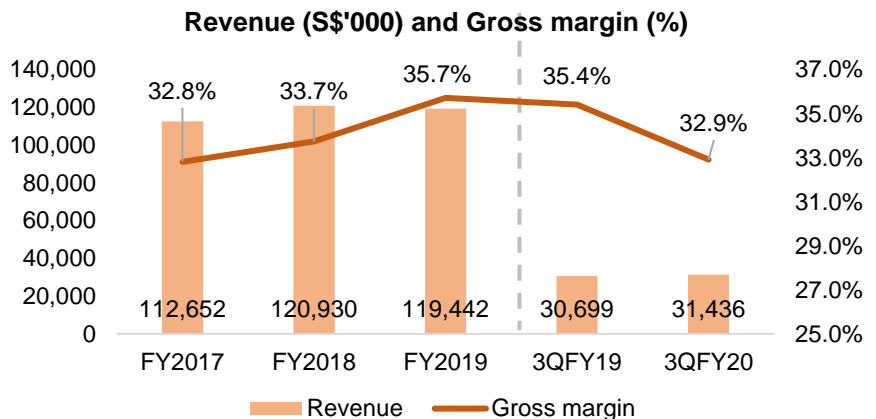
### Business Overview:

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.

### 3QFY20 revenue increased 2.4% YoY, but NPAT decreased 53.0% due to lower gross margins and higher provisions

3QFY20 revenue grew 2.4% YoY to S\$31.4 million, led by higher sales in proprietary brands segment. Revenue from proprietary brands rose 22.9% due to higher demand for dermatological products under Ceradan® brand and nutritional supplements under Ocean Health® brand. Bottomline, however, was impaired by a S\$645,000 charge for lower net realisable value for inventory and stock obsolescence, and S\$217,000 for forex. 3QFY20 net profit fell 53.0% to S\$0.8m. In 9MFY20, Hyphens posted a 7.3% YoY increase in total revenue to S\$93.1m and 5.4% increase YoY in net profit to S\$5.1m.

### Lower Gross Margins



Source: Company Data, SAC Capital

3QFY20 gross margin was lower at 32.9% (3QFY19: 35.4%) with 1) lower margins at all segments, in particular medical hypermart and digital, which enjoyed a higher-margined tender supply contract in FY19, and 2) S\$80,000 write-down in the value of its inventory of personal protective equipment.

1HFY20 gross margins were 1 ppt higher due to Covid-induced stockpiling by the retailers, and higher corporate orders for health supplements. With virus being contained, the buying pattern has normalised. We believe gross margins will stay at about 33%-34%.

### Other Losses

Hyphens booked exceptional charge of S\$0.9m in 3QFY20 for provision for inventory obsolescence (S\$0.6m) and foreign exchange loss (S\$0.2m). Provision was charged on 1) specialty pharma inventories with weaker demand from the lockdown in the Philippines (S\$0.1m); 2) at medical hypermart for short shelf-life items such as flu vaccines (S\$0.2m); and 3) Covid-19 diagnostic test kits (S\$0.3m). Covid-19 testing is now centrally-managed by the Singapore authority, and domestic retail demand is limited. Hyphens looks to sell them in the overseas markets. Other gains (S\$0.5m) would fall in FY2021 as government grants (job support scheme) taper off.

### **Increasing focus on Proprietary Brands**

Revenue from proprietary brands segment rose 22.9% YoY in 3QFY20, from S\$3.6 million to S\$4.4 million. 9MFY20 revenue increased 27.5% YoY, from S\$10.7 million to S\$13.6 million. This was due to higher demand for dermatological products under Ceradan brand and nutritional supplements under Ocean Health brand.

Hyphens is placing more focus on its proprietary brands segment, with higher R&D costs incurred, growing 125.0% YoY for 9MFY20 to S\$0.23 million (3QFY20 YoY growth: 1677.8%). We anticipate that this is just the start of higher R&D investment into the segment as it shift its focus to building core brands and increase outreach.

In line with this, Hyphens expanded its proprietary brands footprint overseas, namely the distribution of Ocean Health into Sri Lanka in August, and Ceradan into Mainland China in November. This is a step forward to tap into bigger markets outside Southeast Asia. Although we do not expect high increase in revenue in the short term, as brand and recognition and loyalty take time to build, we believe these ventures are strategic in the long-term.

We expect administrative expenses to increase with increased R&D costs for the next few periods in their bid to grow their proprietary brands segment. In addition, we expect distribution costs to increase with higher advertising and promotional expenses in their new markets, especially Mainland China.

As these products are developed, marketed and sold, gross margins from the proprietary brands segment is the highest out of the three segments.

