



Hyphens Pharma Intl Ltd

(HYP SP/HYPH.SI)

Skin is the game

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- We initiate coverage on Hyphens Pharma with an **OUTPERFORM** recommendation and a target price of S\$0.48. Our TP is based on 17x FY21F EPS.
- Hyphens' recent focus is on growing its Proprietary Brands segment, adding quality products to its portfolio such as Ocean Health and Ceradan. The portfolio is positioned in the beauty market, and is poised to take market share in Asia-Pacific, the fastest growing region amongst the beauty market.
- Hyphens also plans to continue growing their specialty pharma ecosystem, with the hire of a new C-suite executive to source for more pharma principal partnerships.
- With Hyphens' onboarding onto popular regional e-commerce platforms, we expect the proprietary brands segment to grow faster than its 8% FY16-19 CAGR.

Proprietary brands the way forward. With the latest acquisition of CG210, Hyphens has positioned the proprietary brands segment further into the beauty and personal care product space. Asia-Pacific is the fastest growing region for the beauty market, and with new product releases in its two major brands Ceradan and Ocean Health, we expect the business to maintain double digit growth, exemplified by the 23.7% YoY sales growth in 1H20.

Enhancing specialty pharma's ecosystem. Hyphens has a fairly strong distribution network in Asia, with direct presence in 4 emerging ASEAN markets. Hyphens is thus an appealing partner for pharma brands looking to expand their reach to Asia, and Hyphens is committed to finding such brands with a new C-suite hire last year focused on forming more of these partnerships.

Committing to e-commerce. While Hyphens is no stranger to e-commerce, COVID-19 has persuaded the team to bring their consumer products on-board more popular platforms such as Shopee and Lazada. Online penetration of beauty and personal care product sales are the highest in the Asia Pacific region, and we expect this to also contribute to sales for the proprietary brands segment.

Outperform - Initiation

Price as of 5 Nov 20 (SGD)	0.40	Performance (Absolute)	
12M TP (S\$)	0.48	1 Month (%)	-8.0
Previous TP (S\$)	-	3 Month (%)	-31.9
Upside (%)	20.0	12 Month (%)	108.5
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (S\$m)	120		
Issued Shares (mn)	300		
Vol - 3M Daily avg (mn)	3.0		
Val - 3M Daily avg (\$mn)	1.4		
Free Float (%)	22.0%		
Major Shareholders		Previous Recommendations	
Lim See Wah	65.3%		
Tan Chwee Choon	12.7%		

Financials & Key Operating Statistics

YE Dec (S\$ '000)	2018A	2019A	2020F	2021F	2022F
Revenue	120,930	119,442	130,603	136,957	143,677
PATMI	5,410	6,530	7,787	8,556	9,429
EPS (cents)	2.24	2.19	2.59	2.85	3.14
EPS grth (%)	-11.1	20.6	19.2	9.9	10.2
P/E (x)	22.2	18.4	15.4	14.0	12.7
DPS (SGCents)	0.6	1.0	0.6	0.7	0.8
Div Yield (%)	1.4	2.5	1.6	1.8	2.0
Net Margin (%)	4.5	5.5	6.0	6.2	6.6
Gearing (%)	net cash	net cash	net cash	net cash	net cash
Price / Book (x)	3.1	2.7	2.3	2.0	1.7
ROE (%)	18.7	15.7	16.2	15.2	14.5

Source: Company Data, KGI Research

Valuation & Action: We value using PE methodology, applying a 17x peg to FY21F earnings, and arrive at a TP of S\$0.48. This represents a 20% upside to Thursday's close price of S\$0.40. Our worst case, low growth scenario using 14x P/E peg arrives at S\$0.37, so we think there is a decent margin of safety in the current stock price.

DCF-derived fair value between S\$0.56 to S\$0.65. Our discounted cash flow model derives a S\$0.65 fair value in the base case and a fair value of S\$0.56 in the low growth case. Both our DCF scenarios utilise an 8.25% WACC and a fairly conservative 1.5% terminal growth rate.

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

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Investment Thesis

Seeking growth in Consumer Healthcare through proprietary brand ownership


Hyphens’ focus in recent years has been to grow its proprietary portfolio of products and brands, with the goal of being the No. 1 skin health company in Asia. The current portfolio is concentrated on Consumer Healthcare – Vitamin/Dietary Supplements (Ocean Health), and Dermatological products (Ceradane, TDF, CG210). The latest revenue weightage of proprietary brands has risen up to 15%, and is likely to continue rising with CG210’s contribution in the future.

Figure 1: 4 brands currently under Hyphens’ Proprietary Brands segment


BRANDS WE OWN




NO. 1 TOP OF MIND BRAND
By Private Dermatologists*



CLINICALLY PROVEN
Photaging & Acne Scars



WINNER Superbrands Status
since 2004




ACQUISITION OF CG210®

Hyphens will be promoting to medical professionals in Singapore & Malaysia, as well as in retail outlets in Malaysia

- + CG 210® Women lotion,
- + CG 210® Men lotion,
- + CG 210® Forte Lotion, and
- + CG4S Shampoo

