



Hyphens Pharma Intl Ltd

(HYP SP/HYPH.SI)

A fresh start

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- **1Q21 looks promising.** Recovering from FY2020's dip of 5.6% in net profit, Hyphens delivered its highest ever quarterly sales in Q1 with profit margin hitting 6.3%, as demand in Vietnam recovered.
- **Staying focused - Proprietary brands.** The group is consistently expanding its proprietary brands, which has the highest product gross margin.
- **Streamlining medicine deliverables – ePharmacy.** Riding on the quick expansion of telehealth, Hyphens has partnered with WellAway Pharmacy in medicine deliverables to the convenience of patients' homes.
- **Upgrade to OUTPERFORM with new TP of S\$0.43.** We roll forward valuation to be based off FY2022 forecasts and maintain our 17x P/E peg.

FY20 results were weaker than our expectations. Hyphens recorded an increase in revenue, from S\$119.4mn in FY2019 to S\$123.7mn in FY2020, representing a 3.6% growth. Correspondingly, gross profit also increased from S\$42.7mn to S\$43.8mn. Revenue growth was mainly attributable to the group's proprietary brands, Ceradan and Ocean Health, which grew by 25.9% YoY in FY2020 to S\$18.2mn. Even though there was an increase in top line growth, net profit for the year declined by 5.6%, YoY mainly due to higher spending on distribution and admin expenses, which was 11.1% higher compared to FY2019. Geographically, the main revenue contributor for the group is from Singapore and Vietnam. There was a slight dip in revenue pertaining to Vietnam and Malaysia in FY2020 of around 0.2% and 1.7%, respectively. Slight losses were covered by the increase in Singapore's revenue of 5.7%.

Turnaround in 1Q21 results. Comparing YoY, the group recorded an increase in revenue of 7.5% and an increase in gross profit of 11.2% thanks to a resurgence in Vietnam sales. Overall bottom line grew by 0.6%. Albeit marginal growth from the prior year, Hyphens delivered its highest ever quarterly sales in Q1 with profit margin hitting 6.3%.

Capitalising on the emergence of online delivery trends. Hyphens' subsidiary, Pan-Malayan Pharmaceuticals has been awarded with an e-pharmacy licence for WellAway Pharmacy to provide a platform for clinics to order and deliver medicine to patients' homes, eliminating patients' unnecessary visits to clinics. In addition, the group has also partnered with online B2C platforms like Shopee and Lazada for sale of proprietary products.

Outperform - Upgrade

Price as of 28 Jun 21 (SGD)	0.32	Performance (Absolute)	
12M TP (S\$)	0.43	1 Month (%)	3.1
Previous TP (S\$)	0.36	3 Month (%)	5.3
Upside (%)	36.7	12 Month (%)	8.6
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (S\$mn)	99		
Issued Shares (mn)	300		
Vol - 3M Daily avg (mn)	0.5		
Val - 3M Daily avg (S\$mn)	0.2		
Free Float (%)	22.0%		
Major Shareholders		Previous Recommendations	
Inomed	65.3%	16-Nov-20	N S\$0.36
Tan Chwee Choon	12.7%	6-Nov-20	OP S\$0.48

Financials & Key Operating Statistics

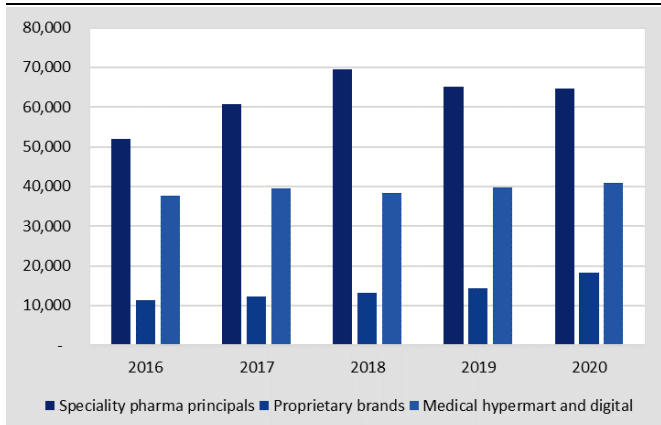
YE Dec (S\$ '000)	2019A	2020A	2021F	2022F	2023F
Revenue	119,442	123,698	129,049	134,757	140,857
PATMI	6,530	6,163	6,627	7,590	8,458
EPS (cents)	2.19	2.54	2.21	2.53	2.82
EPS grth (%)	20.6	-5.7	7.5	14.5	11.4
P/E (x)	14.7	15.6	14.5	12.7	11.4
DPS (SGCents)	1.0	0.6	0.6	0.6	0.7
Div Yield (%)	3.1	1.9	1.7	2.0	2.2
Net Margin (%)	5.5	5.0	5.1	5.6	6.0
Gearing (%)	net cash	net cash	net cash	net cash	net cash
Price / Book (x)	2.2	2.0	1.8	1.6	1.4
ROE (%)	15.7	13.5	13.1	13.2	12.9

