

Hyphens Pharma International Ltd

Not to be written off



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SINGAPORE | HEALTHCARE | FY20 Results

- FY20 earnings of S\$6.2mn were 7% below our estimate due to higher distribution and administrative costs.
 - Proprietary-brand revenue grew 22% to S\$4.6mn in 4Q20 despite drag from specialty pharma as a result of COVID-19 disruptions in Vietnam and Malaysia.
 - Prudent inventory write-offs in 4Q20 not expected to recur.
 - Operating expenses higher due to promotions, advertising and R&D expenses.
 - Continued to sow seeds of growth with signing of distribution agreement for Fairence® in South Korea and successful application of e-pharmacy licence in Singapore.
- Maintain ACCUMULATE.** DCF TP (WACC 7.2%) drops to S\$0.345 from S\$0.365 as we roll forward our valuation. Higher incremental CAPEX in FY21 will weigh down short-term cash flows, but business environment expected to normalise in FY21.

Results at a glance

SGD '000	4Q20	4Q19	YoY	Comments
Specialty pharma principals	16,231	18,782	-14%	Weaker sales due to drastic lockdown measures in Vietnam and movement control orders in Malaysia.
Proprietary brands	4,643	3,821	22%	Segment continued to benefit from moving sales online.
Medical hypermart and digital	9,748	10,134	-4%	Stock-up in 1Q20 at start of COVID-19 led to lower quarterly sales in 4Q20. FY20 sales were up 3% YoY.
Revenue	30,622	32,737	-6%	
Cost of sales	(18,705)	(20,565)	-9%	
Gross profit	11,917	12,172	-2%	GP with lower sales but margins improved from 37.2% to 38.9% YoY due to higher margins for proprietary brands.
Distribution costs	(7,825)	(7,579)	3%	Higher distribution costs result of advertising and promotions as business activities resume.
Administrative expenses	(2,885)	(2,527)	14%	Higher admin costs result of R&D activities undertaken for Ceradan®.
Finance costs	(32)	(32)	0%	
Other income and gains/(losses)	(268)	29	n.m.	S\$742k in inventory obsolescence and write-offs partially offset by S\$564k in government grants received.
Profit/(loss) before tax	907	2,063	-56%	
Income tax expense	128	(398)	n.m.	
Profit, net of tax	1,035	1,665	-38%	

Source: Company, PSR

The Positive

+ Strong proprietary-brand sales

Proprietary-brand revenue grew 22% YoY with growth squared on Ceradan® Ocean Health®. Proprietary brands commanded higher margins and helped to lift GP margins to 38.9% from 37.2% a year ago. As Hyphens continued to expand its proprietary-brand portfolio, we expect long-term margins to improve on a better revenue mix.

5 March 2021

ACCUMULATE (MAINTAINED)

LAST CLOSE PRICE	SGD 0.305
FORECAST DIV	SGD 0.006
TARGET PRICE	SGD 0.345
TOTAL RETURN	15.1%

COMPANY DATA

BLOOMBERG CODE	HYP SP
O/S SHARES (MN):	300
MARKET CAP (USD mn / SGD mn):	68.8 / 91.6
52 - WK HI/LO (SGD):	0.625 / 0.180
3M Average Daily T/O (mn):	0.35

MAJOR SHAREHOLDERS (%)

INOMED HOLDING PTE LTD	65.3%
TAN CHWEE CHOON	12.7%

PRICE PERFORMANCE (%)

	1M TH	3M TH	YTD
COMPANY	(3.1)	(6.1)	(1.6)
STI RETURN	2.6	6.5	5.7

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, (S\$'000)	FY19	FY20	FY21e	FY22e
Revenue	119,442	123,698	137,587	147,712
EBITDA	10,130	9,299	11,128	10,521
NPAT	6,530	6,163	6,156	6,081
EPS (S\$ Cents)	2.2	2.1	2.0	2.0
P/E (x)	14.0	14.9	14.9	15.1
P/B (x)	2.1	1.9	1.8	1.6
Div Yield	3.3%	2.0%	2.0%	2.0%
ROE	15.7%	13.5%	12.5%	11.4%

Source: Company Data

VALUATION METHOD

DCF @ WACC = 7.2%, g = 2.0%

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The Negatives

- Weak specialty pharma sales

Sales of specialty pharma slid 14% YoY to S\$16.2mn from S\$18.8mn as movement controls restricted sales in Vietnam and Malaysia. While the weakness in Malaysia is expected to spill into the first two quarters of 2021, the rollout of vaccination programmes should help sales recover.

