

## Singapore

**ADD** (no change)

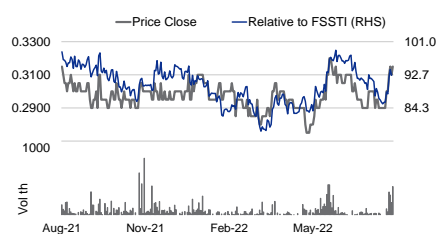
Consensus ratings\*: Buy 3 Hold 0 Sell 0

Current price:	S\$0.315
Target price:	S\$0.39
Previous target:	S\$0.36
Up/downside:	23.8%
CGS-CIMB / Consensus:	-9.3%
Reuters:	HYPH.SI
Bloomberg:	HYP SP
Market cap:	US\$70.47m
	S\$97.26m
Average daily turnover:	US\$0.02m
	S\$0.02m
Current shares o/s:	308.8m
Free float:	24.1%

\*Source: Bloomberg

### Key changes in this note

- Increase FY22F EPS by 36.1%.
- Increase FY23F EPS by 31.8%.
- Increase FY24F EPS by 27.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.6	14.5	0
Relative (%)	3.6	12.9	-4.3

Major shareholders	% held
INOMED HOLDINGS PTE LTD	38.8
Tan Kia King	24.7
Tan Chwee Choon	12.3

### Analyst(s)



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# Hyphens Pharma International

## Positioning for next phase of growth

- 1H22 net profit of S\$6.2m (+45% yoy) beat expectations due to reopening of operating markets and higher-than-expected contribution from Novem.
- This is Novem's first half-year contribution to HYP since it was acquired on 3 Dec 21. Novem contributed S\$9.2m to 1H22 revenue.
- We up our FY22-24F EPS by 27.2-36.1%. Reiterate Add with a higher DCF-based TP of S\$0.39 (WACC: 10.7%).

### All segments reported growth; Novem's first half-year contribution

1H22 revenue of S\$80.7m (+26.5% yoy/+30.0% hoh) was ahead at 55.6% of our FY22F estimate. All three segments observed yoy revenue growth, with specialty pharma principals and proprietary brands growing significantly at +44.7% yoy and +15.9% yoy to S\$48.2m and S\$10.8m, respectively. Specialty pharma's growth benefited from the consolidation of contribution from Novem's acquisition in Dec 21, as well as robust organic growth (+12.0% yoy) with the reopening of operating markets like Vietnam and Singapore. Meanwhile, proprietary brands' growth was propelled predominantly by Ceradan and Ocean Health. Novem contributed S\$9.2m to total revenue in 1H22, constituting c.80% of Novem's FY21 revenues. Better operating leverage also led to higher net profit of S\$6.2m (+44.6% yoy/+146.6% hoh), exceeding expectations at 76.8% of our FY22F estimate.

### Making headway to grow proprietary brands

The launch of the group's Omega-3 in Vietnam and D-Vita in Malaysia laid the groundwork for growth of brands such as Ocean Health and Ceradan regionally, although brand-building could take some time. More product launches are expected for the rest of FY22F in regional markets, with crossing the hurdle of product registrations an important milestone that indicates the start of sales generation in new markets.

### Impact of distributorship discontinuation could be contained

HYP announced that its distributorship with principal Biosensors International Technologies Ptd Ltd (not listed) is expected to lapse by 31 Dec 22. The Biosensors portfolio has decreased in revenue contribution over time from 17% of FY17 revenue to 6% (or S\$4.8m) of 1H22 revenue (Fig 2). According to management, the cardiology specialisation has been a laggard and HYP intends to exit the specialisation with this lapse. We also understand from management that no other major distributorship contracts are due for expiry in the near term.