Source: Company Data, KGI Research

Widening portfolio of proprietary brands. The group had new product launches in FY2020, such as Ceradan Hand Lotion Sanitiser, High Strength Omega-3 Vitamin D3-Enriched and Fast Absorb Iron Energy Formula. Through this, Hyphens is in pursuit of their goals to gain greater sales mix from its proprietary brands, in a bid to optimise gross profit as the margin for these brands are the highest.

Valuation & Action: Upgrade to OUTPERFORM, with higher 12M Target Price of S\$0.43. We maintain 17x P/E for our base case while rolling forward valuation base to FY2022F. We see potential upside for Hyphens as mature competitors such as Apex Healthcare, Koa Shoji Holdings and Korean Drug Co Ltd maintain P/E average of 19.9x and forward P/E average of 25.5x.

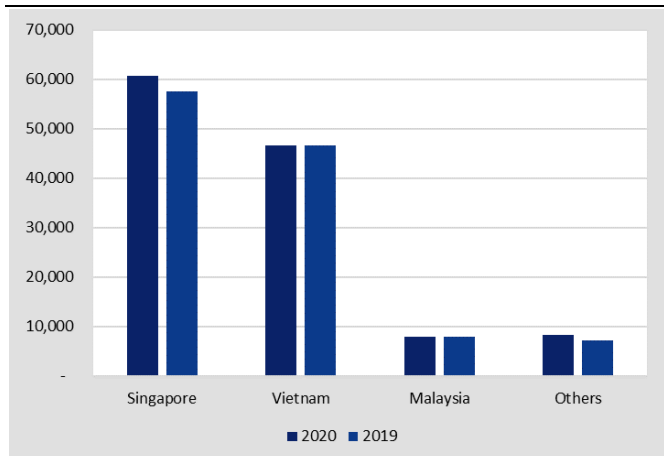
Risks: COVID-19 operational risk, Forex risk, product licensing delays leading to missed revenue streams.

Figure 1: Segmental contribution


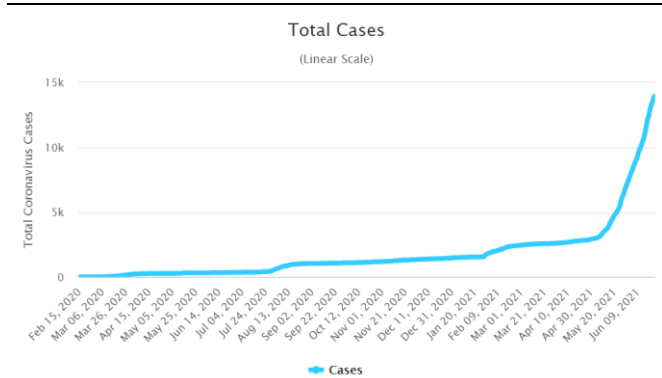
Source: Company data, KGI Research

Recovery of Vietnam in 1Q21. The revenue rebound in 1Q21 was mainly due to pick up in Vietnam's segment. Interestingly, Speciality Pharma sales increased, as compared to the dip last year. According to Vietnam News, in 2020, patients delayed visits to hospitals due to concerns over catching the Covid-19 virus. Upon stabilisation of the pandemic situation in early 2021, patients started to visit hospitals to receive treatment.

However, for 2H21, we might not see the results of 1H21 being replicated as Covid-19 cases started surging in the end May 2021. Hyphens may also face operational difficulty in 2H21/1H22 as their inventory in Vietnam runs low and distribution agreement renewals continue to be delayed. Segmental revenue from Specialty Pharma might see a dip but overall top line is expected to be supported by Medical Hypermart and Digital sales.

Figure 2: Geographical revenue contribution


Source: Company data, KGI Research

Figure 3: Vietnam Covid-19 cases


Source: World Data

Proprietary brands seeing growth. Hyphens proprietary brands segment saw a 26% growth from FY2019 to FY2020, representing the most significant jump over the last four years. Key proprietary products include dermocosmetic products marketed under Ceradan and TDF, health supplement products marketed under Ocean Health, and scalp care products sold under CG 210.

