

Singapore

ADD (no change)

Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price: S\$0.275
 Target price: S\$0.34
 Previous target: S\$0.38
 Up/downside: 23.6%
 CGS-CIMB / Consensus: -12.8%

Reuters: HYPH.SI
 Bloomberg: HYP SP
 Market cap: US\$62.67m
 S\$85.03m
 Average daily turnover: US\$0.14m
 S\$0.18m
 Current shares o/s: 308.8m
 Free float: 24.1%

*Source: Bloomberg

Key changes in this note

- Decreased FY23F EPS by 5.9%.
- Decreased FY24F EPS by 5.5%.
- Decreased FY25F EPS by 5.5%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-3.5	-1.8	-12.7
Relative (%)	-1.7	-2.5	-10.7

Major shareholders	% held
INOMED HOLDINGS PTE LTD	47.8
Tan Kia King	28.0

Analyst(s)



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Hyphens Pharma International

A game of catch-up for 2H23F

- 1H23 core net profit of S\$4.0m was below expectations at 40% of our FY23F forecast due to lower sales as a result of supply chain disruptions.
- The situation eased partially in 2Q23 as revenue grew 24.8% qoq to S\$41.5m but supply shortage from principals may dampen further recovery.
- Reiterate Add with TP lowered to S\$0.34; FY23F-25F EPS cut 5.5-5.9% and net cash reduced to factor in surprise 3.6 Sct/per share in special dividend.

Supply chain disruptions ease but near-term challenges remain

HYP's 1H23 revenue of S\$74.7m was the result of supply chain disruptions, particularly in 1Q23, which had dampened sales of its specialty pharma segment in Vietnam. The management shared in its analyst briefing held on 17 Aug 23 that the situation eased partially in 2Q23, pushing HYP's total revenue up 24.8% qoq to S\$41.5m from S\$33.2m in 1Q23. Even though demand for healthcare products remains strong, management is still cautious as limited production capacity by pharmaceutical brand principals have led to a supply shortage of certain products in its portfolio, exacerbating the supply chain constraints. Nevertheless, we believe revenue momentum will improve in 2H23F as 2Q23 revenue was just S\$1.3m shy of its record S\$42.8m in quarterly revenue observed in 3Q22.

Building medical aesthetics to complement dermatology portfolio

Following the addition of Nabota, a botulinum toxin (i.e. botox), Byfavo, a medical sedative, and Plinest, an anti-ageing product, to its portfolio, HYP said it hopes to expand into the medical aesthetics field with the establishment of a dedicated team of experts. We believe this will complement its dermatology portfolio, which includes brands such as tdf, a range of skincare products. Management shared that portfolio growth could come from either onboarding more brand principals or developing proprietary brands of products within the medical aesthetic segment. Nevertheless, we note that this segment is in the nascent stage and is unlikely to have a significant near-term impact on earnings.

Reiterate Add; growth to occur in phases

We retain our Add call as we continue to like HYP for its cash generative business and expanding product portfolio that we believe will result in phased growth upon the successful commercialisation of new products in the market. Our DCF-based TP (WACC: 14.4%) is reduced to S\$0.34 after its special dividend of 3.6 Sct/per share to commemorate its 5-year IPO anniversary went ex on 17 Aug 23 and as we reduce revenue assumptions given ongoing supply chain disruptions. Re-rating catalysts: earlier commercialisation of new products in its portfolio, where product registration and launch-to-market typically take 2-3 years, as well as accretive acquisitions of proprietary brands or businesses. Downside risks include product switching due to persistent lack of inventory in specific portfolios as well as poor performance of the VND against US\$ and euro.

Financial Summary	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (S\$m)	125.9	162.3	158.3	162.2	166.3
Operating EBITDA (S\$m)	8.26	14.01	11.90	13.95	14.43
Net Profit (S\$m)	6.85	11.41	9.22	10.86	11.24
Core EPS (S\$)	0.023	0.037	0.030	0.035	0.036
Core EPS Growth	11.1%	62.1%	(19.2%)	17.8%	3.6%
FD Core P/E (x)	12.07	7.34	9.21	7.82	7.55
DPS (S\$)	0.007	0.011	0.009	0.011	0.011
Dividend Yield	2.44%	4.04%	3.27%	3.82%	3.96%
EV/EBITDA (x)	7.61	3.35	4.51	3.31	2.48
P/FCFE (x)	NA	6.37	11.36	8.71	6.44
Net Gearing	(35.6%)	(51.9%)	(45.3%)	(49.8%)	(57.2%)
P/BV (x)	1.51	1.23	1.33	1.18	1.06
ROE	13.4%	18.5%	13.9%	16.0%	14.8%
% Change In Core EPS Estimates			(5.87%)	(5.47%)	(5.47%)
CGS-CIMB/Consensus EPS (x)			0.96	0.98	0.93