### Reiterate Add with a higher DCF-based TP of S\$0.39

We think HYP can sustain its revenue growth with an expanded portfolio, by tapping on levers such as introducing existing products into new markets, as well as potential product/business acquisitions. We thus lift our FY22F/23F/24F net profit forecasts by 36.1%/31.8%/27.2%. We increase our WACC to 10.7% (from 9.7%) on a higher cost of equity assumption of 12.0% (from 11.0%) previously. Rerating catalyst: earnings-accretive piece-meal acquisitions. Downside risk: higher-than-expected costs impacting margins.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (S\$m)	121.0	125.9	158.2	162.9	166.8
Operating EBITDA (S\$m)	7.04	8.26	14.00	14.49	14.96
Net Profit (S\$m)	6.16	6.85	11.06	11.41	11.86
Core EPS (S\$)	0.021	0.023	0.036	0.037	0.038
Core EPS Growth	(5.7%)	11.1%	57.2%	3.2%	3.9%
FD Core P/E (x)	15.35	13.82	8.67	8.52	8.20
DPS (S\$)	0.006	0.007	0.011	0.011	0.012
Dividend Yield	1.97%	2.13%	3.40%	3.52%	3.65%
EV/EBITDA (x)	9.54	9.06	5.24	4.66	3.94
P/FCFE (x)	18.38	NA	16.54	11.28	8.36
Net Gearing	(58.3%)	(35.6%)	(37.2%)	(41.0%)	(47.5%)
P/BV (x)	2.01	1.73	1.53	1.36	1.21
ROE	13.5%	13.4%	18.7%	16.9%	15.6%
% Change In Core EPS Estimates			36.1%	31.8%	27.2%
CGS-CIMB/Consensus EPS (x)			1.28	1.19	1.28

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



## Novem Purchase Price Allocation (PPA) exercise ►

The completion of the PPA in relation to Novem's acquisition indicated a determination of c.S\$2.7m in intangible assets that would be amortised over 5 years. The amount of c.S\$0.5m is drastically lower than the S\$1.3m we had previously forecasted, on the assumption of S\$12.6m in goodwill to be amortised over 10 years. However, we understand that the goodwill of c.S\$8.0m recognised will be subject to impairment testing on an annual basis instead. These are one-off in nature. Together with the healthy contribution from Novem, we do not expect impairments in FY22F.

**Figure 2: Revenue contribution in relation to Biosensors distributorship**

	FY17	...	FY21	1H22*
% of revenue	12%	...	3%	6%
Revenue (S\$m)	13.58	...	3.78	4.84

\*Likely due to forward sales into the market

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 3: EPS changes**

FYE Dec 31 (S\$ m)	New			Old			% change		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Revenue	158.2	162.9	166.8	145.0	151.4	158.0	9.0%	7.6%	5.6%
<b>Gross profit</b>	<b>60.5</b>	<b>62.5</b>	<b>64.2</b>	<b>54.6</b>	<b>57.2</b>	<b>59.9</b>	<b>10.8%</b>	<b>9.3%</b>	<b>7.0%</b>
Gross profit margin (%)	38.3%	38.4%	38.5%	37.7%	37.8%	37.9%	1.6%	1.6%	1.4%
EBIT	13.9	14.4	14.9	9.9	10.6	11.3	40.8%	36.3%	31.8%
<b>Reported PATMI</b>	<b>11.1</b>	<b>11.4</b>	<b>11.9</b>	<b>8.1</b>	<b>8.7</b>	<b>9.3</b>	<b>36.1%</b>	<b>31.8%</b>	<b>27.2%</b>
Core PATMI	11.1	11.4	11.9	8.1	8.7	9.3	36.1%	31.8%	27.2%
NPM (%)	7.0%	7.0%	7.1%	5.6%	5.7%	5.9%	24.8%	22.5%	20.5%
EPS (Scts)	3.6	3.7	3.8	2.6	2.8	3.0	36.1%	31.8%	27.2%

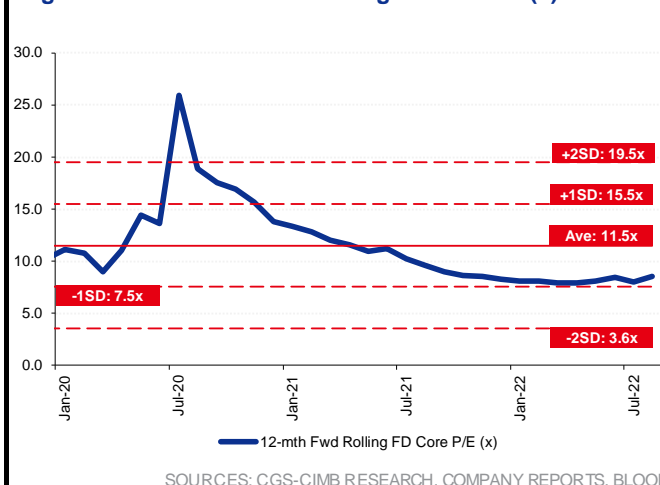
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 3: Peers comparison (as of 17 Aug 22)**