- Inventory obsolescence

Hyphens continued to provide for inventory obsolescence on PPE, diagnostic test kits and specialty pharma. Plans to offload inventory did not fully materialise, resulting in prudent write-offs which are not expected to recur in subsequent quarters.

- Higher operating expenses

Distribution costs increased 3% YoY in 4Q20 as the company ramped up advertising and promotions. Administrative expenses also increased 14% YoY to S\$2.9mn with higher R&D spending on proprietary brands. Costs are expected to trend up in the near term, in keeping with Hyphen's entry into new markets and new products.

Outlook

The company was awarded Singapore's first e-pharmacy licence by the Health Sciences Authority in January. The licence will enable Hyphens to build its B2B network as telemedicine continues to take root in Singapore.

Hyphens has also appointed South Korea-based JS Pharma as the exclusive distributor of its pigment lightening cream Fairence® in Korea. Interest to distribute Fairence® in the competitive Korean skincare industry is recognition of the effectiveness of the product and could potentially lead to more product introduction to the Korean market.

Hyphens continues to plant seeds of growth with an expanded product portfolio in an expanded geography. This is expected to support its long-term profitability.

Rationalising dividends

FY20 DPS of 0.62 Singapore cents represents a 30% payout, which management previously guided for the near term. We cut our payout assumptions to 30% from 50% as short-term reinvestments are required to propel its business forward.

Investment Action

Maintain ACCUMULATE with reduced DCF TP of S\$0.345 from S\$0.365

As we roll forward our DCF, our TP dips to S\$0.345 from S\$0.365 from higher incremental CAPEX in FY21e compared to FY20, weighing on short-term cash flows. We expect operations to recover in FY21e. Long-term profitability should be supported by contributions from new products and expanded geographical footprint.

Financials

Income Statement

Y/E Dec, S\$'000	FY18	FY19	FY20	FY21e	FY22e
Revenue	120,930	119,442	123,698	137,587	147,712
Cost of sales	(80,125)	(76,773)	(79,939)	(89,646)	(96,677)
Gross profit	40,805	42,669	43,759	47,940	51,035
Marketing and distribution costs	(21,736)	(24,837)	(26,523)	(26,670)	(29,327)
Administrative expenses	(10,422)	(9,772)	(10,138)	(13,504)	(14,117)
Finance costs	(129)	(138)	(110)	(159)	(171)
Other income and gains	279	546	2,248	75	80
Other losses	(1,797)	(481)	(2,128)		
Profit before tax	7,000	7,987	7,108	7,683	7,500
Income tax expense	(1,590)	(1,457)	(945)	(1,526)	(1,419)
Profit after tax	5,410	6,530	6,163	6,156	6,081

Per share data

Y/E Dec, SG cents	FY18	FY19	FY20	FY21e	FY22e
EPS	1.8	2.2	2.1	2.0	2.0
DPS	0.6	1.0	0.6	0.6	0.6
BVPS	13.1	14.7	15.7	17.1	18.5

Cash Flows

Y/E Dec, S\$'000	FY18	FY19	FY20	FY21e	FY22e
CFO					
Profit before tax	7,000	7,987	7,108	7,683	7,500
Adjustments	2,946	1,937	1,893	3,265	2,841
Working capital changes	(1,255)	935	(3,810)	(297)	1,266
Operating cash flow	8,691	10,859	5,191	10,651	11,607
Taxes paid, others	(1,154)	(1,406)	(1,061)	(1,345)	(1,526)
Net operating cash flow	7,537	9,453	4,130	9,306	10,080
CFI					
CAPEX, net	(3,378)	(606)	(1,193)	(2,195)	(1,810)
Acquisition of subsidiaries	-	-	-	-	-
Others	54	157	180	-	-
Net investing cash flow	(3,324)	(449)	(1,013)	(2,195)	(1,810)
CFE					
Proceeds from issuance of shares	15,605	-	-	-	-
IPO expenses	(1,670)	-	-	-	-
Dividends	(7,000)	(1,650)	(3,004)	(1,863)	(1,863)
Loans, net of repayments	(1,088)	(3,542)	1,249	(1,395)	(738)
Net financing cash flow	5,847	(5,192)	(1,755)	(3,258)	(2,601)
Net change in cash	10,060	3,812	1,362	3,853	5,669
CCE, end	22,353	26,165	27,527	31,379	37,048