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

A game of catch-up in 2H23F

Figure 1: Results comparison

FYE Dec 31 (\$\$ m)	1H23	1H22	yoy % chg	2H22	hoh % chg	Prev FY23F	Comments
Revenue	74.7	80.7	-7.4%	81.6	-8.5%	162.4	1H23 revenue of S\$74.7m was below at 46.0% of our FY23F estimates due to supply chain disruptions since 1Q23. The situation eased partially in 2Q23, with revenues growing 24.8% qoq from S\$33.2m in 1Q23 to S\$41.5m in 2Q23.
Gross profit	28.0	31.1	-9.8%	31.7	-11.7%	63.8	
GP margin (%)	37.5%	38.5%	-1.0% pts	38.9%	-1.4% pts	39.3%	
Operating costs	(23.7)	(23.1)	2.6%	(24.8)	-4.4%	(51.8)	
EBITDA	5.7	9.2	-38.6%	8.0	-29.3%	15.3	
Net interest income/(costs)	(0.2)	(0.1)	171.9%	(0.2)	-9.9%	(0.3)	
Other gains/(losses)	(0.3)	(0.7)	-50.2%	(0.6)	-42.0%	0.0	
Pretax profit	4.2	7.8	-46.5%	6.5	-35.2%	12.2	
Tax	(0.7)	(1.6)	-58.4%	(1.3)	-48.8%	(2.4)	
Tax rate (%)	15.8%	20.3%	-4.5% pts	20.0%	-4.2% pts	20.0%	
Minority interests	(0.0)	0.1	n.m.	(0.0)	104.8%	-	
Net profit	3.5	6.2	-43.5%	5.2	-31.8%	9.8	1H23 net profit of S\$3.5m included S\$0.4m in forex exchange losses, which were 79.5% higher from S\$0.2m in 1H22.
Core net profit	4.0	6.5	-38.9%	5.8	-31.1%	9.8	1H23 core net profit of S\$4.0m came in at 40.5% of our FY23F estimates, due to poorer operating leverage as a result of disrupted sales.
Reported EPS (Scts)	1.15	2.00	-42.5%	1.68	-31.5%	3.2	

Revenue breakdown	1H23	1H22	yoy % chg	2H22	hoh % chg	Prev FY22F	Comments
Specialty pharmaceuticals	42.0	48.2	-12.9%	47.3	-11.2%	93.5	Segment revenue declined 12.9% yoy to S\$42.0m in 1H23 due to supply chain disruptions affect sales from principals into Vietnam.
Proprietary brands	11.8	10.8	9.1%	12.7	-7.2%	26.0	
Medical Hypermart	20.9	21.7	-3.5%	21.6	-3.1%	42.9	
	74.7	80.7	-7.4%	81.6	-8.5%	162.4	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: EPS changes

FYE Dec 31 (\$\$m)	New			Old			% change		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	158.3	162.2	166.3	162.4	166.4	170.6	-2.5%	-2.5%	-2.5%
Gross profit	61.8	63.4	65.1	63.8	65.5	67.3	-3.1%	-3.1%	-3.2%
GPM (%)	39.0%	39.1%	39.2%	39.3%	39.4%	39.4%	-0.3% pts	-0.3% pts	-0.3% pts
EBIT	11.7	13.8	14.2	12.4	14.5	15.1	-5.8%	-5.4%	-5.4%
Reported PATMI	9.2	10.9	11.2	9.8	11.5	11.9	-5.9%	-5.5%	-5.5%
Core PATMI	9.2	10.9	11.2	9.8	11.5	11.9	-5.9%	-5.5%	-5.5%
NPM (%)	5.8%	6.7%	6.8%	6.0%	6.9%	7.0%	-0.2% pts	-0.2% pts	-0.2% pts
EPS (Scts)	2.99	3.52	3.64	3.17	3.72	3.85	-5.9%	-5.5%	-5.5%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

