

Hyphens Pharma International Ltd

17 Nov 2021

BUY (Maintained)

BBG	HYP SP
Market cap	S\$92.6m
Price (17 Nov 2021)	S\$0.30
52-week range	S\$0.285 – S\$0.375
Target Price	S\$0.40 (previously S\$0.37)
Shares Outstanding	308.8m
Free Float	24%
Major Shareholder	Lim See Wah (38.8%) Tan Kia King (24.7%) Tan Chwee Choon (12.3%)
P/BV (06/21)	1.8x
Net Debt to EBITDA (12/20)	Net cash

Source: Company data, Bloomberg, SAC Capital
Note: all data assume Novem acquisition is completed

Analyst

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Strategic Acquisition of Novem Group

Raised our target price to S\$0.40. Hyphens announced a S\$16.3m acquisition of Novem group, S\$13.8m paid in cash and remaining in shares. We estimate this could add S\$12m to sales and S\$1.3m to net profit in FY22E. The deployment of cash on hand will lift ROE to 14.0% in FY22E. Our FY22E earnings estimates is raised by 20%, and we introduced our FY23E forecast. Our revised target price is 8.1% higher at S\$0.40 based on DCF (WACC 14.8%).

A 20-year track record. Novem distributes pharmaceutical, nutraceutical products and medical devices, representing more than 40 brand principals in Europe and Asia. It has >150 products including branded generics and in-house developed nutraceutical products, which are usually dispensed by doctors. Novem is entrenched in the public sector - 60% of sales are to government hospitals and polyclinics – and serves more than 1,000 customers. It enjoys higher gross margin from B2B sales. On a blended basis, Hyphens' FY22E margin will rise by 1.5 ppt to 37.6%.

The acquisition adds value through: 1) broadens Hyphens' reach to the public sector. Hyphens' strengths lie in consumer products sold mainly through retail channels; and 2) adds principals and portfolio of drugs for diseases and therapeutic areas such as musculoskeletal, cardiology, ophthalmology and general surgery; and 3) enables cross-selling between Hyphens' and Novem's products and among the doctors.

Maintain BUY. The lockdown in 3Q affected 25% of sales in Vietnam, its second largest market (37% of revenue). With significantly lower government grants this year (FY21E: S\$0.3m, FY20: S\$2m), we expect earnings to grow by 4.2% in FY21E, but a stronger 30.7% in FY22E.

YE 31 Dec (S\$m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	119.4	123.7	129.9	148.8	160.7
EBIT	8.0	7.0	7.8	10.2	14.0
Net profit	6.5	6.2	6.4	8.4	11.5
EPS (S cents)	2.2	2.1	2.1	2.7	3.7
DPS (S cents)	1.0	0.6	0.6	0.8	1.2
Net cash / (debt)	22.7	22.6	27.0	19.7	27.3
Valuation					
EBIT margin (%)	6.7	5.7	6.0	6.9	8.7
ROIC (%)	31.9	26.5	27.5	21.9	30.3
EV/EBITDA (x)	6.8	7.4	6.4	6.1	4.2
P/E (x)	13.8	14.6	14.0	11.0	8.0
Dividend yield (%)	3.3	2.1	2.1	2.8	3.8

Income Statement

FYE 31 Dec (\$m)	FY20A	FY21E	FY22E	FY23E
Revenue	123.7	129.9	148.8	160.7
Cost of sales	(77.9)	(80.9)	(90.8)	(97.1)
Gross profit	45.8	49.0	58.1	63.6
Other income	-	-	-	-
Operating expenses	(38.7)	(39.5)	(45.5)	(47.5)
EBITDA	7.1	9.5	12.6	16.1
Depreciation	(2.1)	(1.9)	(2.3)	(2.1)
Associates & JV	-	-	-	-
Exceptional items	2.0	0.3	-	-
EBIT	7.0	7.8	10.3	14.0
Finance costs	0.1	(0.1)	(0.1)	(0.1)
Pretax profit	7.1	7.7	10.1	13.9
Tax expense	(0.9)	(1.3)	(1.7)	(2.4)
Minority interests	-	-	-	-
Net profit	6.2	6.4	8.4	11.5