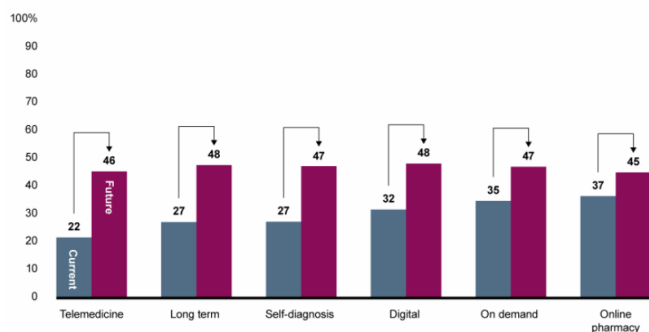
The Ocean Health brand did remarkably well under the influence of the Covid-19 pandemic as consumers purchased a higher volume of vitamins than usual for immunity purposes. According to a NTUC FairPrice spokesperson, sales for Vitamin C and multivitamins went up by three to five times over the last two weeks of February FY2020 when DORSCON Level went up from Yellow to Orange. We foresee a continuity of this trend in the short and mid-term, considering that the pandemic is evolving into an endemic and hence a continued demand for supplements.

Riding on telehealth trends: e-Pharmacy in 2021. According to a report from the Singapore Medical Association, the global telemedicine market was valued at US\$40 billion in 2018 and is expected to reach US\$148 billion by 2025. Tapping on this trend, Hyphens announced in January 2021 that its subsidiary, Pan-Malayan Pharmaceuticals has been awarded with an e-pharmacy licence for WellAway Pharmacy by the Health Sciences Authority.

WellAway pharmacy will work closely with medical clinics in Singapore in providing reliable and convenient medication delivery services to residential homes. This would work in tandem with the increasing usage of telemedicine by the group's medical partners. In a short span of 3 months, WellAway has partnered with around 100 clinics in Singapore. Revenue from this new model would contribute to the Group's Medical Hypermart and Digital business. With continued expansion in 2021, coupled with the rising trend in telehealth services, we might see top line growth from this segment.

Figure 4: View on telehealth approach – Asia Pacific region

Consumers expect to make greater use of digital health services in the next five years



Source: Bain & Company Front Line of Healthcare Asia-Pacific Survey, 2019 (n=1,823)

Source: Bain & Company

Further penetration into e-Commerce market – B2C. There was an e-Commerce boom in FY2020 due to the escalation of the Covid-19 pandemic in April. To cater to the needs of the public, Hyphens expanded into the B2C e-commerce scene by broadening their presence on platforms such as Shopee, Lazada, Qoo10 and Amazon, whilst proprietary brands, Ceradan and TDF launched their new websites. According to CNA, Southeast Asia's online sector is expected to hit US\$300 billion by 2025, while the e-commerce sector was projected to be worth US\$150 billion by 2025. As e-Commerce has been a growing trend, we expect B2C online sales to be consistently generated from this segment.

