

# Hyphens Pharma International Ltd

16 March 2022

## BUY (Maintained)

<b>BBG</b>	HYP SP	
<b>Market cap</b>	S\$88.0m	
<b>Price (15 Mar 2022)</b>	S\$0.28	
<b>52-week range</b>	S\$0.280 – S\$0.360	
<b>Target Price</b>	S\$0.40	
<b>Shares Outstanding</b>	308.8m	
<b>Free Float</b>	24.1%	
<b>Major Shareholder</b>	Lim See Wah	38.8%
	Tan Kia King	24.7%
	Tan Chwee Choon	12.3%
<b>P/BV (12/21)</b>	1.6x	
<b>Net Debt to EBITDA (12/21)</b>	Net cash	

Source: Company data, Bloomberg, SAC Capital

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## Moving in the right direction

Hyphens's FY21 revenue was up 4.1% to S\$125.9m boosted by increase in sales from all business segment and 1-month contribution from Novem group. Gross margin improved to 38.2% due to lower contribution from the lower margin Vietnam operations (-5.2% yoy) as a result of COVID lockdown. Overall, net profit improved by 11.1% to S\$6.8m. Excluding government grants from both periods, net profit would have grown 52.3% from S\$4.4m to S\$6.7m.

**Novem to contribute to growth.** We estimated that Novem will contribute ~S\$13m in sales and ~S\$1.5m to the bottom line for FY22E. The amortisation of goodwill is expected to kick in from FY23 onwards, offsetting the gain by ~S\$1.2m annually over the next 10 years. Novem is entrenched in the public sector with 60% of sales are to government hospitals and polyclinics. The return of elective surgeries as restrictions eased could further lift business sales.

Hyphen's Vietnam operation is also expected to improve as the country return to normalcy, however gross margin is likely to dip as a result. Indonesia saw ~S\$1m revenue growth last year despite facing products shortage. Ecommerce effort only began in 2H21 in Indonesia as the Management noted that there is still room for growth in the market. We believe the Indonesian market could provide the Group with significant room for growth going forward.

**Building for the future.** Through WellAway, Hyphens has obtained Singapore's 1<sup>st</sup> HSA-registered e-pharmacy license. One distinct advantage for Hyphens in the e-pharmacy business is that they do not require additional working capital to build up inventory as they can tap into the existing inventory in pan-Malayan. While WellAway is not going contribute significantly to the Group immediately, the first mover advantage could see Hyphens gaining an edge over its potential competitors when telemedicine takes off.

**Maintain BUY with an unchanged TP of S\$0.40.** We forecasted a 18.3% and 8.0% topline growth in FY22E and FY23E. This translate to a 24.4% bottom line growth in FY22E in the absence of costs associated with acquisition of Novem before growth moderating to 1.8% in FY23E due to amortisation of goodwill. Our DCF-derived target price of S\$0.40 translates into a FY22E P/E of 14.5x.

YE 31 Dec (\$m)	FY19A	FY20A (restated)	FY21A	FY22E	FY23E
Revenue	119.4	121.0	125.9	149.0	160.9
EBIT	8.1	7.2	8.4	10.4	10.5
Net profit	6.5	6.2	6.8	8.5	8.7
EPS (S cents)	2.17	2.05	2.27	2.76	2.81
DPS (S cents)	1.00	0.62	0.67	0.83	0.84
Net cash / (debt)	22.7	22.6	11.3	24.4	30.9
<b>Valuation</b>					
EBIT margin (%)	6.8	6.0	6.6	7.0	6.6
ROIC (%)	46.4	36.6	29.5	50.1	47.7
EV/EBITDA (x)	7.4	8.1	7.1	5.9	5.3
P/E (x)	12.9	13.7	12.3	10.2	10.0
Dividend yield (%)	3.4	2.1	2.3	2.9	2.9

## Income Statement

FYE 31 Dec (\$m)	2019A	2020A	2021A	2022E	2023E
<b>Revenue</b>	<b>119.4</b>	<b>121.0</b>	<b>125.9</b>	<b>149.0</b>	<b>160.9</b>
Cost of sales	-76.8	-77.3	-77.8	-92.9	-99.7
<b>Gross profit</b>	<b>42.7</b>	<b>43.6</b>	<b>48.1</b>	<b>56.0</b>	<b>61.1</b>
Other income	0.5	0.5	0.9	0.3	0.3
Operating expenses	-33.1	-36.6	-38.5	-43.9	-47.4
<b>EBITDA</b>	<b>10.1</b>	<b>7.5</b>	<b>10.5</b>	<b>12.4</b>	<b>14.0</b>
Depreciation & amortisation	-2.0	-2.1	-2.2	-2.3	-3.8
Associates & JV	-	-	0.0	0.2	0.2
Expectational items	-	1.8	0.1	-	-
<b>EBIT</b>	<b>8.1</b>	<b>7.2</b>	<b>8.4</b>	<b>10.4</b>	<b>10.5</b>
Finance costs	-0.1	-0.1	-0.1	-0.1	-0.1
<b>Pretax profit</b>	<b>8.0</b>	<b>7.1</b>	<b>8.3</b>	<b>10.3</b>	<b>10.4</b>
Tax expense	-1.5	-0.9	-1.4	-1.7	-1.7
Minority interests	-	-	-	-	-
<b>Net profit</b>	<b>6.5</b>	<b>6.2</b>	<b>6.8</b>	<b>8.5</b>	<b>8.7</b>

