

# Hyphens Pharma International Limited

24 August 2021

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

**Price: S\$0.300** (as at 23 August 2021)

**Target Price: S\$0.370 (+23.3%)**

<b>BBG</b>	HYP SP
<b>Market cap</b>	S\$90.1m
<b>Price (23 August 2021)</b>	S\$0.300
<b>52-week range</b>	S\$0.285 – S\$0.495
<b>Target Price</b>	S\$0.370
<b>Shares Outstanding</b>	300.4m
<b>Free Float</b>	22.0%
<b>Major Shareholder</b>	Inomed Holding Pte Ltd 39.9% Tan Kia King 25.4% Tan Chwee Choon 12.7%
<b>P/BV (06/21)</b>	1.8x
<b>Net Debt to EBITDA (12/21)</b>	Net cash

Source: Company data, Bloomberg, SAC Capital

**Analyst**

Lim Li Jun Tracy +65 6232 3239  
[tlim@saccapital.com.sg](mailto:tlim@saccapital.com.sg)

**Analyst**

Lam Wang Kwan +65 6232 3237  
[lamwk@saccapital.com.sg](mailto:lamwk@saccapital.com.sg)

## Strongest 1H recorded

1HFY21 revenue was in line with our forecasts, making up 50.2% of our FY21E revenue. Net profit was higher at 71.1% of our forecasts, as gross margin generated from specialty pharma segment exceeded our expectations due to better product mix.

Revenue rose across all segments, climbing 6.1% to S\$65.4m, led by specialty pharma principals which grew 10.9% yoy from S\$31.4m to S\$34.8m, with higher demand in Vietnam, Singapore & Malaysia. Proprietary brands (+2.4%) with higher demand for Ceradan products and medical hypermart & digital (+0.4%) saw slight uptick.

Gross margin rose 3.7ppt to 37.9% in 1H21, with higher margins from the specialty pharma segment. Net profit rose 0.8% yoy to S\$4.3m. If government grants were excluded from both periods, net profit grew 22.7% from S\$3.4m to S\$4.2m.

**Continue to focus on proprietary brands and internationalization efforts.** The Group continues to undergo considerable R&D (S\$0.2m in 1H21, compared to S\$0.07m in 1H20), and has, in 1H, launched its Ocean Health® Eye Moist Omega supplement to promote moist eyes and healthy vision. Revenue contribution from markets outside Singapore increased slightly from 49.96% to 50.63%. Deepening its presence for both proprietary brands and specialty pharma portfolio in Asia remains a focus for Hyphens Pharma.

**Maintain BUY rating with fair value unchanged at S\$0.370.** Our DCF-derived target price translates into a FY21E P/E of 17.5x. Our target price implies a 23.3% upside. We continue to see positives which are i) new product innovation, ii) contribution from more markets and iii) higher margins in 1H on their highest revenue, specialty pharma segment, which will lift FY21E bottomline. We are, however, cautious of the situation at Vietnam (its second biggest geographical contributor) and Malaysia, both of which are still having movement control restrictions, reducing ease of purchase.

**Key Risks:** Product differentiation, supply chain disruption.

## Key Financials

FY ended 31 Dec	FY2018	FY2019	FY2020	FY2021E	FY2022E
Revenue (S\$m)	120.9	119.4	123.7	130.1	134.2
EBIT (S\$m)	7.1	8.0	7.0	7.7	7.8
Net profit (S\$m)	5.4	6.5	6.2	6.3	6.4
Basic EPS (S cents)	1.95	2.17	2.05	2.11	2.14
Dividend per share (S cents)	0.55	0.55	1.00	0.74	0.75
Net cash / (debt)	19.4	25.9	27.5	34.4	38.2
<b>Valuation</b>					
EBIT margin (%)	5.9	6.7	5.7	5.9	5.8
ROIC (%)	27.2	31.0	25.9	31.1	31.2
EV/EBITDA (x)	9.0	6.4	6.9	5.7	5.1
P/E (x)	16.7	13.8	14.6	14.2	14.0
Dividend yield (%)	1.8	1.8	3.3	2.5	2.5

## Investment Highlights

### Strongest 1H recorded

Revenue (S\$m)	1H21	1H20
Specialty Pharma	34.8	31.4
Proprietary brands	9.4	9.2
Medical hypermart & digital	21.1	21.1
<b>Total</b>	<b>65.4</b>	<b>61.6</b>

Source: Company data

1HFY21 revenue was in line with our forecasts, making up 50.2% of our FY21E revenue. Net profit was higher at 71.1% of our forecasts, as gross margin generated from specialty pharma segment exceeded our expectations due to better product mix.