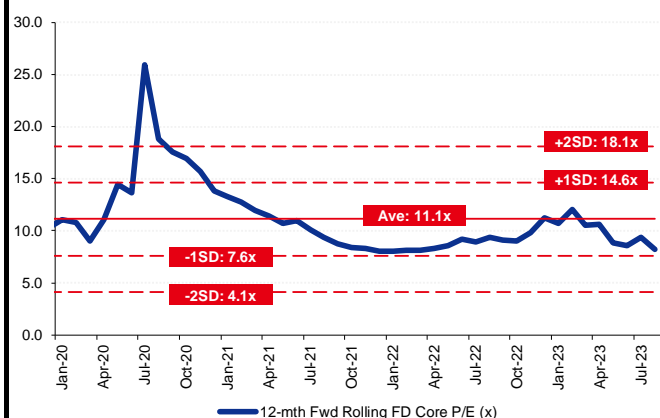
Figure 3: HYP - DCF Valuation

FCF calculation (\$m)	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	Terminal Value
FCF	7.48	9.75	13.18	9.29	14.17	10.29	70.00
PV of the FCFs	7.48	8.52	10.07	6.20	8.27	5.25	35.73
Discount Factor	1.00	0.87	0.76	0.67	0.58	0.51	

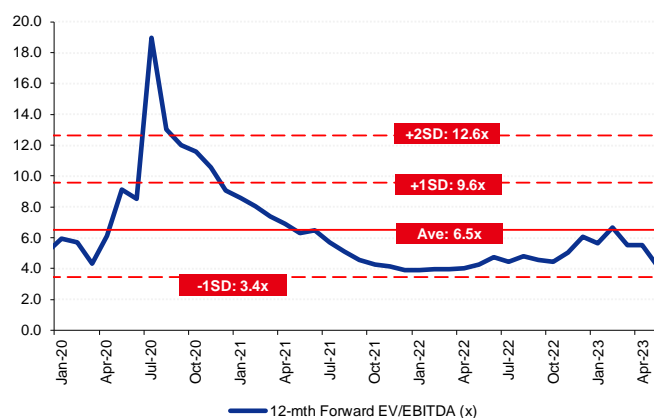
Valuation	
Enterprise value	81.52
Less: net cash/(debt)	23.74
Less: minority interest	-
Add: associates	-
Equity value	105.27
Number of shares	308.78
Equity value per share	0.340

WACC	
Rf	4.0%
Beta	1.30
Cost of equity	14.4%
WACC	14.4%
Terminal growth	1.0%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

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


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

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


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 6: Peer comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	EV/EBITDA (x) CY23F	EV/EBITDA (x) CY24F	3-year EPS CAGR (%)	P/E (x) CY23F	P/E (x) CY24F	Recurring ROE (%) CY23F	Recurring ROE (%) CY24F	Dividend Yield (%) CY23F	Dividend Yield (%) CY24F
Hyphens Pharma International	HYP SP	Add	0.275	0.34	63	3.3	2.2	2.4%	8.7	7.4	13.5%	14.4%	3.5%	4.1%
Mega Lifesciences	MEGA TB	Add	41.75	55.00	1,029	11.2	10.0	4.7%	16.3	15.0	24.1%	23.8%	3.7%	4.0%
Duopharma Biotech Bhd	DBB MK	Hold	1.29	1.59	267	9.7	8.6	-2.9%	14.9	14.6	12.1%	11.3%	2.0%	2.1%
Simple average						10.5	9.3	0.9%	15.6	14.8	18.1%	17.5%	2.8%	3.0%

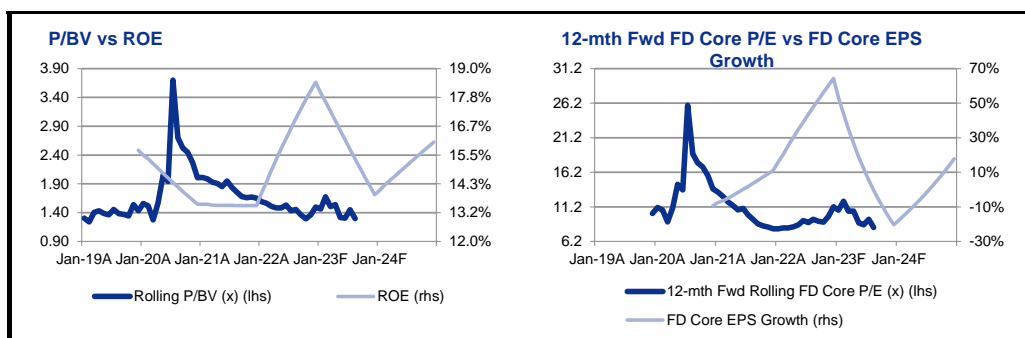
 SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS
 DATA AS AT 17 Aug 23



ESG in a nutshell

HYP's ESG efforts are not rated by Refinitiv or MSCI. Nevertheless, HYP has been actively pursuing E, S, and G pillars by sourcing for sustainable products, 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 implicated in any controversy.