Manufactured in France



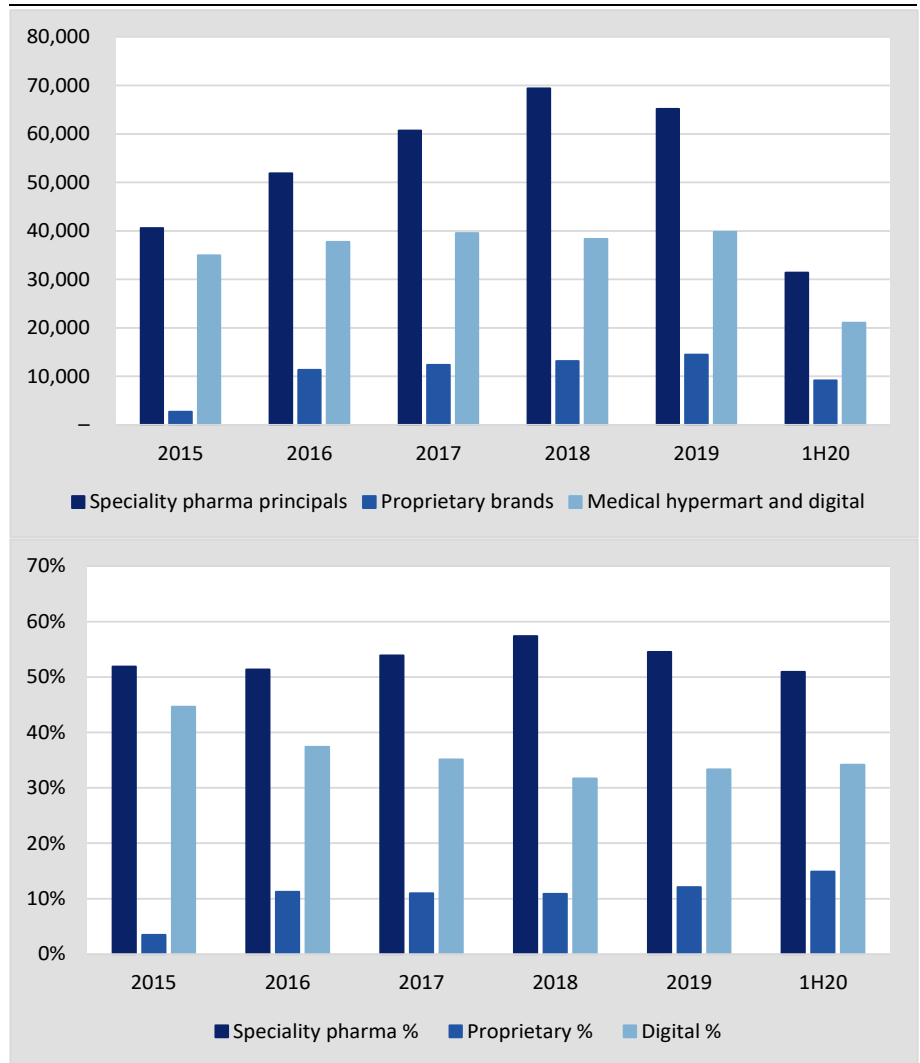
Clinically Proven



More than 2 million units have been sold worldwide

Source: Company data

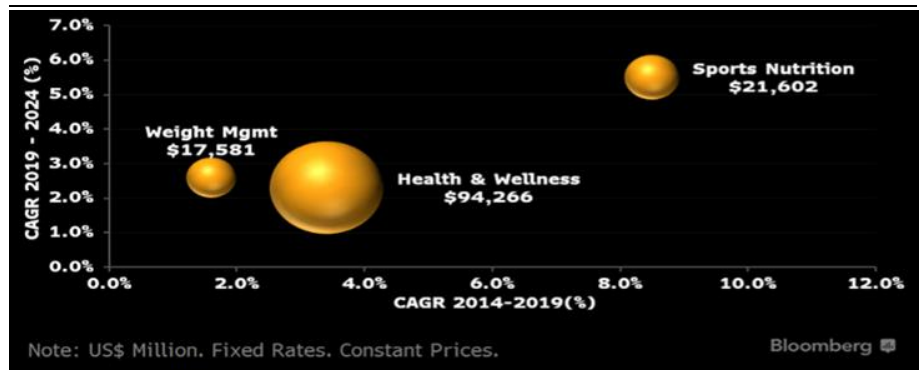
Figure 2: Proprietary brand sales taking up greater weightage in Hyphens’ portfolio



Source: Company data, KGI Research

The global health supplement market is currently at an estimated USD 94bn, growing between 2-4% CAGR in the past 5 years and is slated to continue growing about 1.5-3.5% CAGR for the next 5 years. Additionally, the skin care market is growing ~5% CAGR. In comparison, Hyphens' growth of its proprietary brand portfolio has been at 52% CAGR from FY15 – FY19, and at 8% CAGR from FY16-FY19 after accounting for the acquisition of the Ocean Health brand.

Figure 3: Global consumer health's segments growing at different pace, general health & wellness to continue growing at 2-4% CAGR



Source: Euromonitor through Bloomberg

Health is wealth

Hyphens' participation in the dietary and health supplements market is through the Ocean Health brand, which was acquired in 2016. Ocean Health is established in 1994 in Singapore with some presence across the ASEAN region. In Singapore, having an educated, ageing population, high workloads and high incomes has led to an increased emphasis on healthy living. As a result, 1 in 4 consumers take supplements on a regular basis, on top of other healthy living habits according to Nielsen. Ocean Health hosts a large variety of products targeting various concerns, and are well known for their Omega-3 Vitamin D and fish oil supplement. Products are readily available online, in drug stores and pharmacies, and also in some supermarkets.