Revenue saw growth across all segments, rising 6.1% to S\$65.4m, led by specialty pharma principals which grew 10.9% yoy from S\$31.4m to S\$34.8m, with higher demand in Vietnam, Singapore and Malaysia. Proprietary brands (+2.4%) with higher demand for Ceradan products and medical hypermart & digital (+0.4%) saw slight uptick.

Gross margin rose 3.7ppt to 37.9% in 1H21, with higher margins from the specialty pharma segment. Net profit rose 0.8% yoy to S\$4.3m. If government grants were excluded from both periods, net profit grew 22.7% from S\$3.4m to S\$4.2m.

### Continue to focus on proprietary brands and internationalization efforts

The Group continues to undergo considerable R&D (S\$0.2m in 1H21, compared to S\$0.07m in 1H20), and has recently launched its Ocean Health® nutritional supplement High Strength Eye Moist Omega Formula to promote moist eyes and healthy vision. Management commented that it was one of their most successful product launches.

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

Revenue contribution from markets outside Singapore increased slightly from 49.96% to 50.63%. Deepening its presence for both proprietary brands and specialty pharma portfolio in Asia remains a focus for Hyphens Pharma. We remain positive on their overseas expansion, such as through the distribution of Ocean Health in Sri Lanka, Ceradan in China, and TDF Fairence in South Korea, although Management commented that brand recognition and awareness takes time.

### Maintain BUY rating with fair value unchanged at S\$0.370

We maintain a BUY rating on Hyphens Pharma, with fair value unchanged at S\$0.370. Our DCF-derived target price translates into a FY21E P/E of 17.5x. Our target price implies a 23.3% upside.

We adjusted FY21E profit estimates slightly (+4.5%) on higher gross margin recorded in 1H with specialty pharma's strong performance, but price in the continued risks of the Delta variant and the elevated cases in key market Vietnam and third highest market Malaysia.

We continue to see positives which are i) new product innovation, ii) contribution from more markets and iii) higher margins in 1H on their highest revenue, specialty pharma segment, which will lift FY21 bottomline. We are, however, cautious of the situation at Vietnam (its second biggest geographical contributor) and Malaysia, both of which are still having movement control restrictions, reducing ease of purchase.

## Income Statement

S\$'mil	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
<b>Revenue</b>	<b>120.9</b>	<b>119.4</b>	<b>123.7</b>	<b>130.1</b>	<b>134.2</b>
Cost of sales	-80.1	-76.8	-79.9	-85.0	-87.3
<b>Gross profit</b>	<b>40.8</b>	<b>42.7</b>	<b>43.8</b>	<b>45.1</b>	<b>46.9</b>
Interest Income	0.1	0.2	0.2	0.1	0.1
Other income and gains	0.2	0.4	2.2	1.0	0.4
Distribution costs	-21.7	-24.8	-26.5	-27.6	-28.0
Administrative expenses	-10.4	-9.8	-10.1	-10.2	-10.8
Finance costs	-0.1	-0.1	-0.1	-0.1	-0.1
Other losses	-1.8	-0.5	-2.1	-0.7	-0.7
<b>Profit before tax from continuing operations</b>	<b>7.0</b>	<b>8.0</b>	<b>7.1</b>	<b>7.7</b>	<b>7.8</b>
Income tax expense	-1.6	-1.5	-0.9	-1.3	-1.3
<b>Profit, net of tax</b>	<b>5.4</b>	<b>6.5</b>	<b>6.2</b>	<b>6.3</b>	<b>6.4</b>
Earnings Per Share (cents)					
Basic and Diluted	1.95	2.17	2.05	2.11	2.14

## Ratios

	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
<b>Profitability (%)</b>					
Gross profit/(loss) margin	33.7	35.7	35.4	34.7	35.0
Profit/(loss) before tax margin	5.8	6.7	5.7	5.9	5.8
<b>Liquidity (x)</b>					
Current ratio	1.8	2.0	2.1	2.1	2.2
Quick ratio	1.5	1.7	1.6	1.8	1.9
Interest coverage ratio	55.3	58.9	65.6	70.7	71.8
Net Debt to Equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
<b>Valuation (x)</b>					
P/E	16.7	13.8	14.6	14.2	14.0
P/B	2.3	2.0	1.9	1.8	1.6
EV/EBITDA	9.0	6.4	6.9	5.7	5.1
<b>Cash Conversion Cycle</b>					
Trade receivable days	81	89	86	86	88
Inventory days	49	54	77	53	53
Trade payable days	132	144	144	143	142
CCC days	-2	0	18	-4	-1