<p>Keep your eye on</p> <p>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. It is subject to the relevant standards applicable to each of its products or risks product recalls that could adversely impact its business.</p>	<p>Implications</p> <p>As a pharmaceutical distributor and manufacturer, customer reputation is especially pertinent to HYP. With no instances of adverse events such as product recalls, HYP appears to have high quality standards, which we believe are 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.</p>
<p>ESG highlights</p> <p>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.</p>	<p>Implications</p> <p>We think HYP's solid governance record is backed by a strong management team that has been effectively communicating expectations to its stakeholders. This is a positive for HYP, in our view.</p>
<p>Trends</p> <p>In terms of Environment, 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.</p>	<p>Implications</p> <p>Should the refill pack be accepted favourably by consumers, HYP will consider using the more environmentally-friendly refill pack for other supplements, as indicated in its FY21 annual report. We have not factored this into our valuations.</p> <p style="text-align: right; font-size: small;">SOURCES: CGS-CIMB RESEARCH, REFINITIV</p>

BY THE NUMBERS

Profit & Loss

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	126.8	162.9	158.3	162.2	166.3
Gross Profit	49.0	63.4	61.8	63.4	65.1
Operating EBITDA	8.3	14.0	11.9	14.0	14.4
Depreciation And Amortisation	0.0	0.0	(0.7)	(0.7)	(0.7)
Operating EBIT	8.3	14.0	11.2	13.3	13.8
Financial Income/(Expense)	(0.0)	(0.2)	(0.2)	(0.2)	(0.2)
Pretax Income/(Loss) from Assoc.	0.0	0.5	0.5	0.5	0.5
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	8.3	14.3	11.5	13.6	14.1
Exceptional Items					
Pre-tax Profit	8.3	14.3	11.5	13.6	14.1
Taxation	(1.4)	(2.9)	(2.3)	(2.7)	(2.8)
Exceptional Income - post-tax					
Profit After Tax	6.8	11.4	9.2	10.9	11.2
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6.8	11.4	9.2	10.9	11.2
Recurring Net Profit	6.8	11.4	9.2	10.9	11.2
Fully Diluted Recurring Net Profit	6.8	11.4	9.2	10.9	11.2

Cash Flow

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	8.26	14.01	11.90	13.95	14.43
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3.46)	2.14	(2.84)	(2.76)	1.66
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense		(0.66)	(0.66)	(0.66)	(0.66)
Other Operating Cashflow	2.66	2.87	2.91	3.20	2.14
Net Interest (Paid)/Received	(0.02)	(0.20)	(0.18)	(0.18)	(0.18)
Tax Paid	(1.42)	(2.15)	(2.66)	(2.30)	(2.71)
Cashflow From Operations	6.02	16.02	8.48	11.25	14.68
Capex	(0.56)	(0.56)	(1.00)	(1.50)	(1.50)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(14.16)	0.21	0.00	0.00	0.00
Other Investing Cashflow	(0.27)	(0.66)	0.00	0.00	0.00
Cash Flow From Investing	(14.99)	(1.01)	(1.00)	(1.50)	(1.50)
Debt Raised/(repaid)	3.68	(1.86)	0.00	0.00	0.00
Proceeds From Issue Of Shares	0.00	6.10	0.00	0.00	0.00
Shares Repurchased					
Dividends Paid	(1.86)	(2.07)	(14.54)	(2.78)	(3.24)
Preferred Dividends					
Other Financing Cashflow	(0.91)	(1.02)	0.00	0.00	0.00
Cash Flow From Financing	0.91	1.15	(14.54)	(2.78)	(3.24)
Total Cash Generated	(8.07)	16.17	(7.07)	6.97	9.94
Free Cashflow To Equity	(5.30)	13.16	7.48	9.75	13.18
Free Cashflow To Firm	(8.88)	15.25	7.73	10.00	13.44