Figure 5: 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	TTM			
HYP SP	HYPHENS PHARMA INTERNATIONAL	SGD 0.35	77	4.8	2.3	-51.4	15.3	12.8	1.4	2.2	8.6	54.3	58.3	51.7
Closest Competitors														
APEX MK	APEX HEALTHCARE BHD	MYR 3.56	409	1.7	1.0	-21.2	30.2	30.4	2.2	356.0	14.9	58.9	52.1	56.0
PHRM MK	PHARMANIAGA BERHAD	MYR 5.56	352	8.0	3.1	151.1	N/A	20.6	1.6	3.9	10.7	169.9	142.8	141.5
9273 JP	KOA SHOJI HOLDINGS CO LTD	JPY 710.00	256	1.8	-	-12.1	13.9	N/A	1.3	-	6.0	209.3	226.4	232.5
014570 KS	KOREAN DRUG CO LTD	KRW 10300.00	102	1.4	-	-17.6	15.6	N/A	1.2	-	12.0	43.3	36.8	35.9
Average			280	3.2	2.0	25.0	19.9	25.5	1.6	180.0	10.9	120.4	114.5	116.5
Pharma Distributors														
ISPH EY	IBNSINA PHARMA SAE	EGP 6.31	388	-	1.2	75.3	19.7	17.1	6.5	4.0	16.7	-24.4	-22.4	-23.1
1345 HK	CHINA PIONEER PHARMA HOLDING	HKD 1.03	167	6.2	-	-36.7	25.2	N/A	0.6	-	9.3	93.8	63.5	105.6
6833 HK	SINCO PHARMACEUTICALS HOLDING	HKD 0.30	65	0.0	-	-72.5	10.9	N/A	11.9	-	4.4	-17.8	-16.7	-17.8
1110 HK	KINGWORLD MEDICINES GROUP	HKD 0.78	63	2.7	-	16.6	20.2	N/A	0.8	-	6.3	-11.4	-11.4	-8.7
2289 HK	CHARMAY PHARMACEUTICAL CO-H	HKD 4.53	63	3.0	-	303.0	14.5	N/A	1.5	-	17.4	-39.1	-39.4	-37.3
VMD VN	VIMEDIMEX MEDI-PHARMA JSC	VND 24150.00	16	8.1	-	42.3	10.8	N/A	1.1	-	1.2	-2.6	0.2	8.7
Average			127	4.0	1.2	54.7	16.9	17.1	3.7	4.0	9.2	(0.3)	(4.3)	4.6
Proprietary Brands														
300146 CH	BY-HEALTH CO LTD-A	CNY 26.52	6,334	2.2	1.9	-31.7	N/A	33.3	4.3	6.2	-	52.8	59.0	72.9
1112 HK	HEALTH AND HAPPINESS H&H INT	HKD 31.50	2,617	2.9	3.4	68.3	17.1	15.2	3.6	2.8	11.0	-2.3	0.2	0.7
BKL AU	BLACKMORES LTD	AUD 76.80	1,082	0.0	1.4	21.3	87.9	44.1	4.8	4.1	29.9	-9.4	-4.6	-7.2
2927 JP	AFC-HD AMS LIFE SCIENCE CO L	JPY 686.00	92	3.0	2.9	-7.4	14.3	N/A	0.9	-	5.4	1.9	3.8	6.9
VLS AU	VITA LIFE SCIENCES LTD	AUD 0.88	35	5.6	-	-36.1	9.2	N/A	1.6	-	2.5	31.3	45.5	50.1
Average			2,032	2.7	2.4	2.9	32.1	30.9	3.1	4.4	12.2	16.9	22.8	24.7
Big Pharma														
JNJ US	JOHNSON & JOHNSON	USD 147.80	389,090	2.6	2.7	15.8	22.1	18.6	6.5	6.0	14.4	1.3	12.6	15.6
ROG SW	ROCHE HOLDING AG-GENUSSCHEIN	CHF 314.40	296,869	2.9	3.0	10.4	20.8	15.9	8.2	6.6	13.7	0.1	5.5	8.5
NOVN SW	NOVARTIS AG-REG	CHF 79.18	213,839	3.1	3.7	32.0	27.7	14.9	3.9	3.4	15.0	-13.8	-10.8	-7.6
PFE US	PFIZER INC	USD 38.50	213,998	3.7	3.9	68.8	16.2	13.2	3.4	3.2	14.7	-1.7	5.2	8.5
NOVOB DC	NOVO NORDISK A/S-B	DKK 433.85	161,782	2.2	2.1	-19.1	24.5	24.0	15.8	16.3	16.5	12.2	10.7	14.0
SAN FP	SANOFI	EUR 86.92	129,269	3.5	3.7	26.6	9.8	14.9	1.9	1.7	7.9	-3.0	4.8	7.4
GSK LN	GLAXOSMITHKLINE PLC	GBP 1452.20	96,143	4.5	5.5	140.1	11.3	12.6	7.8	6.4	11.6	-18.4	-16.5	-10.8
BAYN GR	BAYER AG-REG	EUR 47.73	55,392	3.8	4.8	70.6	N/A	7.6	1.5	1.2	-	-34.4	-32.2	-29.1
Average			194,548	3.3	3.7	43.2	18.9	15.2	6.1	5.6	13.4	(7.2)	(2.6)	0.8