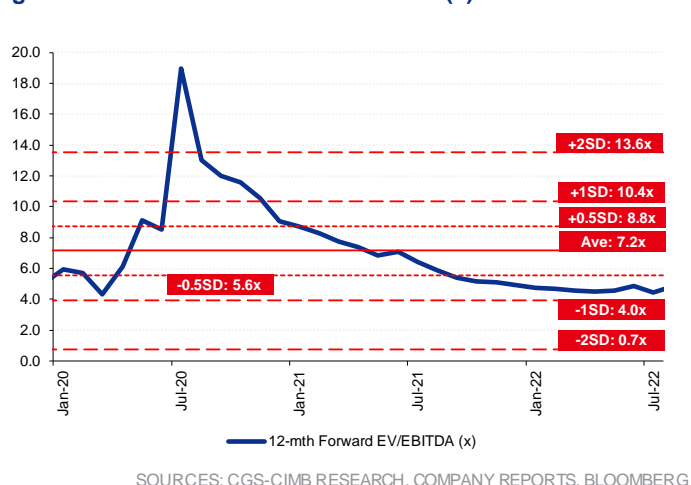
Company	Bloomberg Ticker	Recom.	Price (tcl curr)	Target Price (tcl curr)	Market Cap (US\$ m)	EV/EBITDA (x) CY22F	EV/EBITDA (x) CY23F	3-year EPS CAGR (%)	P/E (x) CY22F	P/E (x) CY23F	Recurring ROE (%) CY22F	Recurring ROE (%) CY23F	Dividend Yield (%) CY22F	Dividend Yield (%) CY23F
Hyphens Pharma International	HYP SP	Add	0.315	0.39	70	5.2	4.7	17.9%	8.8	8.5	18.9%	16.9%	3.4%	3.5%
Mega Lifesciences	MEGA TB	Add	49.00	59.00	1,204	13.4	12.8	7.5%	19.2	18.3	27.1%	25.1%	3.1%	3.3%
Pharmaniaga Bhd	PHRM MK	Add	0.65	0.73	189	10.4	9.8	-31.4%	13.8	13.2	13.7%	13.4%	5.1%	5.3%
Blackmores	BKL AU	Hold	81.39	70.50	1,097	15.4	12.4	29.1%	47.6	34.3	8.6%	11.3%	1.3%	1.8%
Duopharma Biotech Bhd	DBB MK	Add	1.43	1.70	305	9.4	8.9	10.0%	13.3	15.1	15.6%	12.1%	2.2%	2.0%
<b>Simple average</b>						<b>9.8</b>	<b>8.8</b>	<b>2.8%</b>	<b>25.7</b>	<b>21.3</b>	<b>15.1%</b>	<b>15.2%</b>	<b>2.7%</b>	<b>3.0%</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 4: HYP 12-mth Fwd Rolling FD Core P/E (x)**



**Figure 5: HYP 12-mth Fwd FD EV/EBITDA (x)**





## ESG in a nutshell

Refinitiv and MSCI do not report HYP's ESG. Nevertheless, HYP has been actively pursuing E, S, and G pillars by sourcing for sustainable products, and taking on initiatives with social causes to reach out to the needy, as well as abiding by its corporate governance policies. Since its listing in 2018, HYP has not been involved in any controversy.

### Keep your eye on

HYP has not faced any controversy since its listing in 2018. HYP operates within the pharmaceutical and health supplements industry that is regulated by the Ministry of Health (MOH) and Health Sciences Authority (HSA) of Singapore, and is subject to the relevant standards applicable to each of its products, or risk product recalls that could adversely impact its business.

In FY21, HYP launched a refill pack for its Ocean Health Omega-3 Fish Oil 1000mg product. Should the refill pack be accepted favourably by consumers, HYP will consider the refill pack's use for other supplements, as indicated in its FY21 annual report.

### Implications

As a pharmaceutical distributor and manufacturer, customer reputation is especially pertinent to HYP. With no instances of adverse events such as product recalls, HYP upholds standards testament of product quality and we believe that is positive for HYP's brand equity. However, we have not ascribed a value to the brand premium as its presence remains limited within the local market.

### ESG highlights

On its governance pillar, HYP has a zero-tolerance policy towards corruption and put in place policies governing workplace ethics and business conduct. Consequently, there were no reported cases in relation to breaches of code of corporate governance, corruption, and bribery in FY21.

### Implications

We think HYP's solid governance record is backed by a strong management team which has been effectively communicating expectations to its stakeholders. This is a positive for HYP, in our view.