### **Revise our earnings estimates**

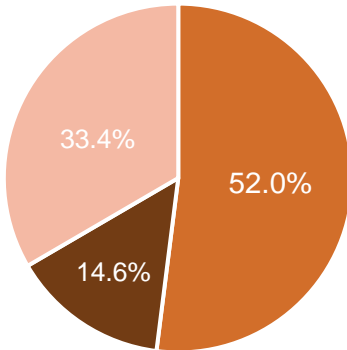
We have revised revenue estimates (FY2020E -1.0%, FY2021E +2.5%, FY2022E +1.8%) to reflect greater optimism on penetration into the new markets for the proprietary products. We have also lowered net profit estimates (FY2020E -17.0%, FY2021E -18.5%, FY2022E -16.3%) to factor in higher R&D spend and marketing budget for these products. We expect overall gross margin to return to pre-Covid level of about 33%-34%.

### **Maintain BUY rating at lower target price of S\$0.39**

We maintain a BUY rating on Hyphens Pharma, but lower fair value to S\$0.39 (from S\$0.54). Our DCF-derived target price translates into a FY21E P/E of 21.0x. Our target price implies a 16.7% upside.

## Business Segments

9MFY20 Revenue



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

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



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.

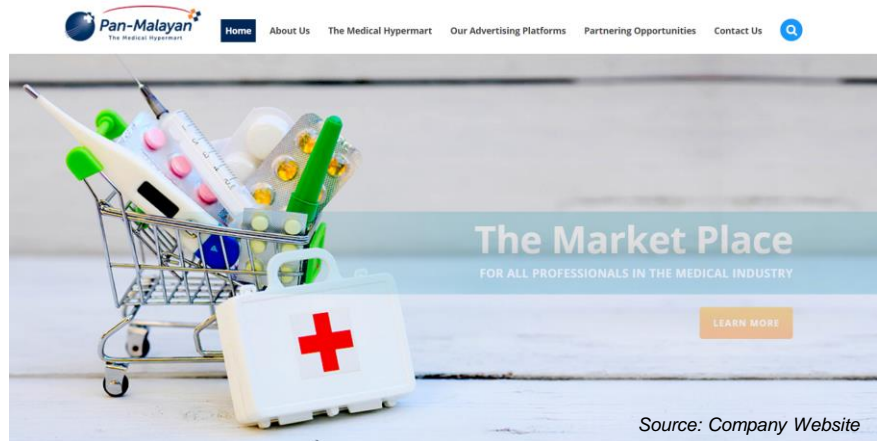
### Proprietary Brands



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. In addition, Hyphens expanded Ocean Health distribution into Sri Lanka, and Ceradan into Mainland China in 2HFY20.

## Income Statement

\$'000	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
<b>Revenue</b>	<b>120,930</b>	<b>119,442</b>	<b>127,813</b>	<b>134,013</b>	<b>138,096</b>
Cost of sales	(80,125)	(76,773)	(86,329)	(87,961)	(89,902)
<b>Gross profit</b>	<b>40,805</b>	<b>42,669</b>	<b>41,484</b>	<b>46,052</b>	<b>48,193</b>
Interest Income	54	157	126	50	65
Other income and gains	225	389	2,000	495	400
Distribution costs	(21,736)	(24,837)	(24,284)	(28,411)	(28,862)
Administrative expenses	(10,422)	(9,772)	(9,929)	(10,741)	(11,306)
Finance costs	(129)	(138)	(138)	(138)	(138)
Other losses	(1,797)	(481)	(1,311)	(554)	(565)
<b>Profit before tax from continuing operations</b>	<b>7,000</b>	<b>7,987</b>	<b>7,946</b>	<b>6,753</b>	<b>7,788</b>
Income tax expense	(1,590)	(1,457)	(1,202)	(1,168)	(1,347)
<b>Profit, net of tax</b>	<b>5,410</b>	<b>6,530</b>	<b>6,744</b>	<b>5,585</b>	<b>6,441</b>
Earnings Per Share (cents)					
Basic and Diluted	1.95	2.17	2.24	1.86	2.14