Source: Company, PSR Estimates

Balance Sheet

Y/E Dec, S\$'000	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
Plant and equipment	3,464	2,888	4,807	4,811	4,095
Right-of-use asset	-	3,060	-	-	-
Intangible assets	7,764	7,462	7,890	6,794	6,471
Others	210	105	47	47	47
Total non-current assets	11,438	13,515	12,744	11,653	10,613
Inventories	10,863	11,431	16,888	13,085	14,504
Trade and other receivables	29,833	28,654	29,421	35,681	35,749
Cash and cash equivalents	22,353	26,165	27,526	31,379	37,048
Others	492	366	564	469	472
Total current assets	63,541	66,616	74,399	80,614	87,773
Total assets	74,979	80,131	87,143	92,267	98,386

LIABILITIES

Others	502	2,911	3,967	3,220	2,459
Total non-current liabilities	502	2,911	3,967	3,220	2,459
Trade and other payables	30,835	30,628	33,240	35,305	38,060
Others	4,480	2,516	2,761	2,273	2,180
Total current liabilities	35,315	33,144	36,001	37,579	40,240
Total liabilities	35,817	36,055	39,968	40,799	42,699

EQUITY

Share capital	32,555	32,641	32,641	32,641	32,641
Retained earnings	21,587	26,467	29,626	33,920	38,138
Others	(14,980)	(15,032)	(15,092)	(15,092)	(15,092)
Total equity	39,162	44,076	47,175	51,469	55,687

Valuation Ratios

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	16.9	14.0	14.9	14.9	15.1
P/B (x)	2.3	2.1	1.9	1.8	1.6
EV/EBITDA (x)	6.4	6.4	6.2	5.4	5.2
Dividend Yield	1.8%	3.3%	2.0%	2.0%	2.0%

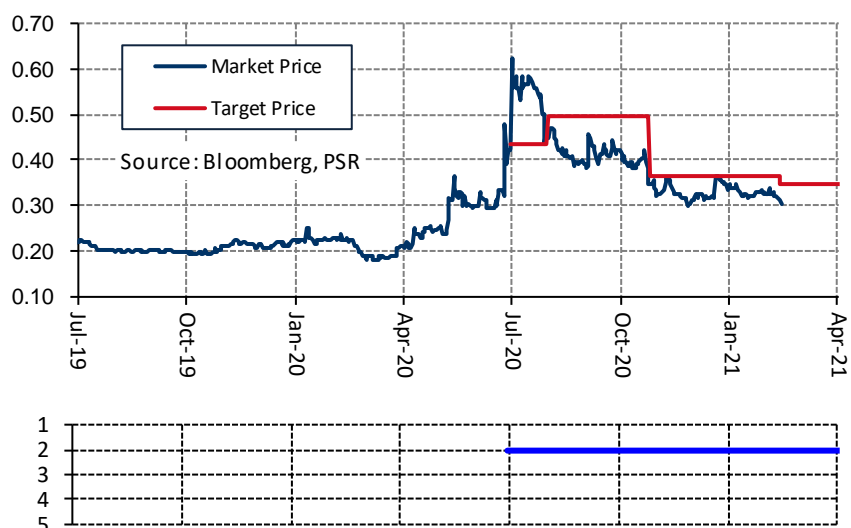
Growth & Margins

Growth					
Revenue	7.3%	-1.2%	3.6%	11.2%	7.4%
Gross profit	10.4%	4.6%	2.6%	9.6%	7.8%
EBITDA	-1.9%	27.3%	1.7%	8.0%	6.5%
Net Profit	-11.1%	20.7%	-5.6%	-0.1%	10.0%
Margins					
Gross margin	33.7%	35.7%	35.4%	34.8%	34.6%
EBITDA margin	6.6%	8.5%	8.3%	8.1%	7.1%
Net Profit Margin	4.5%	5.5%	5.0%	4.5%	4.1%

Key Ratios

ROE	18.7%	15.7%	13.5%	12.5%	11.4%
ROA	8.0%	8.4%	7.4%	6.9%	6.4%
Net gearing (x)	Net cash	Net cash	Net cash	Net cash	Net cash

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation.

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