

# Hyphens Pharma International Ltd

18 August 2022

## BUY (Maintained)

<b>BBG</b>	HYP SP
<b>Market cap</b>	S\$98.8m
<b>Price (6 June 2022)</b>	S\$0.32
<b>52-week range</b>	S\$0.27 – S\$0.325
<b>Target Price</b>	S\$0.46
<b>Shares Outstanding</b>	308.8m
<b>Free Float</b>	24%
<b>Major Shareholders</b>	Lim See Wah (38.8%) Tan Kia King (24.7%) Tan Chwee Choon (12.3%)
<b>P/BV (06/22)</b>	1.6x
<b>Net Debt to EBITDA (06/22)</b>	Net cash

Source: Company data, Bloomberg, SAC Capital

## Growth from organic and acquisition

1H22 revenue (+24.5% to S\$80.7m) and net profit (+42.5% to S\$6.2m) benefitted from 1) inclusion of Novem from end 2021 which contributed to 11.4% of revenue and 22.6% of NPAT; and 2) lifting of border and movement restrictions, driving resumption of elective medical treatments that were postponed, leading to higher demand for pharmaceutical drug. Conversely, the demand for some COVID-related drugs have dropped off as the new virus variant has more muted symptoms. Excluding Novem, 1H revenue grew 9.3% and NPAT up 11.6%.

EBITDA margin of 10.7% (1H21: 9.2%) was lifted by 1) ASP increase (we estimate about 3-5%) and 2) Novem, which specializes in specialty drugs to the public sector. Hyphens generated operating cash flow of S\$8.2m, or 2.7ct/share. Net cash as at end June was S\$23.1m, after S\$6m raised from the sale of 10% stake in DocMed. The proceeds is earmarked for software development, strategic acquisition and opex.

We expect healthcare spending to normalize in 2H as pent-up demand wanes. The sale of Biosensors' products in Vietnam will dwindle when the distribution agreement expires at end 2022. This accounted for a mere 3% of sales in FY21. And the ramp up in DocMed's development milestone will incur ~S\$1m opex in FY22E and ~S\$2m in FY23E, we estimate. This is half of our earlier estimates. 2H is also seasonally lower than 1H.

Hyphens entered into a 10-year exclusive licence and supply agreement (with auto-renewal) with Esteve Group for Lederlon, an intra-articular corticosteroid for the treatment of osteo-arthritis. Hyphens will seek registration for this product in Singapore, Malaysia and Philippines, which might take about 2 years. This is the first intra-articular product at Hyphens which is distinct from the oral drugs that it distributes, and we believe this pushes it higher in the value chain.

We are raising our earnings estimates by 7.4% for FY22E and 11.4% in FY23E to reflect the lower expense at DocMed. Our DCF-derived TP remains at S\$0.46 (COE: 15%). Maintain BUY.

## Analyst

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YE 31 Dec (S\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	119.4	123.7	125.9	149.7	161.7
EBIT	8.0	7.0	8.4	11.1	11.6
Net profit	6.5	6.2	6.8	9.1	9.7
EPS (S cents)	2.2	2.1	2.3	3.0	3.1
DPS (S cents)	1.0	0.6	0.7	0.9	0.9
Net cash / (debt)	22.7	22.6	11.3	22.6	28.1
<b>Valuation</b>					
EBIT margin (%)	6.7	5.7	6.6	7.4	7.2
ROIC (%)	31.9	26.5	19.0	23.0	23.7
EV/EBITDA (x)	7.4	7.9	8.0	5.8	5.1
P/E (x)	14.7	15.6	14.0	10.8	10.2
Dividend yield (%)	3.1	1.9	2.1	2.8	2.9

## Income Statement

FYE 31 Dec (\$m)	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>121.0</b>	<b>125.9</b>	<b>149.7</b>	<b>161.7</b>
Cost of sales	(75.3)	(75.6)	(89.5)	(95.7)
<b>Gross profit</b>	<b>45.7</b>	<b>50.3</b>	<b>60.2</b>	<b>66.0</b>
Other income	0.2	0.5	-	-
Operating expenses	(38.7)	(40.7)	(47.9)	(52.6)
<b>EBITDA</b>	<b>7.3</b>	<b>10.1</b>	<b>12.3</b>	<b>13.4</b>
Depreciation	(2.1)	(2.2)	(2.0)	(2.1)
Associates & JV	-	-	0.4	0.4
Government grant	2.0	0.4	0.3	-
<b>EBIT</b>	<b>7.2</b>	<b>8.4</b>	<b>11.1</b>	<b>11.6</b>
Finance costs	(0.1)	(0.1)	(0.1)	(0.1)
Pretax profit	7.1	8.3	11.0	11.6
Tax expense	(0.9)	(1.4)	(1.9)	(2.0)
Minority interests	-	-	0.0	0.1-
<b>Net profit</b>	<b>6.2</b>	<b>6.8</b>	<b>9.1</b>	<b>9.7</b>

