

Singapore

ADD (no change)

Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price:	S\$0.275
Target price:	S\$0.32
Previous target:	S\$0.34
Up/downside:	16.4%
CGS-CIMB / Consensus:	-5.9%
Reuters:	HYPH.SI
Bloomberg:	HYP SP
Market cap:	US\$63.40m
	S\$85.03m
Average daily turnover:	US\$0.00m
	S\$0.01m
Current shares o/s:	308.8m
Free float:	24.1%

*Source: Bloomberg

Key changes in this note

- Reduce FY23F EPS by 12.9%.
- Reduce FY24F EPS by 5.3%.
- Reduce FY25F EPS by 5.1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-1.8	-1.8	-8.3
Relative (%)	-2.2	0.9	-3.4

Major shareholders

	% held
INOMED HOLDINGS PTE LTD	47.8
Tan Kia King	28.0

Analyst(s)

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Hyphens Pharma International

Dented margins in 3Q23

- Record-high revenue of S\$42.8m in 3Q23 was overshadowed by a 47.2% yoy decline in PAT in 3Q23 as a result of a 4.8% pt GPM compression yoy.
- In its announcement, HYP said inflationary pressures led to higher supply prices and operating costs, resulting in poorer profitability.
- We maintain our Add call but lower our TP to S\$0.32 as we think profitability will remain depressed in the near term amid difficulties in cost pass-through.

Revenue at a record level...

HYP's revenue grew 0.1% yoy in 3Q23 to bring 9M23 revenue to S\$117.5m, in line at 74.2% of our FY23F estimate. Although a detailed revenue breakdown was not provided, HYP said sales from its specialty pharma principal segment and medical hypermart and digital segment had grown 0.6% yoy and 1.9% yoy, respectively, to offset the 4.2% decline in sales of its proprietary brands segment. Management also said the supply disruptions which led to an inventory stock-out in Vietnam in 1H23 had eased in 3Q23; it expects further improvements in the supply situation by end-FY23F. This should signal better revenue momentum, in our view, especially with new products added to its portfolio in 1H23 that should see sales slowly pick up as they gain traction in the market.

... but profitability dented by inflationary pressure

HYP cited "inflationary cost pressures" for the 4.8% pt yoy decline in GPM to 35.4% in 3Q23. We think the discontinuation of HYP's distributorship of Biosensors products in Vietnam, which led to a GPM compression of 1.4% pt in 1H23, had a similar impact on 3Q23 GPM margin, given that the distributorship only ceased in 4Q22. Additionally, the yoy decline in sales of its proprietary brands segment by 4.2% in 3Q23 likely led to a poorer sales mix, impacting its GPM, in our view. While easing supply constraints suggest that revenue momentum should improve, margins could remain compressed, in our view, given that it might take time for HYP to pass on the higher costs from brand principals to the hospitals that enjoy superior bargaining power, as well as from its proprietary brands that consist mostly of consumer healthcare products that are more discretionary in nature.

Maintain Add; lower TP of S\$0.32 reflects weaker margins

We reduce our DCF-based TP (WACC: 14.7%) from S\$0.34 to S\$0.32 after lowering our FY23F/24F/25F EPS estimates by 12.9%/5.3%/5.1% to account for GPM deterioration, even though our revenue estimates are higher as we expect HYP's sales to benefit from the increase in products within its portfolio. We maintain our Add call as HYP continues to see incremental benefits of new products, and business acquired, namely incremental stake in Ardence Pharma. Re-rating catalysts: earlier commercialisation of new products in its portfolio, as well as more accretive acquisitions of proprietary brands or businesses. Downside risks: slower proprietary brand sales, further margin compression, depreciation of the VND against the US\$ and euro where its brand principals originates.