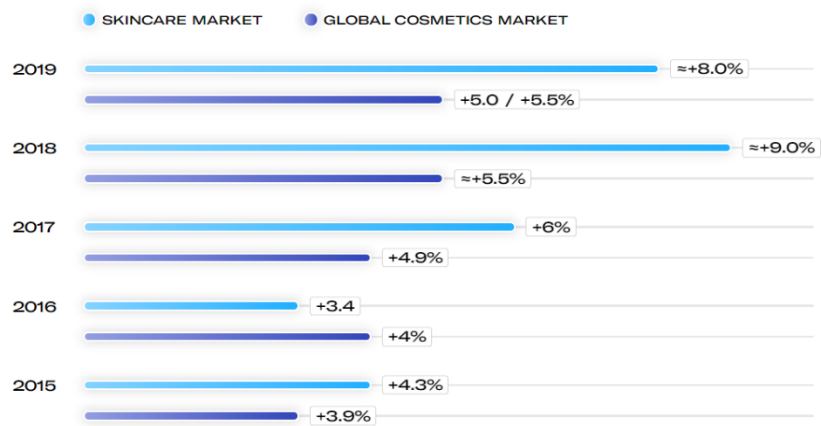
However, lucrativeness in this market is not missed, as there are various other competitors in the same space. A 2014 consumer case study led by the Consumers Association of Singapore (CASE) highlighted at least 15 brands of Vitamin C supplements in local pharmacies and departmental stores. Euromonitor estimates that the vitamin and dietary supplements market in Singapore would grow at close to 5% CAGR, from S\$ 581.3 mn in 2019 to S\$737.3 mn in 2024. We think Ocean Health, with their multi product offerings and multi-channel approach, can continue growing market share in this fairly homogenous market.

Skin in the game

Ceradan's recent product launches (a hand lotion sanitiser and a gentle cleanser) and existing product portfolio together with TDF signals a strong positioning in the skincare segment of cosmetics, guided by their dermatological expertise. Hyphens positions the Ceradan brand to be slightly more exclusive than mass market competitors, i.e. Cetaphil/Aveeno, with pharmacies, drugstores and clinics stocking the product, but not supermarkets. Ceradan is also priced at a premium to competitors. COVID-19 has also led to Hyphens making the shift towards external online distribution channels such as Shopee and Lazada, in order to combat the demand fall-off from retail channels.

According to L'oreal, skin care takes up ~40% of the global cosmetic markets, and accounts for 60% of market growth. This trend was likely exacerbated by COVID-19 where demand for beauty products fell while the demand for dermocosmetics (dermatological cosmetic products) remained on their growth trajectory. Duty-free stores in airports are a large distribution channel for premium beauty products such as cosmetics or fragrances – 1/3 of duty-free sales belong to this category, ahead of alcohol and tobacco – and travel restrictions have significantly dried up sales from these retail channels. The reduced need for usage of make-up and fragrances due to increased Work From Home practices also facilitated the demand fall-off. On the other hand, dermocosmetics had fairly resilient performance, with some companies reporting continued YoY% sales growth, including Hyphens.

Figure 4: Skincare market growing ~5% CAGR, faster than general cosmetics' CAGR of ~4%



Source: L'oreal

Figure 5: Asia Pacific as region with highest growth rate in the beauty market



Source: Bloomberg

In the latest 1H20 results, the proprietary brands segment managed to grow at 29.8% YoY and 23.7% Half-on-Half, which Hyphens attributed to improved demand for Ceradan and Ocean Health products. Hyphens has also launched new products under both brands in 1H20, increasing the product range and addressable market audience of both brands. With Asia Pacific as the region with the largest growth potential, we continue to expect the proprietary brands segment to lead growth for Hyphens, as the company continues to expand product range and reach new markets.

Further leveraging on Hyphens' strong ASEAN distribution network

The specialty pharma segment currently serves as Hyphens' key business, bringing in the bulk of revenue and gross profit. Within specialty pharma, Hyphens covers a wide range of product spanning across multiple therapeutic fields such as allergies, gastroenterology, radiology, and rheumatology etc. While Hyphens has a strong distribution network with direct offices in 5 countries and marketing presence in 6 others, a bulk of sales growth in specialty pharma principals can be attributed to Vietnam, with all top selling products having Vietnam as an exclusive distributorship location. According to Hyphens' IPO, contrast media, coronary stents and nasal sprays have contributed slightly over 30% of Hyphens' 2017 sales, which is about S\$36mn, or over 50% of the specialty pharma portfolio. We expect Hyphens to maintain the products' distribution rights given their 10+ year expertise in handling the sales and marketing for these products in the region.