Cash Flow

FYE 31 Dec (\$m)	FY20A	FY21E	FY22E	FY23E
Pretax profit	7.1	7.7	10.1	13.9
Depreciation & amortisation	2.1	1.9	2.3	2.1
Associates & JV	-	-	-	-
Net finance expense	(0.1)	0.1	0.1	0.1
Non-fund items	(0.1)	-	-	-
Working capital changes	(3.8)	(1.9)	(0.5)	(1.4)
Interest paid	0.1	(0.1)	(0.1)	(0.1)
Tax paid	(1.1)	(1.3)	(1.3)	(1.7)
Operating cash flow	4.2	6.4	10.7	12.8
Capex	(0.4)	-	(1.0)	(1.0)
Net investments	-	-	(16.3)	-
Fixed assets disposal	-	-	-	-
Others	(0.8)	-	-	-
Investing cash flow	(1.2)	-	(17.3)	(1.0)
Free cash flow	3.0	6.4	(6.6)	11.8
Dividend paid	(3.0)	(1.9)	(2.6)	(3.5)
Borrowings	1.4	-	-	-
Equity	-	-	2.4	-
Financing cash flow	(1.6)	(1.9)	(0.2)	(3.5)
Net change	1.4	4.5	(6.8)	8.3

Balance Sheet

FYE 31 Dec (\$m)	FY20A	FY21E	FY22E	FY23E
Assets				
PPE	4.8	2.9	2.3	1.7
Intangible assets	7.9	7.9	19.1	18.5
Novem	-	-	4.5	4.5
Non-current assets	12.7	10.8	25.8	24.7
Inventories	16.9	16.9	17.7	18.9
Trade receivables	29.4	29.2	32.6	35.2
Prepayments & deposits	0.6	0.6	0.6	0.6
Cash	27.5	32.0	25.2	33.5
Current assets	74.4	78.6	76.1	88.2
Total assets	87.1	89.4	101.9	112.9
Liabilities				
Other financial liabilities	1.4	1.4	1.4	1.4
Trade payables	33.2	31.0	34.8	37.3
Tax provisions	1.3	1.3	1.7	2.4
Current liabilities	36.0	33.8	38.0	41.0
Other financial liabilities	3.6	3.6	3.6	3.6
Deferred tax	0.4	0.4	0.4	0.4
Non-current liabilities	4.0	4.0	4.0	4.0
Net assets	47.2	51.7	59.9	67.9
Equity				
Share capital	32.6	32.6	35.1	35.1
Other reserves	(15.1)	(15.1)	(15.1)	(15.1)
Retained earnings	29.6	34.1	39.9	47.9
	47.2	51.7	59.9	67.9
Minority interests	-	-	-	-
Total equity	47.2	51.7	59.9	67.9

Ratios

FYE 31 Dec (\$m)	FY20A	FY21E	FY22E	FY23E
Profitability (%)				
Gross margin	35.4	36.2	37.9	38.6
EBIT margin	5.7	6.0	6.9	8.7
Liquidity (x)				
Current ratio	2.1	2.3	2.0	2.1
Net Debt/EBITDA	Net cash	Net cash	Net cash	Net cash
Interest coverage ratio	n.a.	n.a.	n.a.	n.a.
Net Debt to Equity (%)	n.a.	n.a.	n.a.	n.a.
Valuation (x)				
P/E	14.6	14.0	11.0	8.1
P/B	1.9	1.7	1.5	1.4
EV/EBITDA	7.4	6.4	6.1	4.1
Cash Conversion Cycle				
Trade receivable days	87	82	80	80
Inventory days	79	76	71	71
Trade payable days	156	140	140	140

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