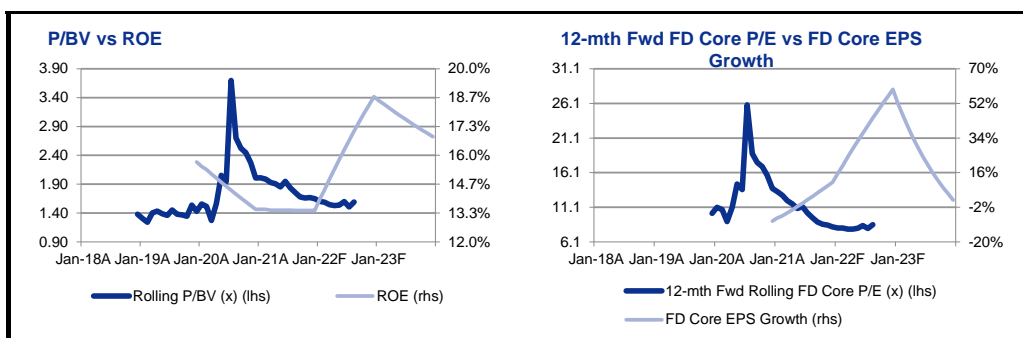
### Trends

On its Environment pillar, in FY21, HYP launched a refill pack for its Ocean Health Omega-3 Fish Oil 1000mg product. This refill pack is the first refill pouch in Singapore's health supplement category, and it uses 90% less plastic compared to the large Ocean Health Omega-3 Fish Oil bottle.

### Implications

Should the refill pack be accepted favourably by consumers, HYP will consider the refill pack's use for other supplements, as indicated in its FY21 annual report. We have not factored this into our valuations.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

**BY THE NUMBERS**

**Profit & Loss**

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>Total Net Revenues</b>	<b>123.1</b>	<b>126.8</b>	<b>158.2</b>	<b>162.9</b>	<b>166.8</b>
<b>Gross Profit</b>	<b>45.8</b>	<b>49.0</b>	<b>60.5</b>	<b>62.5</b>	<b>64.2</b>
<b>Operating EBITDA</b>	<b>7.0</b>	<b>8.3</b>	<b>14.0</b>	<b>14.5</b>	<b>15.0</b>
Depreciation And Amortisation	0.0	0.0	(0.5)	(0.5)	(0.5)
<b>Operating EBIT</b>	<b>7.0</b>	<b>8.3</b>	<b>13.5</b>	<b>13.9</b>	<b>14.4</b>
Financial Income/(Expense)	0.1	(0.0)	(0.1)	(0.1)	(0.0)
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.5	0.5	0.5
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
<b>Profit Before Tax (pre-EI)</b>	<b>7.1</b>	<b>8.3</b>	<b>13.8</b>	<b>14.3</b>	<b>14.8</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>7.1</b>	<b>8.3</b>	<b>13.8</b>	<b>14.3</b>	<b>14.8</b>
Taxation	(0.9)	(1.4)	(2.8)	(2.9)	(3.0)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>6.2</b>	<b>6.8</b>	<b>11.1</b>	<b>11.4</b>	<b>11.9</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>6.2</b>	<b>6.8</b>	<b>11.1</b>	<b>11.4</b>	<b>11.9</b>
Recurring Net Profit	6.2	6.8	11.1	11.4	11.9
<b>Fully Diluted Recurring Net Profit</b>	<b>6.2</b>	<b>6.8</b>	<b>11.1</b>	<b>11.4</b>	<b>11.9</b>

