

Hyphens Pharma International Limited

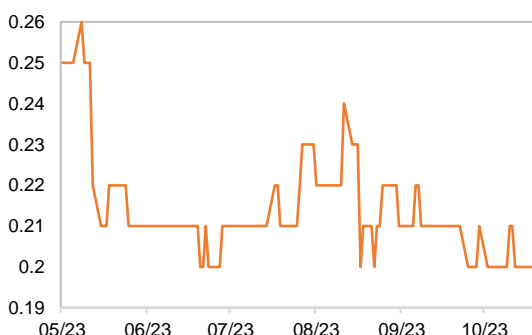
20 October 2023

BUY (Maintained)

BBG	HYP SP	
Market Cap	S\$86.6m	
Price (20 Oct 2023)	S\$0.28	
52-week range	S\$0.24-0.33	
Target Price	S\$0.33	
Previous Price	S\$0.33	
Shares Outstanding	309.2m	
Free Float	24.2%	
Major Shareholder	Inomed Holding	47.8%
	Tan Kia King	28.0%

Source: Company data, Bloomberg, SAC Capital

SHARE PRICE



Source: Bloomberg, SAC Capital

Pursuing Growth Through Full Acquisition of Ardenne Pharma

Broadening its regional exposure. Ardenne Pharma, established in 2018, is a boutique pharmaceutical company specializing in aesthetic medicine. Its main products are PLINEST and NEWEST, injectable skin boosters originating from Italy carrying the European CE mark, and OXITHION, a supplement for skin brightening. Distribution has expanded to more than 250 medical aesthetic clinics based in Malaysia with new ventures abroad – PLINEST recently launched in Singapore just last week. Its position as the exclusive distributor of PLINEST and NEWEST within Southeast Asia coupled with a licensing model that removes the need for further drug testing presents opportunities for rapid geographical expansion. According to Grand View Research, the global aesthetic medicine market was valued at USD 112bn in 2022 and is expected to grow at a CAGR of 14.7% from 2023 to 2030, with Asia Pacific projected to grow at the highest CAGR of 10.9% over the same period. The acquisition would provide access to new distribution lists and diversify product lines within a market poised for exponential growth, cementing its position as a major player.

Synergies and an experienced team make for an easy decision. Hyphens has ventured into aesthetic medicine with brands TDF and Nabota. Acquiring Ardenne Pharma allows for horizontal integration which often leads to economies of scale. Ardenne Pharma is also profitable (S\$1.36m NP for FY22) headed by Sean Loo, the founder and a pharmacist with over 20 years of relevant experience. Under his strong leadership, Ardenne Pharma has achieved huge successes within a short period of time. Sean will remain with the group as Managing Director and Director of Ardenne Pharma.

Acquisition of 58% of Ardenne Pharma to be completed over 3 tranches. Hyphens currently owns 42% of Ardenne Pharma through subsidiary Novem Sciences. The remaining 58% will be acquired as follows: (i) 23% - consideration of c.RMB 6.4m (c.S\$1.86m), to be completed by FY23; (ii) 17% - based on normalized EBITDA of FY24, on a cash-free and debt-free basis; (iii) 18% - based on normalized EBITDA of FY25 or FY26 (if FY25 EBITDA is lower than FY24), on a cash-free and debt-free basis. The consideration of S\$1.86m on 23% shareholding implies a valuation of c.S\$8.1m for Ardenne Pharma.

Reiterate BUY with TP maintained at S\$0.33 as tranche 1 is expected to only mildly impact Hyphens' bottom-line. Upside re-rating potential might come from better performance from Ardenne Pharma in FY24 and FY25.

ANALYST

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KEY FINANCIAL HIGHLIGHTS

Year ended Dec (S\$m)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	121.0	125.9	162.3	153.5	161.7
EBIT	7.0	8.3	14.5	8.7	10.1
Net profit	6.2	6.9	11.4	7.1	8.2
Net Cash / (Debt)	25.1	13.4	32.0	21.6	26.9
EPS (S cents)	2.1	2.3	3.7	2.3	2.6
DPS (S cents)	0.6	0.7	1.1	1.1	1.1
Valuation					
Net margin (%)	5.1	5.4	7.0	4.6	5.1
P/E (x)	15.1	13.2	9.2	12.3	10.6
P/B (x)	2.0	1.7	1.5	1.4	1.3
EV/EBITDA (x)	7.5	7.3	4.0	5.4	4.5
Dividend Yield (%)	2.0	2.2	3.3	3.9	3.8
ROE (%)	13.1	12.5	16.4	12.0	12.5

Income Statement

FYE Dec (S\$m)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	121.0	125.9	162.3	153.5	161.7
Cost of sales	(77.3)	(77.8)	(99.5)	(96.0)	(101.2)
Gross profit (loss)	43.6	48.1	62.8	57.6	60.4
Distribution costs	(26.5)	(28.4)	(33.3)	(35.3)	(36.5)
Administrative expenses (including R&D)	(8.1)	(9.4)	(11.8)	(10.6)	(11.2)
EBITDA	9.1	10.3	17.7	11.7	12.7
Other Income	2.1	0.9	0.6	0.2	0.0
Other losses	(2.1)	(0.7)	(1.6)	(0.7)	0.0
Depreciation of PPE	(1.7)	(1.8)	(2.1)	(2.1)	(2.3)
Depreciation of ROU	(0.4)	(0.4)	(0.7)	(0.7)	(0.7)
Share of profit of an associate	0.0	0.0	0.5	0.3	0.3
EBIT	7.0	8.3	14.5	8.7	10.1
Finance costs	0.1	0.0	(0.2)	(0.2)	(0.2)
Pretax profit (loss)	7.1	8.3	14.3	8.5	9.9
Tax credit (expense)	(0.9)	(1.4)	(2.9)	(1.4)	(1.7)
Non-controlling interest	0.0	0.0	(0.1)	0.0	0.0
Net profit (loss)	6.2	6.8	11.4	7.1	8.2