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	19.46	36.48	29.41	36.38	46.32
Total Debtors	28.54	31.11	29.63	32.60	31.17
Inventories	25.08	21.26	23.81	24.36	24.93
Total Other Current Assets	0.64	0.81	0.81	0.81	0.81
Total Current Assets	73.72	89.65	83.65	94.16	103.23
Fixed Assets	4.17	3.02	1.76	0.72	0.74
Total Investments	0.31	2.67	3.13	3.59	4.05
Intangible Assets	20.15	19.07	18.41	17.76	17.10
Total Other Non-Current Assets	0.07	0.06	0.06	0.06	0.06
Total Non-current Assets	24.69	24.82	23.36	22.12	21.95
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	40.85	37.42	35.64	36.42	37.22
Other Current Liabilities	1.71	2.66	2.30	2.71	2.81
Total Current Liabilities	42.56	40.07	37.95	39.13	40.03
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0.88	3.33	3.33	3.33	3.33
Total Non-current Liabilities	0.88	3.33	3.33	3.33	3.33
Total Provisions	0.34	0.79	0.79	0.79	0.79
Total Liabilities	43.78	44.20	42.07	43.26	44.15
Shareholders' Equity	54.63	69.03	63.70	71.78	79.78
Minority Interests	0.00	1.25	1.25	1.25	1.25
Total Equity	54.63	70.27	64.95	73.02	81.03

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	4.1%	28.9%	(2.5%)	2.5%	2.5%
Operating EBITDA Growth	17.4%	69.6%	(15.1%)	17.2%	3.5%
Operating EBITDA Margin	6.56%	8.63%	7.52%	8.60%	8.68%
Net Cash Per Share (\$\$)	0.06	0.12	0.10	0.12	0.15
BVPS (\$\$)	0.18	0.22	0.21	0.23	0.26
Gross Interest Cover	86.95	58.88	44.07	52.10	53.99
Effective Tax Rate	17.1%	20.2%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	27%	18%	158%	26%	29%
Accounts Receivables Days	84.03	67.07	70.00	70.19	70.00
Inventory Days	98.44	84.98	85.18	89.22	88.97
Accounts Payables Days	156.7	125.9	129.2	124.8	124.5
ROIC (%)	27.6%	30.8%	25.5%	29.1%	29.6%
ROCE (%)	16.3%	22.3%	16.5%	19.2%	17.8%
Return On Average Assets	7.4%	10.9%	8.5%	9.9%	9.4%

Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Specialty pharma principals gross margin	0.5	0.5	0.5	0.5	0.5
Proprietary brands gross margin	0.6	0.6	0.6	0.6	0.6
Medical hypermart and digital gross margin	0.2	0.2	0.2	0.2	0.2

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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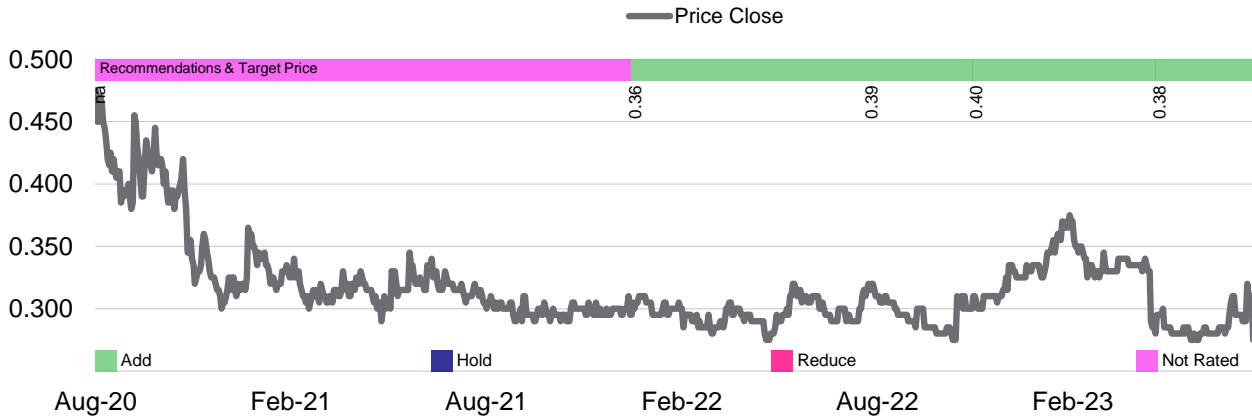
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2023		
632 companies under coverage for quarter ended on 30 June 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	65.3%	0.9%
Hold	25.8%	0.3%
Reduce	8.9%	0.0%

Spitzer Chart for stock being researched (2 year data)

Hyphens Pharma International (HYP SP)



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