Financial Summary

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (S\$m)	125.9	162.3	160.3	164.2	168.3
Operating EBITDA (S\$m)	8.26	14.01	10.41	13.23	13.72
Net Profit (S\$m)	6.85	11.41	8.03	10.28	10.68
Core EPS (S\$)	0.023	0.037	0.026	0.033	0.035
Core EPS Growth	11.1%	62.1%	(29.6%)	28.1%	3.8%
FD Core P/E (x)	12.07	7.34	10.58	8.26	7.95
DPS (S\$)	0.007	0.011	0.008	0.010	0.010
Dividend Yield	2.44%	4.04%	2.84%	3.64%	3.78%
EV/EBITDA (x)	7.61	3.35	5.33	3.60	2.80
P/FCFE (x)	NA	6.37	15.19	8.65	7.15
Net Gearing	(35.6%)	(51.9%)	(43.2%)	(48.8%)	(55.2%)
P/BV (x)	1.51	1.23	1.36	1.21	1.09
ROE	13.4%	18.5%	12.2%	15.5%	14.4%
% Change In Core EPS Estimates			(12.9%)	(5.3%)	(5.1%)
EPS/Consensus EPS (x)			0.93	0.95	0.96

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Dented margins in 3Q23

Figure 1: Results comparison

FYE Dec 31 (\$m)	3Q23	3Q22	yoy % change	2Q23	qoq% change	9M23	9M22	yoy % chg	Prev. FY23F	Remarks
Revenue	42.8	42.8	0.1%	41.5	3.2%	117.5	123.5	-4.8%	158.3	3Q23 revenue was stable yoy, as easing supply chain saw revenue momentum pick up during the quarter. 9M23 revenue in-line at 74.2%/73.7% of our/Bloomberg consensus' FY23F estimates.
Gross profit	15.2	17.2	-11.9%	14.9	1.7%	43.2	48.3	-10.6%	61.8	GP margin deterioration of 4.8% pt yoy in 3Q23 was due to rising costs from brand principals for its specialty pharma segment, higher raw materials for its proprietary brands, and discontinuation of Biosensors product from 4Q22.
Gross profit margin (%)	35.4%	40.2%	-4.8% pts	35.9%	-0.5% pts	36.7%	39.1%	-2.4% pts	39.0%	PBT was further impacted by negative currency translation effect from the depreciation of VND against US\$ and euro, although quantum was not disclosed.
Profit before tax	2.8	5.3	-47.7%	2.6	8.6%	7.0	13.2	-47.0%	11.5	9M23 net profit was below expectations at 61.4%/65.4% of our/Blooconsensus' estimates due to margin compression and currency translation effect.
PBT margin (%)	6.5%	12.5%	-6.0% pts	6.2%	0.3% pts	5.9%	10.7%	-4.7% pts	7.3%	
Net profit	2.1	4.0	-47.2%	2.1	-0.5%	5.7	10.3	-45.0%	9.2	
Net profit margin (%)	5.0%	9.5%	-4.5% pts	5.2%	-0.2% pts	4.8%	8.3%	-3.5% pts	5.8%	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

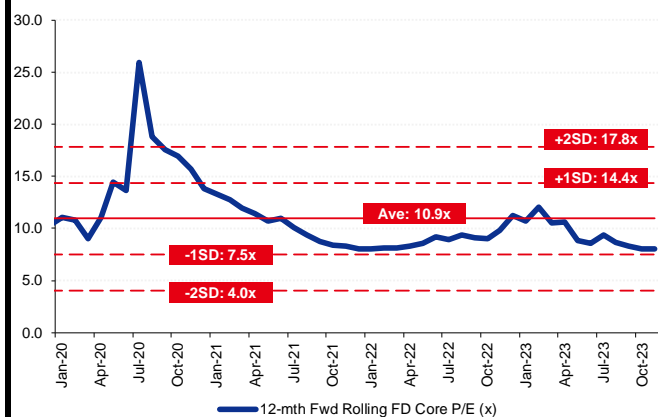
Figure 2: HYP - DCF Valuation

FCF calculation (\$m)	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	Terminal Value
FCF	5.59	9.82	11.88	9.45	12.88	10.45	69.63
PV of the FCFs	5.59	8.56	9.03	6.26	7.44	5.27	35.08
Discount Factor	1.00	0.87	0.76	0.66	0.58	0.50	