Figure 6: Hyphens' Specialty Pharma portfolio



Source: Company data

Figure 7: Top 5 selling products in Hyphens' specialty pharma portfolio

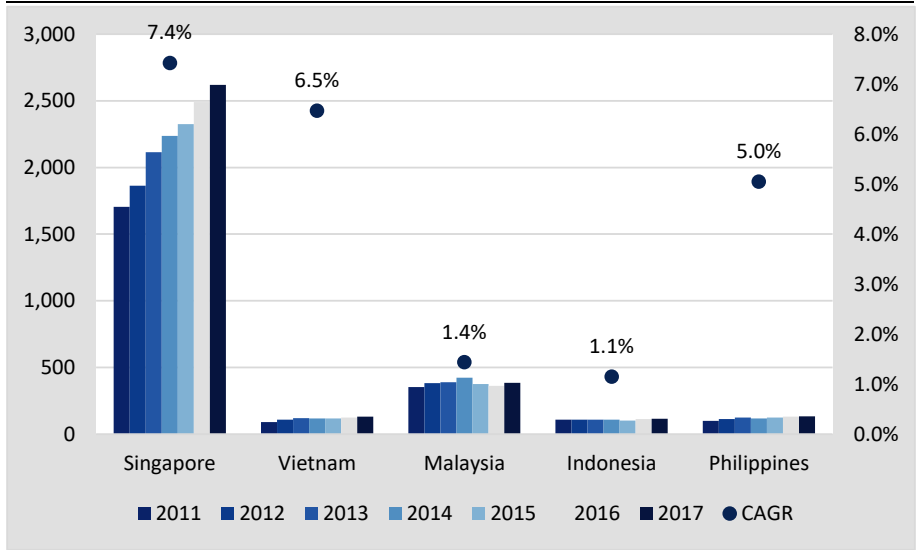
Principal	Product type	Brands	Exclusive Distributorship Location	Agreement expiry
Guerbet SA	Contrast media	Dotarem	Vietnam, Indonesia	██████████
		Lipiodol	Vietnam, Indonesia	██████████
Biosensors Interventional Tech	Coronary stents	Biosensors	Vietnam	██████████
Sofibel	Nasal spray	Stérimar	Singapore, Vietnam, Malaysia, Indonesia, Philippines	██████████
Laboratories Expanscience	Rheumatology	Piascedine	Singapore, Vietnam, Malaysia, Philippines	██████████
Chiesi Farmaceutici	Infant respiratory	Curosurf	Vietnam, Malaysia, Philippines	██████████

Source: Company data, KGI Research

New C-suite hire to meet growing latent demand and expand international efforts

Going forward, Hyphens plans to further leverage on its distribution network in Asia, by focusing on finding more brand principal partnerships with established pharmaceutical companies. Most ASEAN countries rely on pharmaceutical imports as they lack the necessary infrastructure investments to meet domestic demand. Thus, with a growing healthcare expenditure across ASEAN – 4.9% CAGR from 2011 to 2017 in Hyphens' 5 key markets – there is potentially a supply gap for new or differentiated healthcare solutions in each market. To capitalize on this, Hyphens has hired a new Chief Operating Officer, Mr Yann Marche, with a strong background in the global pharmaceutical industry in Europe. Having worked previously in pharmaceutical companies such as Galderma (which owns the Cetaphil brand) and Laboratories Expanscience (currently supplying Piascedine to Hyphens), Mr Marche is also a trained pharmacist with a background in dermatology, and will work with the proprietary brands segment to expand internationally.

Figure 8: Healthcare expenditure per capita of Hyphens' key markets - strong growth in SG, VN, PH



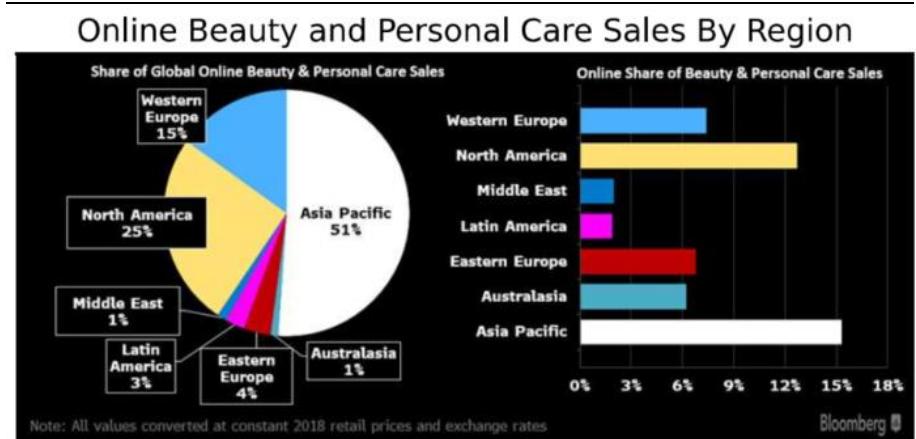
Source: World Bank, KGI Research

Expanding digitalization efforts

Hyphens are no stranger to the e-commerce movement, having went online with their Hypermart business back in 2014. The hypermart is involved with the wholesale of pharmaceuticals and medical supplies in Singapore, with a history dating back 70 years ago in the 1940s. The platform is designed for B2B usage and aids doctors and healthcare institutions with product procurement, as they can order over 4,000 products 24/7 on their own schedule.

While scaling their own online platform was a possible alternative, Hyphens has elected to go on-board with regional e-tailer platforms - Shopee, Lazada, Qoo10 and Redmart – for their consumer health products. While margins may be compressed when working with external party platforms, we think the increased visibility of Hyphens’ brands will assist the company in gaining more mind share and subsequently market share in the competitive skin care market. For instance, in China, prestige beauty e-commerce sales rose by 87% YoY in June 2020, according to The NPD Group, due to the ‘618’ shopping festival ran by China. Skin care and hair care products performed especially well, with sales rising by 98% and 126% YoY respectively, ahead of makeup and fragrance sales growth. Given APAC’s strong online beauty sales penetration, we expect this business decision to become a strong growth driver in time.

Figure 9: APAC with highest online penetration of beauty/personal care sales



Source: Euromonitor through Bloomberg

Valuation

Income Statement: We expect FY20 revenue YoY growth to exceed the 7.3% level in FY18, especially after the strong showing in 1H20 with 10% YoY growth. We model at 8.7% yoy growth in 2H20, leading to an overall 9.3% yoy sales growth for FY20. After FY20, we assume two different growth trajectories – a base case of ~5% YoY overall growth and a low growth scenario of 1.9% YoY, roughly on pace with inflation.

