

Hyphens Pharma International Ltd

17 May 2022

BUY (Maintained)

BBG	HYP SP
Market cap	S\$84.9m
Price (17 May 2022)	S\$0.275
52-week range	S\$0.27 – S\$0.365
Target Price	S\$0.40
Shares Outstanding	308.8m
Free Float	24%
Major Shareholders	Lim See Wah (38.8%) Tan Kia King (24.7%) Tan Chwee Choon (12.3%)
P/BV (12/21)	1.5x
Net Debt to EBITDA (12/20)	Net cash

Source: Company data, Bloomberg, SAC Capital

Analyst

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Sterling 1Q22 backed by re-opening tailwind

Hyphens turned in +18.5% yoy revenue growth to S\$39.2m, of which Novem, which was acquired at end 2021, contributed S\$3.5m (or 8.9% of total revenue). Hyphens' core revenue rose 7.9% yoy. Demand for specialty drugs (+24.4% yoy) and proprietary products (+12.8% yoy) normalized in 1Q, as elective healthcare treatments resumed following the relaxation of COVID controls in Asia. Vietnam, in particular, recorded strong sales in March from hospital tenders.

Gross profit rose 23.9% to S\$15m, due to 1) Novem's stronger margin as it sells mainly through the institutional channels; 2) better product mix with higher-margin specialty drugs gaining revenue share; 3) a weaker Euro (-5% vs S\$), in which most of its purchases are denominated in. As a result, gross margin rose 1.7 ppt to 38.4%. Net profit gained 49.7% yoy to S\$3.2m.

Although Hyphens raised prices for some products in April, we expect an easing in gross margins in the next three quarters due to: 1) supply chain bottleneck. The lead time for procurement has lengthened. Some products are out of stock as suppliers face difficulties in securing raw materials. The longer lead time will raise working capital requirements; 2) higher procurement costs as suppliers pass on higher raw material prices; 3) higher selling prices might dampen consumers' demand, especially for discretionary products.

We maintain our FY22E revenue and net profit forecast, but there is upside risk to our projections if the supply situation in Europe improves. The share trades at FY22E 4.9x EV/EBITDA and 1.5x P/B. We expect the balance sheet to remain in net cash position. Maintain BUY with TP of S\$0.40.

YE 31 Dec (S\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	119.4	123.7	125.9	149.0	160.9
EBIT	8.0	7.0	8.4	10.4	10.5
Net profit	6.5	6.2	6.8	8.5	8.7
EPS (S cents)	2.2	2.1	2.3	2.8	2.8
DPS (S cents)	1.0	0.6	0.7	0.8	0.8
Net cash / (debt)	22.7	22.6	11.3	24.4	30.9
Valuation					
EBIT margin (%)	6.7	5.7	6.6	7.0	6.6
ROIC (%)	31.9	26.5	19.0	28.9	29.9
EV/EBITDA (x)	6.0	6.4	6.7	4.9	3.9
P/E (x)	12.6	13.4	12.1	10.0	9.8
Dividend yield (%)	3.6	2.3	2.4	2.9	2.9

Income Statement

FYE 31 Dec (\$m)	FY20A	FY21A	FY22E	FY23E
Revenue	121.0	125.9	149.0	160.9
Cost of sales	(75.3)	(75.6)	(92.9)	(99.7)
Gross profit	45.7	50.3	56.0	61.1
Other income	0.2	0.5	0.3	0.3
Operating expenses	(38.7)	(40.7)	(43.9)	(47.4)
EBITDA	7.3	10.1	12.4	14.1
Depreciation	(2.1)	(2.2)	(2.3)	(3.8)
Associates & JV	-	-	0.2	0.2
Government grant	2.0	0.4	-	-
EBIT	7.2	8.4	10.4	10.5
Finance costs	(0.1)	(0.1)	(0.1)	(0.1)
Pretax profit	7.1	8.3	10.3	10.4
Tax expense	(0.9)	(1.4)	(1.7)	(1.7)
Minority interests	-	-	-	-
Net profit	6.2	6.8	8.5	8.7

Balance Sheet

FYE 31 Dec (\$m)	FY20A	FY21A	FY22E	FY23E
Assets				
PPE	4.8	4.2	3.2	2.8
Intangible assets	7.9	20.2	19.8	18.2
Associates	-	0.3	0.5	0.8
Deferred tax assets		0.1	0.1	0.1
Non-current assets	12.7	24.7	23.6	21.9
Inventories	16.9	25.1	18.6	20.0
Trade receivables	23.7	28.5	31.7	34.2
Prepayments & deposits	0.6	0.6	0.6	0.6
Cash	27.5	19.5	32.6	39.1
Current assets	68.7	73.7	83.5	93.9
Total assets	81.5	98.4	107.0	115.8
Liabilities				
Other financial liabilities	1.4	7.3	7.3	7.3
Trade payables	27.6	33.6	35.7	38.4
Tax provisions	1.3	1.7	1.7	1.7
Current liabilities	30.3	42.6	44.7	47.4
Other financial liabilities	3.6	0.9	0.9	0.9
Deferred tax	0.4	0.3	0.3	0.3
Non-current liabilities	4.0	1.2	1.2	1.2
Net assets	47.2	54.6	61.1	67.2
Equity				
Share capital	32.6	35.1	35.1	35.1
Other reserves	(15.1)	(15.1)	(15.1)	(15.1)
Retained earnings	29.6	34.6	41.1	47.2
	47.2	54.6	61.1	67.2
Minority interests	-	-	-	-
Total equity	47.2	54.6	61.1	67.2

Cash Flow

FYE 31 Dec (\$m)	FY20A	FY21A	FY22E	FY23E
Pretax profit	7.1	8.3	10.3	10.4
Depreciation & amortisation	2.1	2.2	2.3	3.7
Associates & JV	-	-	(0.2)	(0.2)
Net finance expense	(0.1)	0.0	0.1	0.1
Non-fund items	(0.1)	0.5	-	-
Working capital changes	(3.8)	(3.5)	5.5	(1.3)
Interest paid	0.1	(0.0)	(0.1)	(0.1)
Tax paid	(1.1)	(1.4)	(1.7)	(1.8)
Operating cash flow	4.2	6.0	16.1	10.9
Capex	(0.4)	(0.7)	(0.9)	(1.7)
Net investments	-	(14.2)	-	-
Fixed assets disposal	-	-	-	-
Others	(0.8)	(0.1)	-	-
Investing cash flow	(1.2)	(15.0)	(0.9)	(1.7)
Free cash flow	3.0	(9.0)	15.2	9.2
Dividend paid	(3.0)	(1.9)	(2.1)	(2.6)
Borrowings	1.4	2.8	(0.1)	(0.1)
Equity	-	-	-	-
Financing cash flow	(1.6)	(1.0)	(2.2)	(2.7)
Net change	1.4	(8.1)	13.1	6.5

Ratios

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E
Profitability (%)				
Gross margin	36.1	38.2	37.6	38.0
EBIT margin	6.0	6.6	7.0	6.6
Liquidity (x)				
Current ratio	2.3	1.7	1.9	2.0
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	13.4	12.1	10.0	9.8
P/B	1.7	1.5	1.4	1.3
EV/EBITDA	6.4	6.7	4.9	3.9
Cash Conversion Cycle				
Trade receivable days	87	82	78	78
Inventory days	79	76	73	73
Trade payable days	156	140	140	140

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