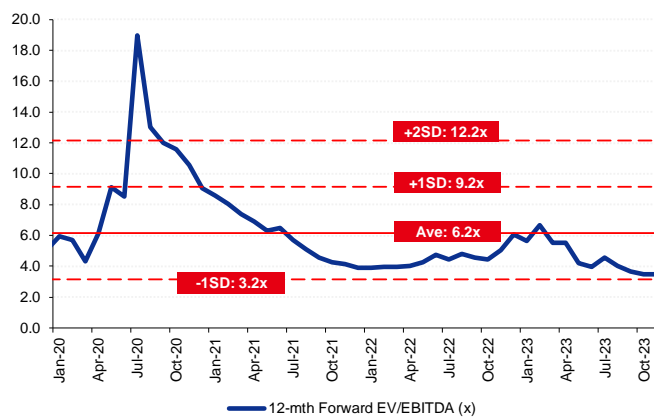
Valuation	
Enterprise value	77.22
Less: net cash/(debt)	21.86
Less: minority interest	-
Add: associates	-
Equity value	99.08
Number of shares	308.78
Equity value per share	0.320

WACC	
Rf	3.0%
Beta	1.30
Cost of equity	14.7%
WACC	14.7%
Terminal growth	1.0%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: HYP 12-mth Fwd Rolling FD Core P/E (x)


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 4: HYP 12-mth Fwd FD EV/EBITDA (x)


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 5: EPS changes

FYE Dec 31 (S\$m)	New			Old			% change		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	160.3	164.2	168.3	158.3	162.2	166.3	1.2%	1.2%	1.2%
Gross profit	60.3	64.3	66.0	61.8	63.4	65.1	-2.4%	1.4%	1.4%
GPM (%)	37.6%	39.2%	39.3%	39.0%	39.1%	39.2%	-1.4% pts	0.1% pts	0.1% pts
EBIT	10.2	13.0	13.5	11.7	13.8	14.2	-12.7%	-5.2%	-5.0%
Reported PATMI	8.0	10.3	10.7	9.2	10.9	11.2	-12.9%	-5.3%	-5.1%
Core PATMI	8.0	10.3	10.7	9.2	10.9	11.2	-12.9%	-5.3%	-5.1%
NPM (%)	5.0%	6.3%	6.3%	5.8%	6.7%	6.8%	-0.8% pts	-0.4% pts	-0.4% pts
EPS (Scts)	2.60	3.33	3.46	2.99	3.52	3.64	-12.9%	-5.3%	-5.1%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 6: Peers comparison (as of 27 Nov 23)

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	EV/EBITDA (x) CY23F	3-year EPS CAGR (%) CY24F	P/E (x) CY23F	Recurring ROE (%) CY24F	Dividend Yield (%) CY23F	Dividend Yield (%) CY24F			
Hyphens Pharma International	HYP SP	Add	0.280	0.32	65	4.7	3.5	0.1%	9.4	8.0	14.0%	16.0%	3.2%	3.8%
Mega Lifesciences PCL	MEGA TB	Add	40.75	55.00	1,002	11.6	10.2	1.8%	15.4	14.9	25.5%	23.4%	3.6%	4.0%
Apex Healthcare Bhd	APEX MK	Non-Rated	2.47	N/A	511	13.0	12.4	1.2%	19.4	18.6	14.9%	13.4%	2.3%	2.4%
Pharmaniaga Bhd	PHRM MK	Non-Rated	0.43	N/A	178	13.1	12.9	N.A.	19.5	15.9	-18.1%	-22.1%	0.0%	1.9%
Simple average						12.6	11.9	1.5%	18.1	16.5	7.4%	4.9%	2.0%	2.8%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY DATA, BLOOMBERG

DATA AS AT 27 NOV 23

Note: Forecasts for Non-Rated companies are based on Bloomberg consensus' estimates

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.

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. It is subject to the relevant standards applicable to each of its products or risks product recalls that could adversely impact its business.

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 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.

ESG highlights

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

Implications

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.