For gross margins, we expect 2H20 to have weaker margins than 1H20, due to a stronger EUR rate against SGD. we assume gross margins also differ for both cases in the latter years. In our low growth case, we take the assumption that CG210 is margin dilutive, and vice versa in the base case. In both cases we expect that gross margins are weaker than in 2019, with our overall margin guidance between 34-35% for both cases, with the low growth case at 34.7% while the base case climbs close to 36%. As a result, profit margin estimates reach 7% in the base case, while hovering in the low 6% range in the low growth case. EPS climbs at ~9.5% CAGR in the base case, while being slightly above inflation rate in the low growth case at 2.4% CAGR.

Figure 10: Hyphen's base case and low growth case – sales, margin and expense assumptions

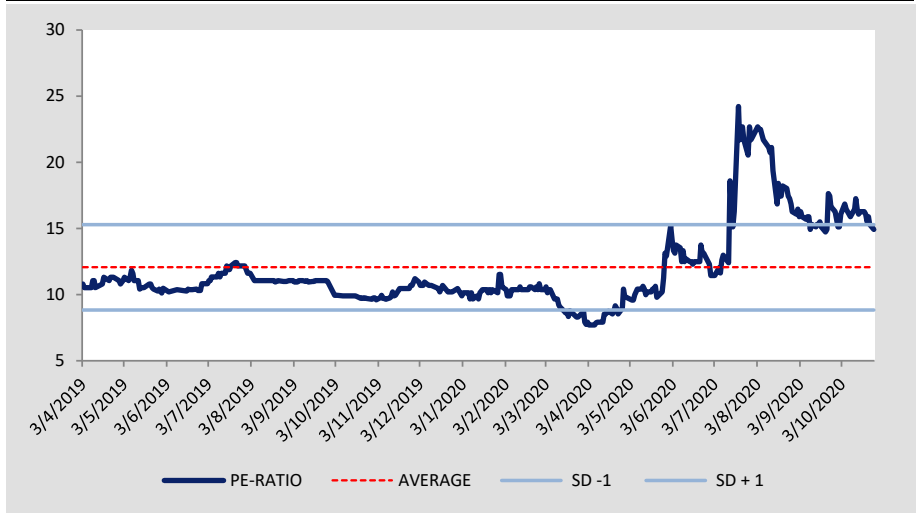
Base case	2016	2017	2018	2019	2020	2021	2022	2023	2024
Specialty Pharma YoY% growth	27.7%	17.0%	14.3%	-6.1%	6.8%	4.0%	4.0%	4.0%	4.0%
Proprietary Brands YoY% growth	319.4%	9.1%	6.3%	9.9%	30.0%	10.0%	10.0%	10.0%	10.0%
Medical Hypermart YoY% growth	8.0%	4.8%	-3.1%	3.8%	6.0%	4.0%	4.0%	4.0%	4.0%
Overall revenue YoY% growth	29.0%	11.6%	7.3%	-1.2%	9.3%	4.9%	4.9%	5.0%	5.0%
Specialty Pharma gross margin %	41.7%	38.4%	37.8%	39.2%	36.6%	37.7%	37.7%	37.7%	37.7%
Proprietary Brands gross margin %	64.2%	61.2%	62.5%	63.7%	62.2%	63.3%	63.3%	63.3%	63.3%
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%	34.1%	35.1%	35.4%	35.6%	35.9%
Distribution expense (% of Revenue)	-20.2%	-18.1%	-18.0%	-20.8%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%
Admin expense (% of Revenue)	-8.3%	-7.5%	-8.6%	-8.2%	-7.7%	-7.6%	-7.5%	-7.5%	-7.5%
Low growth case	2016	2017	2018	2019	2020	2021	2022	2023	2024
Specialty Pharma YoY% growth	27.7%	17.0%	14.3%	-6.1%	6.8%	2.0%	2.0%	2.0%	2.0%
Proprietary Brands YoY% growth	319.4%	9.1%	6.3%	9.9%	30.0%	1.4%	1.4%	1.4%	1.4%
Medical Hypermart YoY% growth	8.0%	4.8%	-3.1%	3.8%	6.0%	2.0%	2.0%	2.0%	2.0%
Overall revenue YoY% growth	29.0%	11.6%	7.3%	-1.2%	9.3%	1.9%	1.9%	1.9%	1.9%
Specialty Pharma gross margin %	41.7%	38.4%	37.8%	39.2%	36.6%	37.7%	37.7%	37.7%	37.7%
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%	34.1%	34.8%	34.7%	34.7%	34.7%
Distribution expense (% of Revenue)	-20.2%	-18.1%	-18.0%	-20.8%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%
Admin expense (% of Revenue)	-8.3%	-7.5%	-8.6%	-8.2%	-7.7%	-7.6%	-7.5%	-7.5%	-7.5%

Source: Bloomberg, KGI Research

Valuation: Due to industry fragmentation, there is a fairly long list of peers in similar business segments as Hyphens. We break up competitors into 3 groups: Pharma Distributors, Proprietary Brand Players, and Closest Competitors, which are companies with a hybrid of both businesses. We also provide Big Pharma peers as a secondary benchmark for understanding pharma valuations.