**Cash Flow**

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	7.04	8.26	14.00	14.49	14.96
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3.81)	(3.46)	(5.28)	(1.87)	0.64
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense			(0.55)	(0.55)	(0.55)
Other Operating Cashflow	1.96	2.66	1.59	1.62	1.66
Net Interest (Paid)/Received	0.07	(0.02)	(0.08)	(0.13)	(0.05)
Tax Paid	(1.06)	(1.42)	(1.71)	(2.77)	(2.85)
<b>Cashflow From Operations</b>	<b>4.20</b>	<b>6.02</b>	<b>7.97</b>	<b>10.79</b>	<b>13.81</b>
Capex	(0.36)	(0.56)	(0.35)	(0.35)	(0.35)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	0.00	(14.16)	0.00	0.00	0.00
Other Investing Cashflow	(0.83)	(0.27)	0.00	0.00	0.00
<b>Cash Flow From Investing</b>	<b>(1.19)</b>	<b>(14.99)</b>	<b>(0.35)</b>	<b>(0.35)</b>	<b>(0.35)</b>
Debt Raised/(repaid)	2.14	3.68	(1.82)	(1.82)	(1.82)
Proceeds From Issue Of Shares	0.00	0.00	0.00	0.00	0.00
Shares Repurchased					
Dividends Paid	(3.00)	(1.86)	(2.07)	(3.30)	(3.43)
Preferred Dividends					
Other Financing Cashflow	(0.78)	(0.91)	0.00	0.00	0.00
<b>Cash Flow From Financing</b>	<b>(1.65)</b>	<b>0.91</b>	<b>(3.89)</b>	<b>(5.13)</b>	<b>(5.25)</b>
Total Cash Generated	1.36	(8.07)	3.73	5.32	8.21
<b>Free Cashflow To Equity</b>	<b>5.15</b>	<b>(5.30)</b>	<b>5.80</b>	<b>8.62</b>	<b>11.63</b>
<b>Free Cashflow To Firm</b>	<b>3.12</b>	<b>(8.88)</b>	<b>7.78</b>	<b>10.65</b>	<b>13.58</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(S\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	27.53	19.46	23.65	29.43	38.10
Total Debtors	29.42	28.54	36.83	39.03	38.66
Inventories	16.89	25.08	28.61	29.41	30.09
Total Other Current Assets	0.56	0.64	0.64	0.64	0.64
<b>Total Current Assets</b>	<b>74.40</b>	<b>73.72</b>	<b>89.74</b>	<b>98.51</b>	<b>107.48</b>
Fixed Assets	4.81	4.17	3.48	2.76	2.00
Total Investments	0.00	0.31	0.31	0.31	0.31
Intangible Assets	7.89	20.15	19.60	19.05	18.51
Total Other Non-Current Assets	0.05	0.07	0.07	0.07	0.07
<b>Total Non-current Assets</b>	<b>12.74</b>	<b>24.69</b>	<b>23.46</b>	<b>22.18</b>	<b>20.88</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	34.66	40.85	45.58	44.88	44.00
Other Current Liabilities	1.35	1.71	2.77	2.85	2.96
<b>Total Current Liabilities</b>	<b>36.00</b>	<b>42.56</b>	<b>48.35</b>	<b>47.73</b>	<b>46.96</b>
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3.56	0.88	0.88	0.88	0.88
<b>Total Non-current Liabilities</b>	<b>3.56</b>	<b>0.88</b>	<b>0.88</b>	<b>0.88</b>	<b>0.88</b>
Total Provisions	0.41	0.34	0.34	0.34	0.34
<b>Total Liabilities</b>	<b>39.97</b>	<b>43.78</b>	<b>49.57</b>	<b>48.95</b>	<b>48.18</b>
Shareholders' Equity	47.18	54.63	63.63	71.74	80.17
Minority Interests					
<b>Total Equity</b>	<b>47.18</b>	<b>54.63</b>	<b>63.63</b>	<b>71.74</b>	<b>80.17</b>

### Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	1.3%	4.1%	25.6%	3.0%	2.4%
Operating EBITDA Growth	(11.7%)	17.4%	69.5%	3.5%	3.3%
Operating EBITDA Margin	5.82%	6.56%	8.85%	8.89%	8.97%
Net Cash Per Share (S\$)	0.09	0.06	0.08	0.10	0.12
BVPS (S\$)	0.16	0.18	0.21	0.23	0.26
Gross Interest Cover	64.0	86.9	84.8	68.5	118.5
Effective Tax Rate	13.3%	17.1%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	48.7%	27.2%	18.7%	28.9%	28.9%
Accounts Receivables Days	87.85	84.03	75.44	85.00	85.23
Inventory Days	67.0	98.4	100.4	105.5	106.1
Accounts Payables Days	151.1	156.7	137.8	148.0	148.7
ROIC (%)	29.3%	27.6%	29.8%	27.3%	26.7%
ROCE (%)	15.7%	16.3%	22.7%	20.6%	19.0%
Return On Average Assets	7.3%	7.4%	10.5%	9.8%	9.6%

### Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Specialty pharma principals gross margin	N/A	-	0.5	0.5	0.5
Proprietary brands gross margin	N/A	-	0.6	0.6	0.6
Medical hypermart and digital gross margin	N/A	-	0.2	0.2	0.2

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched ( 2 year data )

Hyphens Pharma International (HYPSP)



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