## Balance Sheet

S\$'mil	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Plant and equipment	3.5	5.9	4.8	4.8	4.7
Intangible assets	7.8	7.5	7.9	8.0	7.9
Deferred tax assets	0.2	0.1	0.0	0.0	0.0
<b>Total non-current assets</b>	<b>11.4</b>	<b>13.5</b>	<b>12.7</b>	<b>12.9</b>	<b>12.7</b>
Inventories	10.9	11.4	16.9	12.3	12.7
Trade and other receivables	29.8	28.7	29.4	31.9	32.9
Prepayments	0.5	0.4	0.6	0.6	0.6
Cash and cash equivalents	22.4	26.2	27.5	34.4	38.2
<b>Total current assets</b>	<b>63.5</b>	<b>66.6</b>	<b>74.4</b>	<b>79.2</b>	<b>84.2</b>
<b>Total assets</b>	<b>75.0</b>	<b>80.1</b>	<b>87.1</b>	<b>92.1</b>	<b>96.9</b>
Share capital	32.6	32.6	32.6	32.6	32.6
Retained earnings	21.6	26.5	29.6	33.7	37.5
Other reserves	-15.0	-15.0	-15.1	-15.1	-15.1
<b>Total equity</b>	<b>39.2</b>	<b>44.1</b>	<b>47.2</b>	<b>51.3</b>	<b>55.0</b>
Deferred tax liabilities	0.5	0.5	0.4	0.4	0.4
Lease liabilities, non-current	0.0	2.4	3.6	3.6	3.6
<b>Total non-current liabilities</b>	<b>0.5</b>	<b>2.9</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>
Income tax payable	1.5	1.5	1.3	1.3	1.3
Trade and other payables	30.8	30.6	33.2	35.8	36.7
Lease liabilities, current	0.0	0.8	0.0	0.0	0.0
Other financial liabilities, current	3.0	1.1	1.4	0.0	0.0
<b>Total current liabilities</b>	<b>35.3</b>	<b>33.1</b>	<b>36.0</b>	<b>37.1</b>	<b>38.0</b>
<b>Total liabilities</b>	<b>35.8</b>	<b>36.1</b>	<b>40.0</b>	<b>41.1</b>	<b>42.0</b>
<b>Total equity and liabilities</b>	<b>75.0</b>	<b>80.1</b>	<b>87.1</b>	<b>92.3</b>	<b>97.0</b>

## Cash Flows Statement

S\$'mil	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
<b>Profit/(loss) before tax</b>	<b>7.0</b>	<b>8.0</b>	<b>7.1</b>	<b>7.7</b>	<b>7.8</b>
Amortisation of intangible assets	0.4	0.4	0.4	0.4	0.4
Depreciation of plant and equipment	0.4	1.6	1.7	1.7	1.9
Changes in working capital	-1.3	0.9	-3.8	2.4	-0.4
Others	7.5	9.4	4.1	10.9	8.3
<b>Net cashflows from operating activities</b>	<b>7.5</b>	<b>9.5</b>	<b>4.1</b>	<b>10.9</b>	<b>8.3</b>
Purchase of plant and equipment	-3.3	-0.5	-0.4	-1.5	-2.0
Purchase of intangible assets	-0.0	-0.1	-0.8	-0.3	-0.3
Interest received	0.1	0.2	0.2	0.1	0.1
<b>Net cash flows used in investing activities</b>	<b>-3.3</b>	<b>-0.4</b>	<b>-1.0</b>	<b>-1.7</b>	<b>-2.2</b>
Gross proceeds from IPO	15.6	0.0	0.0	0.0	0.0
Dividends paid to equity owners	-7.0	-1.7	-3.0	-2.2	-2.3
Repayment of borrowings	-4.4	-2.7	0.0	0.0	0.0
Proceeds from borrowings	3.4	0.0	2.1	0.0	0.0
Others	-0.0	-0.0	-0.0	-0.0	-0.0
<b>Net cash flows from (used in) financing activities</b>	<b>5.8</b>	<b>-5.2</b>	<b>-1.8</b>	<b>-2.3</b>	<b>-2.4</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>10.1</b>	<b>3.8</b>	<b>1.4</b>	<b>6.9</b>	<b>3.7</b>
Cash and cash equivalents at beginning	12.3	22.4	26.2	27.5	34.4
<b>Cash and cash equivalents, ending balance</b>	<b>22.4</b>	<b>26.2</b>	<b>27.5</b>	<b>34.4</b>	<b>38.2</b>

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