In our peer list, we find that Hyphens tends to trade below peers' average P/E range across our 3 comparison buckets. Hyphens currently trades around 15.5x P/E, which is +1 S.D. to its historic P/E range, and still comes below the 16 – 20x range of peers. We think 17x is a fair peg for Hyphens, as the company has demonstrably stronger or sustainable growth than its peers such as Koa Shoji or Pharmaniaga. Our base case FY21F TP is S\$0.48, while our low-growth case FY21F TP is S\$0.45. Additionally, our Discounted Cash Flow model derives a S\$0.65 fair value in the base case and a fair value of S\$0.56 in the low growth case. Our model assumptions are included in the figure below.

Figure 11: Hyphens trades towards the top end of their P/E range in recent months



Source: Bloomberg, KGI Research

Figure 12: Hyphens' valuation ranges for base case and low growth case

	FY21F EPS	TP @ 14x P/E	TP @ 17x P/E
Base case	0.0285	0.40	0.48
Low growth case	0.0263	0.37	0.45

Source: KGI Research

Figure 13: DCF valuation at S\$0.62 with base case assumptions

DCF valuation	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Free Cash Flow (SGD '000)	4,220	3,114	9,027	7,906	8,888	9,905	10,645	11,459
YoY%		-26.2%	189.9%	-12.4%	12.4%	11.4%	7.5%	7.6%
							Terminal value	162,304
							Terminal growth	1.5%
Risk free rate	2.00%							
Beta	0.82							
Market risk premium	8.00%							
Cost of equity	8.56%							
Equity weightage	94.53%							
Pre-tax cost of debt	3.60%							
Post-tax cost of debt	2.95%							
Debt weightage	5.47%							
WACC	8.25%							
Enterprise Value	151,585							
(Less Net Debt)/Add Net Cash	43,481							
Equity Value	195,066							
Share price	0.65							

Source: Bloomberg, KGI Research

Figure 14: Peer comparison table

BB ticker	Company Name	Last Price (local \$)	Currency Adj. Market Cap (US\$ m)	Dividend Yield (%)		Net Gearing (%)	P/E (x)		P/B (x)		EV/EBITDA (x)	(YTD) Price Performance	(1YR) Price Performance	(1YR) Total Returns (%)
				FY19	FY20F		12M	Forward	Historical	Forward				
HYP SP	HYPHENS PHARMA INTERNATIONAL	SGD 0.40	89	4.8	2.5	-51.4	15.5	14.8	1.4	2.5	5.9	90.5	105.1	108.5
Closest Competitors														
APEX MK	APEX HEALTHCARE BHD	MYR 3.31	379	1.7	1.0	-21.2	28.1	28.3	2.2	331.0	14.9	47.8	46.5	49.0
PHRM MK	PHARMANIAGA BERHAD	MYR 5.19	327	8.0	3.3	151.1	-	19.2	1.6	3.7	10.7	151.9	143.7	150.8
9273 JP	KOJA SHOJI HOLDINGS CO LTD	JPY 1350.00	257	1.8	-	-12.1	15.3	-	1.3	-	6.0	206.8	210.0	213.6
014570 KS	KOREAN DRUG CO LTD	KRW 9860.00	96	1.4	-	-17.6	14.9	-	1.2	-	12.0	37.1	19.4	17.1
Average			265	3.2	2.2	25.0	19.5	23.8	1.6	167.3	10.9	110.9	104.9	107.6
Pharma Distributors														
ISPH EY	IBNSINA PHARMA SAE	EGP 5.97	364	-	1.3	75.3	18.7	16.1	6.5	3.8	16.7	-28.5	-28.2	-30.0
1345 HK	CHINA PIONEER PHARMA HOLDING	HKD 1.02	166	6.2	-	-36.7	25.0	-	0.6	-	9.3	91.9	84.5	97.0
6833 HK	SINCO PHARMACEUTICALS HOLDIN	HKD 0.32	70	0.0	-	-72.5	11.6	-	11.9	-	4.4	-12.3	0.0	6.7
1110 HK	KINGWORLD MEDICINES GROUP	HKD 0.79	63	2.7	-	16.6	20.4	-	0.8	-	6.3	-10.2	-14.1	-9.6
2289 HK	CHARMACY PHARMACEUTICAL CO-H	HKD 4.54	63	3.0	-	303.0	14.6	-	1.5	-	17.4	-39.0	-39.2	-37.1
VMD VN	VIMEDIMEX MEDI-PHARMA ISC	VND 24150.00	16	8.1	-	42.3	10.8	-	1.1	-	1.2	-2.6	-1.4	12.4
Average			124	4.0	1.3	54.7	16.9	16.1	3.7	3.8	9.2	(0.1)	(3.1)	6.6
Proprietary Brands														
300146 CH	BY-HEALTH CO LTD-A	CNY 26.66	6,356	2.2	1.9	-31.7	-	33.5	4.3	6.2	-	63.7	67.4	68.5
1112 HK	HEALTH AND HAPPINESS H&H INT	HKD 33.15	2,754	2.9	3.3	68.3	18.0	15.5	3.6	3.0	11.0	2.8	-2.2	8.4
BKL AU	BLACKMORES LTD	AUD 69.90	976	0.0	1.5	21.3	80.0	40.2	4.8	3.7	29.9	-17.6	-15.9	-18.7
2927 JP	AFC-HD AMS LIFE SCIENCE CO L	JPY 696.00	94	3.0	2.9	-7.4	14.5	-	0.9	-	5.4	3.4	5.1	9.4
VLS AU	VITA LIFE SCIENCES LTD	AUD 0.89	35	5.6	-	-36.1	9.3	-	1.6	-	2.5	32.8	39.1	56.8
Average			2,043	2.7	2.4	2.9	30.5	29.7	3.1	4.3	12.2	17.0	18.7	24.9
Big Pharma														
JNI US	JOHNSON & JOHNSON	USD 139.40	366,976	2.6	2.9	15.8	20.8	17.4	6.5	5.7	14.4	-4.4	6.4	9.8
ROG SW	ROCHE HOLDING AG-GENUSSCHEIN	CHF 323.95	307,638	2.9	2.9	10.4	21.4	16.5	8.2	6.8	13.7	3.2	9.5	13.4
NOVN SW	NOVARTIS AG-REG	CHF 76.50	207,921	3.1	3.8	32.0	26.9	14.5	3.9	3.3	15.0	-16.8	-12.0	-8.4
PFE US	PFIZER INC	USD 37.33	207,438	3.7	4.1	68.8	15.7	12.8	3.4	3.1	9.1	-4.7	-0.7	3.7
NOVOB DC	NOVO NORDISK A/S-B	DKK 447.35	166,599	2.2	2.0	-19.1	25.2	24.8	15.8	16.8	16.5	15.7	17.4	20.0
SAN FP	SANOFI	EUR 86.23	128,091	3.5	3.7	26.6	9.7	14.8	1.9	1.7	7.9	-3.8	3.5	7.9
GSK LN	GLAXOSMITHKLINE PLC	Gbp 1422.60	93,084	4.5	5.6	140.1	11.1	12.3	7.8	6.3	11.6	-20.0	-17.4	-13.7
BAYN GR	BAYER AG-REG	EUR 43.62	50,557	3.8	5.3	70.6	-	6.9	1.5	1.1	-	-40.1	-39.1	-36.3
Average			191,038	3.3	3.8	43.2	18.7	15.0	6.1	5.6	12.6	(8.9)	(4.1)	(0.4)

