

Hyphens Pharma International Ltd

Franchise expands with acquisitions



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SINGAPORE | HEALTHCARE | 1H22 RESULTS

- 1H22 revenue and PATMI were 54%/67% of our FY22e forecast. Earnings were above expectations due to a then higher-than-expected earnings contribution from newly acquired Novem Ltd and associates.
- Underlying organic growth was an 11% YoY rise in PATMI to S\$4.8mn. Growth was broad-based across specialty pharma and proprietary brands.
- We maintain our FY22e earnings. We expect some upfront staff and technology costs in 2H22 with the establishment of DocMed to develop a healthcare platform for doctors, drug companies and other medical vendors. Our BUY recommendation and DCF target price of S\$0.43 is maintained. With Novem, Hyphens can profitably develop the public sector channel for its specialty products to complement its strength in private sector clinics.

Results at a glance

SGD '000	1H22	1H21	YoY	Comments
Revenue	80,704	63,807	26.5%	Excl. Novem, revenue up 12% YoY to S\$71.5mn.
- Specialty pharma	48,226	33,321	44.7%	Excl. Novem, revenue up 18% YoY to ~S\$39mn.
- Proprietary brands	10,828	9,339	15.9%	Excl. Novem, revenue up 13% YoY to ~S\$10.5mn.
- Medical hypermart	21,650	21,147	2.4%	
Gross profit	31,077	24,752	25.6%	
Distribution costs	(16,874)	(14,271)	18.2%	
Administrative expenses	(6,197)	(5,234)	18.4%	
PATMI	6,162	4,315	42.8%	Excl. Novem, PAT up 11% YoY to S\$4.8mn.

Source: Company, PSR

The Positive

+ Revenue growth across key segments. Specialty pharma revenue surged 45% YoY in 1H22 to S\$48mn. Excluding Novem, organic growth was 18% YoY to S\$39mn. The return of more elective surgeries and other visits postponed during the pandemic were some drivers of demand. Proprietary brands growth of 16% YoY was led by key brands in dermatological (Ceradan and TDF) and health supplements (Ocean Health).

The Negative

- Loss of Biosensor. Hyphens announced it has amicably ceased the distribution of Biosensor by the end of 2022. Biosensor contributed 6% of revenue in 1H22 catering to the Vietnam market. All related costs and inventories will be wound down as the distribution agreement ends.

Outlook

Hyphens continue to take steps in expanding its proprietary brands in the region. New Ocean Health products (Omega 3, Vitamin D3) are to be launched in Malaysia and Vietnam. An exclusive license and supply agreement with Lederlon for the treatment of osteoarthritis has been inked.

Maintain BUY with unchanged TP of S\$0.43

Hyphen enjoys a net cash balance sheet of S\$25mn and is trading at PE ratio of 10x. Hyphens continue to build up a long-term franchise of its three key segments – (i) Specialty pharma's scale and distribution network has taken a huge leap with Novem; (ii) Proprietary brands are expanding its product range and presence regionally; (iii) Medical hypermart is developing a digital platform for doctors and medical vendors.

28 August 2022

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.310
FORECAST DIV	SGD 0.007
TARGET PRICE	SGD 0.430
TOTAL RETURN	41.0%

COMPANY DATA

BLOOMBERG CODE	HYP SP
O/S SHARES (MN)	309
MARKET CAP (USD mn / SGD mn)	68.8 / 95.7
52 - WK HI/LO (SGD)	0.325 / 0.270
3M Average Daily T/O (mn)	0.08

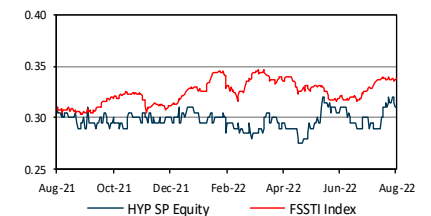
MAJOR SHAREHOLDERS

Inomed Holding Pte Ltd	38.8%
Tan Kia King	24.7%
Tan Chwee Choon	12.3%

PRICE PERFORMANCE

	1MTH	3MTH	YTD
COMPANY	3.3	6.9	5.8
STI RETURN	3.6	3.6	7.6

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, (\$'000)	FY20	FY21	FY22e	FY23e
Revenue	123,698	125,883	148,354	158,570
EBITDA	9,299	10,555	14,015	14,983
NPAT	6,163	6,846	9,231	10,068
EPS (\$\$ Cents)	2.1	2.2	2.2	3.0
P/E (x)	15.1	14.0	10.4	9.5
P/B (x)	2.0	1.8	1.5	1.4
Div Yield	2.0%	2.2%	2.3%	2.6%
ROE	13.5%	13.4%	15.9%	15.3%

Source: Company Data

VALUATION METHOD

DCF @ WACC = 9.0%, g = 2.0%

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Income Statement

Y/E Dec, S\$'000	FY19	FY20	FY21	FY22e	FY23e
Revenue	119,442	123,698	125,883	148,354	158,570
Cost of sales	(76,773)	(79,939)	(77,800)	(89,309)	(95,142)
Gross profit	42,669	43,759	48,083	59,045	63,428
Marketing and distribution costs	(24,837)	(26,523)	(28,394)	(33,380)	(36,154)
Administrative expenses	(9,772)	(10,138)	(11,639)	(14,178)	(14,750)
Finance costs	(138)	(110)	(95)	(171)	(181)
Other income and gains	546	2,248	964	80	87
Other losses	(481)	(2,128)	(680)	-	-
EBITDA	10.1	9.3	10.6	14.0	15.0
Profit before tax	7,987	7,108	8,239	11,396	12,430
Income tax expense	(1,457)	(945)	(1,410)	(2,165)	(2,362)
Profit after tax	6,530	6,163	6,829	9,231	10,068