## Balance Sheet

FYE 31 Dec (\$m)	FY20A	FY21A	FY22E	FY23E
<b>Assets</b>				
PPE	4.8	4.2	3.2	2.1
Intangible assets	7.9	20.2	18.0	18.0
Associates	-	0.3	2.6	3.0
Deferred tax assets	-	0.1	0.1	0.1
<b>Non-current assets</b>	<b>12.7</b>	<b>24.7</b>	<b>23.9</b>	<b>23.2</b>
Inventories	16.9	25.1	22.6	24.1
Trade receivables	23.7	28.5	32.8	35.4
Prepayments / deposits	0.6	0.6	0.6	0.6
Cash	27.5	19.5	28.3	33.8
<b>Current assets</b>	<b>68.7</b>	<b>73.7</b>	<b>84.3</b>	<b>94.0</b>
<b>Total assets</b>	<b>81.5</b>	<b>98.4</b>	<b>108.1</b>	<b>117.2</b>
<b>Liabilities</b>				
Other financial liabilities	1.4	7.3	4.8	4.8
Trade payables	27.6	33.6	33.1	35.4
Tax provisions	1.3	1.7	1.9	2.0
<b>Current liabilities</b>	<b>30.3</b>	<b>42.6</b>	<b>39.8</b>	<b>42.2</b>
Other financial liabilities	3.6	0.9	0.9	0.9
Deferred tax	0.4	0.3	0.3	0.3
<b>Non-current liabilities</b>	<b>4.0</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>
<b>Net assets</b>	<b>47.2</b>	<b>54.6</b>	<b>67.1</b>	<b>73.7</b>
<b>Equity</b>				
Share capital	32.6	35.1	35.1	35.1
Other reserves	(15.1)	(15.1)	(9.9)	(9.9)
Retained earnings	29.6	34.6	40.7	47.5
	<b>47.2</b>	<b>54.6</b>	<b>65.9</b>	<b>72.7</b>
Minority interests	-	-	1.2	1.1
<b>Total equity</b>	<b>47.2</b>	<b>54.6</b>	<b>67.1</b>	<b>73.7</b>

## Cash Flow

FYE 31 Dec (\$m)	FY20A	FY21A	FY22E	FY23E
Pretax profit	7.1	8.3	10.3	10.4
Depreciation	2.1	2.2	2.0	2.1
Associates & JV	-	-	(0.4)	(0.4)
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)	(2.2)	(1.9)
Interest paid	0.1	(0.0)	(0.1)	(0.1)
Associates' dividends			0.1	
Tax paid	(1.1)	(1.4)	(1.7)	(1.9)
<b>Operating cash flow</b>	<b>4.2</b>	<b>6.0</b>	<b>8.7</b>	<b>9.5</b>
Capex	(0.4)	(0.7)	(1.0)	(1.0)
Net investments	-	(14.2)	0.2	-
Fixed assets disposal	-	-	-	-
Others	(0.8)	(0.1)	-	-
<b>Investing cash flow</b>	<b>(1.2)</b>	<b>(15.0)</b>	<b>(0.8)</b>	<b>(1.0)</b>
<b>Free cash flow</b>	<b>3.0</b>	<b>(9.0)</b>	<b>7.9</b>	<b>8.5</b>
Dividend paid	(3.0)	(1.9)	(2.7)	(2.9)
Borrowings	1.4	2.8	(2.5)	-
Equity	-	-	6.1	-
<b>Financing cash flow</b>	<b>(1.6)</b>	<b>(1.0)</b>	<b>0.9</b>	<b>(2.9)</b>
<b>Net change</b>	<b>1.4</b>	<b>(8.1)</b>	<b>8.8</b>	<b>5.5</b>

## Ratios

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E
<b>Profitability (%)</b>				
Gross margin	36.1	38.2	38.9	39.5
EBIT margin	6.0	6.6	7.4	7.2
<b>Liquidity (x)</b>				
Current ratio	2.3	1.7	2.1	2.2
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	Net cash	Net cash	Net cash	Net cash
<b>Valuation (x)</b>				
P/E	15.6	14.0	10.8	10.2
P/B	2.0	1.8	1.5	1.4
EV/EBITDA	7.9	8.0	5.8	5.1
<b>Cash Conversion Cycle</b>				
Trade receivable days	72	82	80	80
Inventory days	82	121	92	92
Trade payable days	134	162	135	135

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