

Hyphens Pharma International Ltd

Speedbump in Vietnam



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SINGAPORE | HEALTHCARE | 3Q21 Update

- Results were above expectations. 9M21 PATMI is at 88% of our FY21e forecast.
- Despite the pandemic lockdown in Vietnam, Hyphens managed to sustain earnings better than expected in 3Q21.
- The new acquisition of healthcare distributor Novem for S\$16.3mn has the potential to raise EPS by 25% to 30%.
- Maintain ACCUMULATE unchanged DCF TP (WACC 7.2%) of S\$0.345. We raise our FY21e by 6% due to the higher margins from the increased mix of proprietary products. Hyphens is undertaking a long-term investment and journey to build a leading portfolio of proprietary skin health products and brands across Asia.

Results at a glance

SGD '000	3Q21	3Q20	YoY	2Q21	QoQ	Comments (YoY)
Revenue	30,622	32,737	-6%	31,586	-3%	
Gross profit	10,640	10,347	3%	12,628	-16%	Higher margins in Vietnam.
Profit, net of tax	1,091	847	29%	2,179	-50%	Hit by S\$0.6mn inventory loss in 3Q20.

Source: Company, PSR # In a results update, only limited financials are provided

The Positive

+ Proprietary brands growth. Hyphens mentioned that proprietary brands have enjoyed robust growth. Skin healthcare products namely Ceradan and TDF likely performed better in Singapore due to border closure and branding efforts. Ocean Health supplements faring well in corporate sales but retail remains competitive due to the presence of multiple brands.

The Negative

+ Hurt by severe lockdown in Vietnam. Hyphen's main products in Vietnam are specialty pharma products. Due to the tight movement controls and lockdown, non-essential medical tests and procedures such as X-rays, CT scans and cardiac stents were delayed. For instance, contrast media, a dye used in X-rays and CT scans, will face lower demand due to the reduced amount of medical tests conducted.

Outlook

We view specialty pharma* as a stable cash-flow generator for Hyphens. Lockdowns in Vietnam will stifle sales momentum into 4Q21. The longer-term journey for Hyphens is to grow, invest and expand their portfolio of proprietary products namely Ceradan, TDF and Ocean Health. Hyphens has expanded Ceradan skincare creams from selling exclusively to doctors into retail pharmacies. Doctors prescribe Ceradan Advance whilst consumers can purchase the other range of Ceradan products. There is a sizeable pool of brand recognition from existing users of Ceradan when dispensed by doctors. TDF is another skin health product focused on ageing, pigmentation and age defence. The range of products was extended with a new range of sunscreen products. In August 2020, Hyphens introduced scalp care products under the CG 210 brand. Ocean Health supplements growth will primarily come from new export markets and continuous roll-out of innovative formulations.

*Specialty pharma – Selling more than 30 products to doctors and specialist. Doctors will in turn prescribe the products to their patients for consumption or use in procedures and tests. Hyphens typically have exclusive distribution agreements with their principals. The business is rather sticky because doctors seldom change such products.

22 November 2021

ACCUMULATE (MAINTAINED)

LAST CLOSE PRICE	SGD 0.300
FORECAST DIV	SGD 0.007
TARGET PRICE	SGD 0.345
TOTAL RETURN	17.2%

COMPANY DATA

BLOOMBERG CODE	HYP SP
O/S SHARES (MN)	300
MARKET CAP (USD mn / SGD mn)	66.3 / 90.1
52 - WK HI/LO (SGD)	0.375 / 0.285
3M Average Daily T/O (mn)	0.09

MAJOR SHAREHOLDERS

INOMED HOLDING PTE LTD	39.9%
Tan Kia King	25.4%
TAN CHWEE CHOON	12.7%

PRICE PERFORMANCE

	1MTH	3MTH	YTD
COMPANY	1.7	(1.6)	(2.9)
STI RETURN	1.4	5.1	17.3

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, (\$'000)	FY19	FY20	FY21e	FY22e
Revenue	119,442	123,698	137,587	147,712
EBITDA	10,130	9,299	11,618	11,185
NPAT	6,530	6,163	6,549	6,620
EPS (\$ Cents)	2.2	2.1	2.2	2.2
P/E (x)	13.8	14.6	13.8	13.6
P/B (x)	2.0	1.9	1.7	1.6
Div Yield	3.3%	2.1%	2.1%	2.2%
ROE	15.7%	13.5%	13.2%	12.2%

Source: Company Data

VALUATION METHOD

DCF @ WACC = 7.2%, g = 2.0%

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Maintain BUY with an unchanged target price of S\$0.345.

Our FY21e PATMI is raised by 6% due to higher margins as the mix of proprietary brands increase.