Source: Bloomberg, KGI Research

Financials

YE 31 Dec

INCOME STATEMENT (\$\$mn)	2019A	2020A	2021F	2022F	2023F
Core Revenue	119.4	123.7	129.0	134.8	140.9
Cost of sales	(76.8)	(79.9)	(84.2)	(87.4)	(90.8)
Gross Profit	42.7	43.8	44.8	47.3	50.0
D&A expense	(2.0)	(2.1)	(1.9)	(1.7)	(1.5)
Distribution & admin expenses	(34.6)	(36.7)	(36.8)	(38.3)	(40.0)
Other operating income/(expenses)	(0.1)	(0.1)	(0.5)	(0.5)	(0.5)
Profit from Operations	8.0	7.0	7.6	8.6	9.6
Finance income/(expenses)	0.0	0.1	0.1	0.1	0.2
Exceptionals/Investment income	0.0	0.0	0.0	0.0	0.0
Profit before Tax	8.0	7.1	7.6	8.8	9.8
Income tax	(1.5)	(0.9)	(1.0)	(1.2)	(1.3)
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
PATMI	6.5	6.2	6.6	7.6	8.5
BALANCE SHEET (\$\$mn)	2019A	2020A	2021F	2022F	2023F
Cash and cash equivalents	26.2	27.5	37.2	45.2	53.8
Trade and other receivables	28.7	29.4	30.7	32.1	33.5
Inventory	11.4	16.9	15.2	15.7	16.3
Other current assets	0.4	0.6	0.6	0.6	0.6
Current Assets	66.6	74.4	83.6	93.6	104.2
Property, plant and equipment	5.9	4.8	4.3	3.5	2.9
Intangibles	7.5	7.9	7.6	7.4	7.1
Other non-current assets	0.1	0.0	0.0	0.0	0.0
Non-current Assets	13.5	12.7	11.9	10.8	10.1
Total assets	80.1	87.1	95.5	104.4	114.3
Trade and other payables	30.6	33.2	35.0	36.4	37.8
Borrowings (current)	1.1	1.4	1.4	1.4	1.4
Other current liabilities	1.5	1.3	1.3	1.3	1.3
Current Liabilities	33.1	36.0	37.8	39.1	40.5
Borrowings (non-current)	2.4	3.6	3.6	3.6	3.6
Other non-current liabilities	0.5	0.4	0.4	0.4	0.4
Non-current liabilities	2.9	4.0	3.9	3.9	3.9
Shareholders equity	44.1	47.2	53.8	61.4	69.8
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Total Equity	44.1	47.2	53.8	61.4	69.8
Total Liabilities and Equity	80.1	87.1	95.5	104.4	114.3
CASH FLOW STATEMENT (\$\$mn)	2019A	2020A	2021F	2022F	2023F
Net income before tax	8.0	7.1	7.6	8.8	9.8
Depreciation & Amortisation	2.0	2.1	1.9	1.7	1.5
Other non-cash adjustments	(0.1)	(0.2)	(0.1)	(0.1)	(0.2)
Change in Working Capital	0.9	(3.8)	2.2	(0.6)	(0.6)
Income Tax Paid	(1.4)	(1.1)	(1.0)	(1.2)	(1.3)
CF from operating activities	9.5	4.1	10.7	8.6	9.1
Purchase/Disposal of PPE	(0.5)	(0.4)	(1.0)	(0.5)	(0.6)
Other CFI	0.1	(0.6)	0.1	0.1	0.2
CF from investing activities	(0.4)	(1.0)	(1.0)	(0.4)	(0.4)
Dividends Paid	(1.7)	(3.0)	0.0	0.0	0.0
Debt Raised / (Repaid)	(3.4)	1.4	0.0	0.0	0.0
Equity Raised / (Bought Back)	0.0	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	(5.2)	(1.8)	(0.1)	(0.1)	(0.1)
Net increase in cash & cash equiv.	3.8	1.4	9.7	8.1	8.6
Beginning Cash	22.4	26.2	27.5	37.2	45.2
Ending Cash	26.2	27.5	37.2	45.2	53.8
KEY RATIOS	2019A	2020A	2021F	2022F	2023F
Profitability					
Core EPS	0.0217	0.0205	0.0221	0.0253	0.0282
Core EPS Growth (%)	20.6%	-5.7%	7.5%	14.5%	11.4%
DPS (SGD Cents)	1.0	0.6	0.6	0.6	0.7
Dividend Yield (%)	3.1	1.9	1.7	2.0	2.2
Profitability (%)					
Gross margin	35.7%	35.4%	34.8%	35.1%	35.5%
EBITDA margin	8.3%	7.4%	7.4%	7.7%	7.8%
Net margin	5.5%	5.0%	5.1%	5.6%	6.0%
ROE	15.7%	13.5%	13.1%	13.2%	12.9%
ROA	8.4%	7.4%	7.3%	7.6%	7.7%
Financial Structure					
Interest coverage (x)	57.7	64.0	68.8	78.3	86.9
Total Debt/Equity (%)	7.9	10.5	9.2	8.1	7.1
Net Gearing (%)	net cash	net cash	net cash	net cash	net cash
Market Valuation (x)					
Price / Earnings	14.7	15.6	14.5	12.7	11.4
Price / Book	2.2	2.0	1.8	1.6	1.4
Price / Sales	0.8	0.8	0.7	0.7	0.7
EV / EBITDA	7.4	8.1	6.7	5.4	4.3

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