Per share data

Y/E Dec, SG cents	FY19	FY20	FY21	FY22e	FY23e
EPS	2.2	2.1	2.2	3.0	3.3
DPS	1.0	0.6	0.7	0.7	0.8
BVPS	14.7	15.7	17.7	20.0	22.6

Cash Flows

Y/E Dec, S\$'000	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit before tax	7,987	7,108	8,256	11,396	12,430
Adjustments	1,937	1,893	2,661	2,619	2,553
Working capital changes	935	(3,810)	(3,464)	(3,881)	(10,319)
Operating cash flow	10,859	5,191	7,453	10,133	4,664
Taxes paid, others	(1,406)	(1,061)	(1,415)	(2,165)	(2,362)
Net operating cash flow	9,453	4,130	6,038	7,968	2,302
CFI					
CAPEX, net	(606)	(1,193)	(835)	(1,300)	(1,500)
Acquisition of subsidiaries	-	-	(14,156)	-	-
Others	157	180	74	-	-
Net investing cash flow	(449)	(1,013)	(14,917)	(1,300)	(1,500)
CFE					
Proceeds from issuance of shares	-	-	-	-	-
IPO expenses	-	-	-	-	-
Dividends	(1,650)	(3,004)	(1,863)	(2,069)	(2,161)
Loans, net of repayments	(3,542)	1,248	2,677	(171)	(181)
Net financing cash flow	(5,192)	(1,756)	814	(2,240)	(2,342)
Net change in cash	3,812	1,361	(8,065)	4,428	(1,540)
CCE, end	26,165	27,526	19,461	23,889	22,349

Source: Company, PSR Estimates

Balance Sheet

Y/E Dec, S\$'000	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Plant and equipment	2,888	4,807	4,171	3,830	3,731
Right-of-use asset	3,060	-	-	-	-
Intangible assets	7,462	7,890	20,150	19,344	18,570
Others	105	47	372	372	372
Total non-current assets	13,515	12,744	24,693	23,546	22,673
Inventories	11,431	16,888	25,076	27,446	26,487
Trade and other receivables	28,654	23,736	28,543	30,235	38,412
Cash and cash equivalents	26,165	27,526	19,461	23,889	22,349
Others	366	564	639	639	639
Total current assets	66,616	68,714	73,719	82,209	87,887
Total assets	80,131	81,458	98,412	105,754	110,560
LIABILITIES					
Others	2,911	3,967	1,222	1,222	1,222
Total non-current liabilities	2,911	3,967	1,222	1,222	1,222
Trade and other payables	30,628	27,555	33,563	33,744	30,642
Others	2,516	2,761	8,994	8,994	8,994
Total current liabilities	33,144	30,316	42,557	42,738	39,636
Total liabilities	36,055	34,283	43,779	43,960	40,858
EQUITY					
Share capital	32,641	32,641	35,083	35,083	35,083
Retained earnings	26,467	29,626	34,609	41,771	49,677
Others	(15,032)	(15,092)	(15,059)	(15,059)	(15,059)
Total equity	44,076	47,175	54,633	61,795	69,701

Valuation Ratios

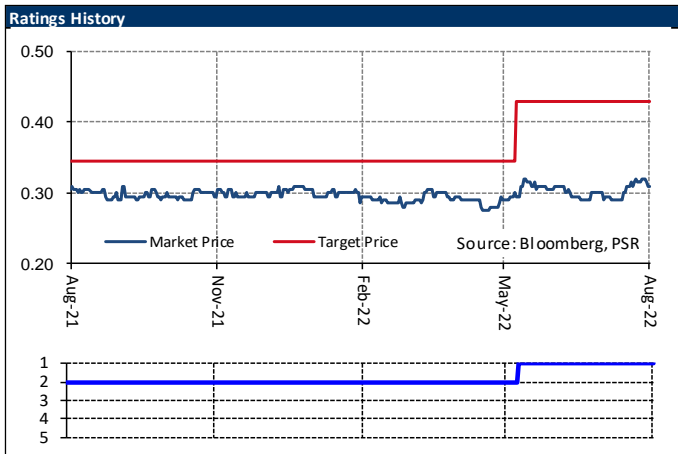
Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	14.3	15.1	14.0	10.4	9.5
P/B (x)	2.1	2.0	1.8	1.5	1.4
EV/EBITDA (x)	6.6	7.1	7.2	5.1	4.9
Dividend Yield	3.2%	2.0%	2.2%	2.3%	2.6%

Growth & Margins

Growth					
Revenue	-1.2%	3.6%	1.8%	17.9%	6.9%
Gross profit	4.6%	2.6%	9.9%	22.8%	7.4%
EBITDA	27.3%	-8.2%	13.5%	32.8%	6.9%
Net Profit	20.7%	-5.6%	10.8%	35.2%	9.1%
Margins					
Gross margin	35.7%	35.4%	38.2%	39.8%	40.0%
EBITDA margin	8.5%	7.5%	8.4%	9.4%	9.4%
Net Profit Margin	5.5%	5.0%	5.4%	6.2%	6.3%

Key Ratios

	FY19	FY20	FY21	FY22e	FY23e
ROE	15.7%	13.5%	13.4%	15.9%	15.3%
ROA	8.4%	7.6%	7.6%	9.0%	9.3%
Net gearing (x)	Net cash	Net cash	Net cash	Net cash	Net cash



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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