New Acquisition – Novem

Hyphens has proposed to acquire Novem for S\$16.28mn (S\$13.83mn cash and 8.3458mn new Hyphens shares worth S\$2.44mn). The new shares issued is 2.7% of the enlarged share capital. Around 2/3 or 5.56mn of the consideration shares are under a 3-year moratorium. Novem is a distributor of pharmaceutical products for over 20 years. The majority of its customer base are government hospitals and polyclinics. This compares with only 10% for Hyphen. We view the acquisition as a positive for Hyphens. There is a potential 25% to 30% uplift in EPS, expansion of Hyphens product range, widening of customer especially into the public sector and raising of margins due to the higher margin profile of Novem (FY20 PAT margin of 18% vs Hyphens 5-6%).

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)	(89,156)	(96,013)
Gross profit	40,805	42,669	43,759	48,430	51,699
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	8,173	8,164
Income tax expense	(1,590)	(1,457)	(945)	(1,624)	(1,544)
Profit after tax	5,410	6,530	6,163	6,549	6,620

Per share data

Y/E Dec, SG cents	FY18	FY19	FY20	FY21e	FY22e
EPS	1.8	2.2	2.1	2.2	2.2
DPS	0.6	1.0	0.6	0.6	0.7
BVPS	13.1	14.7	15.7	17.3	18.8

Cash Flows

Y/E Dec, S\$'000	FY18	FY19	FY20	FY21e	FY22e
CFO					
Profit before tax	7,000	7,987	7,108	8,173	8,164
Adjustments	2,946	1,937	1,893	3,265	2,841
Working capital changes	(1,255)	935	(3,810)	(226)	1,294
Operating cash flow	8,691	10,859	5,191	11,212	12,299
Taxes paid, others	(1,154)	(1,406)	(1,061)	(1,345)	(1,624)
Net operating cash flow	7,537	9,453	4,130	9,867	10,675
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	4,414	6,264
CCE, end	22,353	26,165	27,527	31,940	38,205

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	13,014	14,404
Trade and other receivables	29,833	28,654	29,421	35,681	35,749
Cash and cash equivalents	22,353	26,165	27,526	31,940	38,205
Others	492	366	564	469	472
Total current assets	63,541	66,616	74,399	81,104	88,830
Total assets	74,979	80,131	87,143	92,757	99,443

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	2,371	2,305
Total current liabilities	35,315	33,144	36,001	37,676	40,365
Total liabilities	35,817	36,055	39,968	40,896	42,824

EQUITY

Share capital	32,555	32,641	32,641	32,641	32,641
Retained earnings	21,587	26,467	29,626	34,312	39,069
Others	(14,980)	(15,032)	(15,092)	(15,092)	(15,092)
Total equity	39,162	44,076	47,175	51,861	56,618

Valuation Ratios

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	16.6	13.8	14.6	13.8	13.6
P/B (x)	2.3	2.0	1.9	1.7	1.6
EV/EBITDA (x)	6.2	6.3	6.1	5.0	4.6
Dividend Yield	1.8%	3.3%	2.1%	2.1%	2.2%

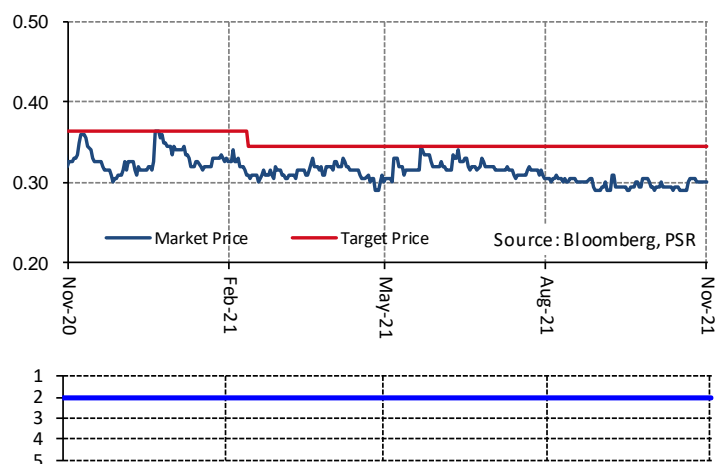
Growth & Margins

Growth					
Revenue	7.3%	-1.2%	3.6%	11.2%	7.4%
Gross profit	10.4%	4.6%	2.6%	10.7%	7.7%
EBITDA	-1.9%	27.3%	1.7%	12.8%	6.7%
Net Profit	-11.1%	20.7%	-5.6%	6.3%	10.0%
Margins					
Gross margin	33.7%	35.7%	35.4%	35.2%	35.0%
EBITDA margin	6.6%	8.5%	8.3%	8.4%	7.6%
Net Profit Margin	4.5%	5.5%	5.0%	4.8%	4.5%

Key Ratios

ROE	18.7%	15.7%	13.5%	13.2%	12.2%
ROA	8.0%	8.4%	7.4%	7.3%	6.9%
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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