Source: Bloomberg, KGI Research

Risks

COVID-19 operational risks

Hyphens' sales team has traditionally operated through physical meetings with doctors in order to pitch their product portfolio and obtain new business. As a result, new customer on-boarding has slowed during COVID-19, due to the restrictions on travel and physical meetings.

The solution for Hyphens was to use remote productivity tools to bypass physical limitations. This operational risk did not affect existing customers, nor the retail customer base whom are exposed to Hyphens' products through other channels. However, the company generally looks to return to status quo for first-time business meetings with doctors and institutions.

Forex risk

Hyphens has operations in Malaysia, Indonesia, Philippines and Vietnam, thus having currency exposure to VND, IDR, MYR and PHP through sales. In Vietnam, sales are denominated in USD or EUR, but invoices with local distributors are based on a fixed EUR/VND or USD/VND rate. Depreciation of these South-east Asian currencies against the SGD can cause FX loss, especially VND due to Vietnam being a key market for Hyphens. Hyphens imports their Specialty Pharma products from US and Europe, and significant appreciation of the EUR or USD against SGD or VND will weaken profitability margins.

Product rights licensing risk

Hyphens has mentioned that product license renewals tend to take some time, especially in Vietnam which can take 12 to 24 months. We believe that Hyphens will have no issues in getting the application approved, given their long prior operating history in Vietnam. However the delay creates an undesirable inventory risk, as Hyphens has to stock up on products prior to the renewal. In the event that the license renewal is delayed beyond expectations, this could lead to lost sales for the company as there would be insufficient inventory. Should this occur, we expect the revenue impact to be material, given that 3 of the 5 top selling specialty pharma products have similar license expiry dates in 31 December 2020.

Company Overview

Hyphens Pharma International Limited is one of Singapore’s leading specialty pharmaceutical and consumer healthcare groups, whom market and distribute branded specialty pharmaceutical products to medical specialists, primary care physicians and pharmacies. Additionally, Hyphens develops, markets and distributes their own proprietary dermatological and health supplement products under three key brands: Ceradan, TDF and Ocean Health. Hyphens has also recently acquired the rights to market and distribute CG210, a scalp care product made in France, in Singapore and Malaysia.

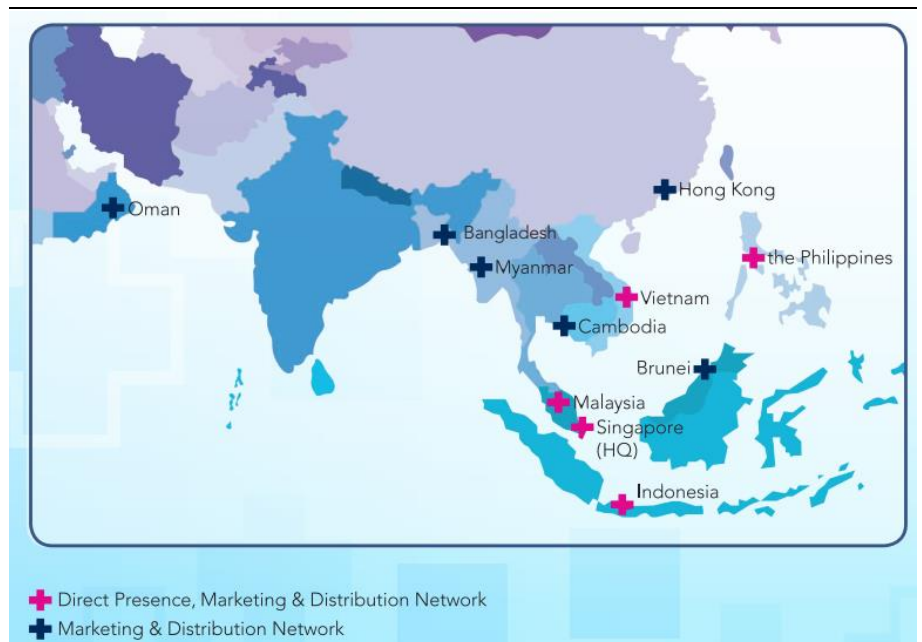
Hyphens’ has 5 key markets in Singapore, Vietnam, Malaysia, Indonesia, and Philippines, but have a marketing and distribution reach that covers 6 other markets across Asia.