## Balance Sheet

(\$S'000)	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
Plant and equipment	3,464	5,948	4,985	3,994	2,801
Intangible assets	7,764	7,462	8,185	8,036	7,940
Deferred tax assets	210	105	105	105	105
<b>Total non-current assets</b>	<b>11,438</b>	<b>13,515</b>	<b>13,274</b>	<b>12,135</b>	<b>10,847</b>
Inventories	10,863	11,431	18,535	12,771	13,053
Trade and other receivables	29,833	28,654	31,293	32,811	33,811
Prepayments	492	366	661	661	661
Cash and cash equivalents	22,353	26,165	24,405	33,995	39,534
<b>Total current assets</b>	<b>63,541</b>	<b>66,616</b>	<b>74,894</b>	<b>80,239</b>	<b>87,058</b>
<b>Total assets</b>	<b>74,979</b>	<b>80,131</b>	<b>88,168</b>	<b>92,374</b>	<b>97,905</b>
Share capital	32,555	32,641	32,641	32,641	32,641
Retained earnings	21,587	26,467	28,184	32,094	36,602
Other reserves	(14,980)	(15,032)	(15,112)	(15,112)	(15,112)
<b>Total equity</b>	<b>39,162</b>	<b>44,076</b>	<b>45,713</b>	<b>49,623</b>	<b>54,131</b>
Deferred tax liabilities	502	469	469	469	469
Lease liabilities, non-current	0	2,442	1,950	1,950	1,950
<b>Total non-current liabilities</b>	<b>502</b>	<b>2,911</b>	<b>2,419</b>	<b>2,419</b>	<b>2,419</b>
Income tax payable	1,480	1,459	1,900	1,900	1,900
Trade and other payables	30,835	30,628	36,685	36,982	38,005
Lease liabilities, current	0	757	1,040	1,040	1,040
Other financial liabilities, current	3,000	1,057	410	410	410
<b>Total current liabilities</b>	<b>35,315</b>	<b>33,144</b>	<b>40,035</b>	<b>40,332</b>	<b>41,355</b>
<b>Total liabilities</b>	<b>35,817</b>	<b>36,055</b>	<b>42,454</b>	<b>42,751</b>	<b>43,774</b>
<b>Total equity and liabilities</b>	<b>74,979</b>	<b>80,131</b>	<b>88,168</b>	<b>92,373</b>	<b>97,905</b>

## Ratios

	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
<i>Adoption of SFRS 16 Leases increased lease liability in FY2019</i>					
<b>Profitability (%)</b>					
Gross profit/(loss) margin	5.8%	6.7%	6.2%	5.0%	5.6%
Profit/(loss) before tax margin	4.5%	5.5%	5.3%	4.2%	4.7%
<b>Liquidity (x)</b>					
Current ratio	1.8	2.0	1.9	2.0	2.1
Quick ratio	1.5	1.7	1.4	1.7	1.8
Interest coverage ratio	55.3	58.9	58.6	49.9	57.4
Net Debt to Equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
<b>Valuation (x)</b>					
P/S	0.8	0.8	0.8	0.8	0.7
P/E	18.6	15.4	14.9	18.0	15.6
Core P/E at target price	21.7	17.9	17.4	21.0	18.2
P/B	2.6	2.3	2.2	2.0	1.9
P/NTA	3.2	2.7	2.7	2.4	2.2
<b>Cash Conversion Cycle</b>					
Trade receivable days	81	89	86	87	88
Inventory days	49	54	78	53	53
Trade payable days	132	144	136	143	143
CCC days	-2	0	28	-2	-1

## Cash Flows Statement

(\$S'000)	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
<b>Profit/(loss) before tax</b>	<b>7,000</b>	<b>7,987</b>	<b>7,946</b>	<b>6,753</b>	<b>7,788</b>
Amortisation of intangible assets	392	406	401	401	401
Depreciation of plant and equipment	439	1,599	1,609	1,567	1,619
Changes in working capital	(1,256)	935	(6,003)	4,889	(515)
Others	961	(157)	(126)	(50)	(65)
<b>Net cashflows from operating activities</b>	<b>7,536</b>	<b>9,453</b>	<b>2,741</b>	<b>12,552</b>	<b>8,041</b>
Purchase of plant and equipment	(3,334)	(502)	(649)	(599)	(449)
Purchase of intangible assets	(44)	(104)	(822)	(253)	(306)
Interest received	54	157	126	50	65
<b>Net cash flows used in investing activities</b>	<b>(3,324)</b>	<b>(449)</b>	<b>(1,345)</b>	<b>(801)</b>	<b>(689)</b>
Gross proceeds from IPO	15,605	-	-	-	-
Dividends paid to equity owners	7,000	(1,650)	(3,004)	(2,023)	(1,675)
Repayment of borrowings	(4,383)	(2,700)	(100)	-	-
Proceeds from borrowings	3,425	-	-	-	-
Others	(1,799)	(842)	(52)	(138)	(138)
<b>Net cash flows from (used in) financing activities</b>	<b>5,848</b>	<b>(5,192)</b>	<b>(3,156)</b>	<b>(2,161)</b>	<b>(1,813)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>10,060</b>	<b>3,812</b>	<b>(1,760)</b>	<b>9,590</b>	<b>5,538</b>
Cash and cash equivalents at beginning	12,293	22,353	26,165	24,405	33,995
<b>Cash and cash equivalents, ending balance</b>	<b>22,353</b>	<b>26,165</b>	<b>24,405</b>	<b>33,995</b>	<b>39,534</b>

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Nature of Business Relation	Date of Business Relation
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<b>Analyst name</b>	<b>Quantum of position</b>
Nil	Nil

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