Balance Sheet

FYE Dec (S\$m)	FY20A	FY21A	FY22A	FY23E	FY24E
Assets					
Plant and equipment	4.8	4.4	3.0	1.9	0.6
Intangible assets	7.9	18.3	19.1	18.9	18.7
Investment in an associate	0.0	2.3	2.7	3.0	3.3
Deferred tax assets	0.0	0.1	0.1	0.1	0.1
Total non-current assets	12.7	25.1	24.8	23.8	22.7
Inventories	16.9	25.3	21.3	24.6	25.8
Trade and other receivables	29.4	287	31.1	33.9	35.7
Prepayments	0.6	0.6	0.8	0.8	0.8
Cash and cash equivalents	27.5	19.5	36.5	24.8	30.1
Total current assets	74.4	74.1	89.7	84	92.4
Total assets	87.1	99.2	114.5	107.8	115.1
Liabilities					
Deferred tax liabilities	0.4	1.0	0.8	0.8	0.8
Other financial liabilities	1.7	0.9	0.1	0.1	0.1
Bank borrowings	1.8	0.0	3.2	3.2	3.2
Total non-current liabilities	4	1.9	4.1	4.1	4.1
Income tax payable	1.3	1.7	2.7	1.4	1.7
Trade and other payables	33.2	33.6	35.1	38.5	40.6
Other financial liabilities, current	0.9	1.2	1.1	1.1	1.1
Bank borrowings	0.6	6.1	1.3	0.0	0.0
Total current liabilities	36	42.6	40.1	41	43.3
Total liabilities	40.0	44.5	44.2	45.1	47.5
Net assets	47.2	54.7	70.3	62.7	67.7
Equity					
Share capital	32.6	35.1	35.1	35.1	35.1
Retained earnings	29.6	34.6	43.8	36.2	41.1
Other reserves	(15.1)	(15.0)	(9.8)	(9.8)	(9.8)
Owners' equity	47.2	54.7	69	61.5	66.4
Non-controlling interests	0.0	0.0	1.2	1.2	1.2
Total equity	47.2	54.7	70.3	62.7	67.7

Cash Flow Statement

FYE Dec (S\$m)	FY20A	FY21A	FY22A	FY23E	FY24E
Pretax profit (loss)	7.1	8.3	14.3	8.5	9.9
Amortisation of intangible assets	0.4	0.4	0.7	0.7	0.7
Depreciation of plant and equipment	1.7	1.8	2.1	2.1	2.3
Interest income	(0.2)	(0.1)	0.0	(0.1)	(0.1)
Interest expense	0.1	0.1	0.2	0.3	0.3
Others	(0.1)	0.0	(0.3)	(0.3)	(0.3)
Changes in working capital	(3.8)	(3.5)	2.1	(2.6)	(1.0)
Income tax paid	(1.1)	(1.4)	(2.2)	(2.7)	(1.4)
Operating cash flow	4.1	5.6	16.9	5.9	10.3
Capex	(1.2)	(0.7)	(1.3)	(1.5)	(1.5)
Others	0.2	(14.2)	0.3	0.1	0.1
Investing cash flow	(1.0)	(14.9)	(1.0)	(1.4)	(1.4)
Free cash flow	3.1	(9.3)	15.9	4.4	8.8
Dividends paid	(3.0)	(1.9)	(2.1)	(14.6)	(3.3)
Net borrowings	2.1	3.7	(1.6)	(1.3)	0.0
Others	(0.9)	(1.0)	4.8	(0.3)	(0.3)
Financing cash flow	(1.8)	0.8	1.1	(16.1)	(3.5)
Net change in cash & equivalents	1.4	(8.5)	17.0	(11.6)	5.3

Ratios

FYE Dec	FY20A	FY21A	FY22A	FY23E	FY24E
Profitability (%)					
Gross margin	36.1	38.2	38.7	37.5	37.4
EBIT margin	5.8	6.6	8.9	5.6	6.2
Liquidity (x)					
Current ratio	2.1	1.7	2.2	2	2.1
Interest coverage ratio	-	-	-	-	-
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Valuation (x)					
P/E	15.1	13.2	9.2	12.3	10.6
P/B	2	1.7	1.5	1.4	1.3
EV/EBITDA	7.5	7.3	4	5.4	4.5
Cash Conversion Cycle (CCC)					
Trade receivable days	88.8	83.3	69.9	80.6	80.6
Inventory days	79.7	118.6	78	93.1	93.1
Trade payable days	(156.9)	(157.5)	(128.7)	(146.3)	(146.3)
CCC days	11.6	44.5	19.3	27.4	27.4

n.m.: not meaningful

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