## Cash Flow

FYE 31 Dec (\$m)	2019A	2020A	2021A	2022E	2023E
Pretax profit	8.0	7.1	8.3	10.3	10.4
Depreciation & amortisation	2.0	2.1	2.2	2.3	3.7
Associates & JV	-	-	-0.0	-0.2	-0.2
Net finance expense	0.1	0.1	0.1	0.1	0.1
Non-fund items	-0.0	-0.1	0.5	0.0	0.0
Working capital changes	0.9	-3.8	-3.5	5.5	-1.3
Interest paid	-0.2	-0.2	-0.1	-0.1	-0.1
Tax paid	-1.4	-1.1	-1.4	-1.7	-1.8
<b>Operating cash flow</b>	<b>9.5</b>	<b>4.1</b>	<b>6.0</b>	<b>16.1</b>	<b>10.9</b>
Capex	-0.5	-0.4	-0.7	-0.9	-1.7
Net investments	-	-	-14.2	-	-
Fixed assets disposal	-	0.0	-	-	-
Others	0.1	-0.6	-0.1	-0.0	-0.0
<b>Investing cash flow</b>	<b>-0.4</b>	<b>-1.0</b>	<b>-14.9</b>	<b>-0.9</b>	<b>-1.7</b>
Dividend paid	-1.7	-3.0	-1.9	-2.1	-2.6
Borrowings	-3.5	1.2	2.7	-0.1	-0.1
Equity	-	-	-	-	-
<b>Financing cash flow</b>	<b>-5.2</b>	<b>-1.8</b>	<b>0.8</b>	<b>-2.2</b>	<b>-2.7</b>
<b>Net change</b>	<b>3.8</b>	<b>1.4</b>	<b>-8.1</b>	<b>13.1</b>	<b>6.5</b>

## Balance Sheet

FYE 31 Dec (\$m)	2019A	2020A	2021A	2022E	2023E
PPE	5.9	4.8	4.2	3.2	2.8
Intangible assets	7.5	7.9	20.1	19.8	18.2
Associate	-	-	0.3	0.5	0.8
Others	0.1	0.0	0.1	0.1	0.1
<b>Non-current assets</b>	<b>13.5</b>	<b>12.7</b>	<b>24.7</b>	<b>23.6</b>	<b>21.9</b>
Inventories	11.4	16.9	25.1	18.6	19.1
Trade receivables	28.6	23.7	28.5	31.7	34.2
Prepayments	0.4	0.6	0.6	0.6	0.6
Cash	26.2	27.5	19.5	32.6	39.1
<b>Current assets</b>	<b>66.6</b>	<b>68.7</b>	<b>73.7</b>	<b>83.5</b>	<b>93.9</b>
<b>Total assets</b>	<b>80.1</b>	<b>81.5</b>	<b>98.4</b>	<b>107.0</b>	<b>115.8</b>
Other financial liabilities	1.1	1.4	7.3	7.3	7.3
Trade payables	30.6	27.6	33.6	35.7	38.4
Tax provisions	1.5	1.3	1.7	1.7	1.7
<b>Current liabilities</b>	<b>33.1</b>	<b>30.3</b>	<b>42.6</b>	<b>44.7</b>	<b>47.4</b>
Other financial liabilities	2.4	3.6	0.9	0.9	0.9
Deferred tax	0.5	0.4	0.3	0.3	0.3
<b>Non-current liabilities</b>	<b>2.9</b>	<b>4.0</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>
<b>Net assets</b>	<b>44.1</b>	<b>47.2</b>	<b>54.6</b>	<b>61.1</b>	<b>67.2</b>
Share capital	32.6	32.6	35.1	35.1	35.1
Other reserves	-15.0	-15.1	-15.1	-15.1	-15.1
Retained earnings	26.5	29.6	34.6	41.1	47.2
	<b>44.1</b>	<b>47.2</b>	<b>54.6</b>	<b>61.1</b>	<b>67.2</b>
Minority interests	-	-	-	-	-
<b>Total equity</b>	<b>44.1</b>	<b>47.2</b>	<b>54.6</b>	<b>61.1</b>	<b>67.2</b>

## Ratios

FYE 31 Dec	2019A	2020A	2021A	2022E	2023E
<b>Profitability (%)</b>					
Gross margin	35.7	36.1	38.2	37.6	38.0
EBIT margin	6.8	6.0	6.6	7.0	6.6
<b>Liquidity (x)</b>					
Current ratio	2.0	2.3	1.7	1.9	2.0
Net debt / EBITDA	Net Cash				
Interest coverage ratio	n.m.	n.m.	n.m.	n.m.	n.m.
<b>Valuation (x)</b>					
P/E	12.9	13.7	12.3	10.2	10.0
P/B	1.9	1.8	1.6	1.4	1.3
EV/EBITDA	7.4	8.1	7.1	5.9	5.3
<b>Cash Conversion Cycle</b>					
Trade receivable days	89	79	76	78	78
Inventory days	53	62	84	73	73
Trade payable days	146	137	143	140	140

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