Figure 15: Hyphens’ milestones over the years

Date	Activity
1998	Acquired Pan-Malayan, a pharmaceutical wholesaler in Singapore
2001	Acquired Hyphens Singapore, involved in pharmaceutical principals
2003	Expanded to Vietnam
2004	Expanded to Malaysia
2007	Expanded to Philippines
2010	Restructured into Hyphens Singapore
2011	Launched Ceradan, expanded to Indonesia
2014	Created Virtual Hypermart to help with B2B sales online
2016	Acquired Ocean Health
2018	IPO on SGX

Source: Company data, KGI Research

Figure 16: Hyphens’ market reach is focused in ASEAN, with some presence across Asia



Source: Company data, KGI Research

Financials

YE 31 Dec

INCOME STATEMENT (\$\$mn)	2018A	2019A	2020F	2021F	2022F
Core Revenue	120.9	119.4	129.8	136.1	142.8
Cost of sales	(80.1)	(76.8)	(84.3)	(87.9)	(91.9)
Gross Profit	40.8	42.7	45.5	48.2	50.9
D&A expense	(2.2)	(2.1)	(2.1)	(2.2)	(2.3)
Distribution & admin expenses	(32.2)	(34.6)	(36.0)	(37.6)	(39.3)
Other operating income/(expenses)	(1.6)	(0.1)	1.0	0.0	0.0
Profit from Operations	7.1	8.0	10.6	10.6	11.6
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	10.7	10.8	11.8
Income tax	(1.6)	(1.5)	(1.9)	(1.9)	(2.1)
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
PATMI	5.4	6.5	8.7	8.8	9.7
BALANCE SHEET (\$\$mn)	2018A	2019A	2020F	2021F	2022F
Cash and cash equivalents	22.4	26.2	31.9	40.9	50.8
Trade and other receivables	29.8	28.7	31.2	32.7	34.3
Inventory	10.9	11.4	13.5	14.1	14.7
Other current assets	0.5	0.4	0.4	0.4	0.4
Current Assets	63.5	66.6	76.9	88.0	100.2
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	2.2	2.4	2.7
Non-current Assets	11.4	13.5	15.0	14.1	13.2
Total assets	75.0	80.1	91.8	102.1	113.4
Trade and other payables	30.8	30.6	33.7	35.2	36.8
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	37.7	39.3
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	52.8	61.6	71.4
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Total Equity	39.2	44.1	52.8	61.6	71.4
Total Liabilities and Equity	75.0	80.1	91.8	102.1	113.4
CASH FLOW STATEMENT (\$\$mn)	2018A	2019A	2020F	2021F	2022F
Net income before tax	7.0	8.0	10.7	10.8	11.8
Depreciation & Amortisation	0.8	2.0	2.1	2.2	2.3
Other non-cash adjustments	2.1	(0.1)	(0.1)	(0.1)	(0.2)
Change in Working Capital	(1.3)	0.9	(1.5)	(0.6)	(0.7)
Income Tax Paid	(1.2)	(1.4)	(1.9)	(1.9)	(2.1)
CF from operating activities	7.5	9.5	9.3	10.3	11.1
Purchase/Disposal of PPE	(3.3)	(0.5)	(0.6)	(1.0)	(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)	(2.2)	(2.2)	(2.4)
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)	(2.3)	(2.3)	(2.6)
Net increase in cash & cash equiv.	10.1	3.8	5.7	9.1	9.9
Beginning Cash	12.3	22.4	26.2	31.9	40.9
Ending Cash	22.4	26.2	31.9	40.9	50.8
KEY RATIOS	2018A	2019A	2020F	2021F	2022F
Profitability					
Core EPS	0.0180	0.0217	0.0291	0.0294	0.0323
Core EPS Growth (%)	-11.1%	20.6%	33.8%	0.9%	10.1%
DPS (SGD Cents)	0.6	1.0	0.7	0.7	0.8
Dividend Yield (%)	1.4	2.5	1.8	1.8	2.0
Profitability (%)					
Gross margin	33.7%	35.7%	35.1%	35.4%	35.7%
EBITDA margin	7.7%	8.4%	9.8%	9.4%	9.7%
Net margin	4.5%	5.5%	6.7%	6.5%	6.8%
ROE	18.7%	15.7%	18.0%	15.4%	14.6%
ROA	8.0%	8.4%	10.2%	9.1%	9.0%
Financial Structure					
Interest coverage (x)	54.8	57.7	nm	nm	nm
Total Debt/Equity (%)	7.7	7.9	6.6	5.7	4.9
Net Gearing (%)	net cash	net cash	net cash	net cash	net cash
Market Valuation (x)					
Price / Earnings	22.2	18.4	13.7	13.6	12.4
Price / Book	3.1	2.7	2.3	1.9	1.7
Price / Sales	1.0	1.0	0.9	0.9	0.8
EV / EBITDA	10.8	9.7	7.3	6.4	5.2

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