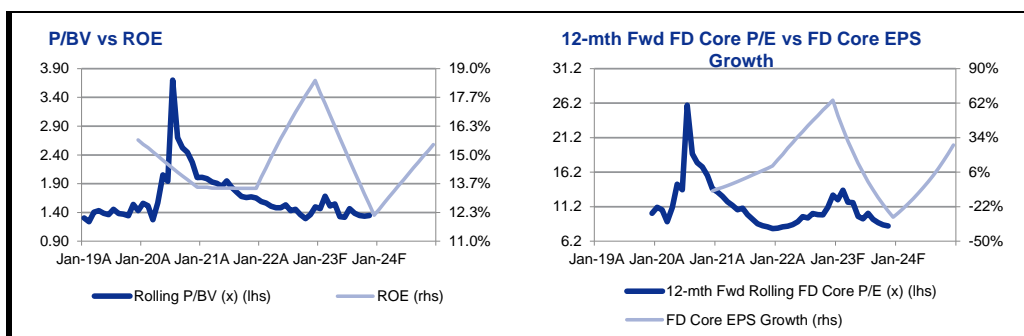
Trends

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.

Implications

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.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

Profit & Loss

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	126.8	162.9	160.3	164.2	168.3
Gross Profit	49.0	63.4	60.3	64.3	66.0
Operating EBITDA	8.3	14.0	10.4	13.2	13.7
Depreciation And Amortisation	0.0	0.0	(0.7)	(0.7)	(0.7)
Operating EBIT	8.3	14.0	9.8	12.6	13.1
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	10.0	12.9	13.3
Exceptional Items					
Pre-tax Profit	8.3	14.3	10.0	12.9	13.3
Taxation	(1.4)	(2.9)	(2.0)	(2.6)	(2.7)
Exceptional Income - post-tax					
Profit After Tax	6.8	11.4	8.0	10.3	10.7
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6.8	11.4	8.0	10.3	10.7
Recurring Net Profit	6.8	11.4	8.0	10.3	10.7
Fully Diluted Recurring Net Profit	6.8	11.4	8.0	10.3	10.7

Cash Flow

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	8.26	14.01	10.41	13.23	13.72
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3.46)	2.14	(3.24)	(2.27)	0.93
(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)	(2.01)	(2.57)
Cashflow From Operations	6.02	16.02	6.59	11.32	13.38
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)	(2.41)	(3.09)
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)	(2.41)	(3.09)
Total Cash Generated	(8.07)	16.17	(8.95)	7.41	8.79
Free Cashflow To Equity	(5.30)	13.16	5.59	9.82	11.88
Free Cashflow To Firm	(8.88)	15.25	5.84	10.08	12.14

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	27.53	34.94	43.73
Total Debtors	28.54	31.11	30.36	32.62	31.92
Inventories	25.08	21.26	24.65	24.63	25.20
Total Other Current Assets	0.64	0.81	0.81	0.81	0.81
Total Current Assets	73.72	89.65	83.34	92.99	101.66
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	36.82	36.79	37.59
Other Current Liabilities	1.71	2.66	2.01	2.57	2.67
Total Current Liabilities	42.56	40.07	38.82	39.36	40.26
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	42.95	43.48	44.39
Shareholders' Equity	54.63	69.03	62.51	70.39	77.97
Minority Interests	0.00	1.25	1.25	1.25	1.25
Total Equity	54.63	70.27	63.76	71.63	79.22

Key Ratios					
	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	4.1%	28.9%	(1.3%)	2.5%	2.5%
Operating EBITDA Growth	17.4%	69.6%	(25.7%)	27.1%	3.7%
Operating EBITDA Margin	6.56%	8.63%	6.50%	8.06%	8.16%
Net Cash Per Share (S\$)	0.06	0.12	0.09	0.11	0.14
BVPS (S\$)	0.18	0.22	0.20	0.23	0.25
Gross Interest Cover	86.95	58.88	38.24	49.29	51.21
Effective Tax Rate	17.1%	20.2%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	27%	18%	181%	23%	29%
Accounts Receivables Days	84.03	67.07	70.00	70.19	70.00
Inventory Days	98.44	84.98	83.81	90.28	88.97
Accounts Payables Days	156.7	125.9	127.0	126.3	124.5
ROIC (%)	27.6%	30.8%	22.1%	27.0%	28.1%
ROCE (%)	16.3%	22.3%	14.5%	18.5%	17.2%
Return On Average Assets	7.4%	10.9%	7.4%	9.4%	9.1%

Key Drivers					
	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Specialty pharma principals gross margin	0.5	0.5	0.4	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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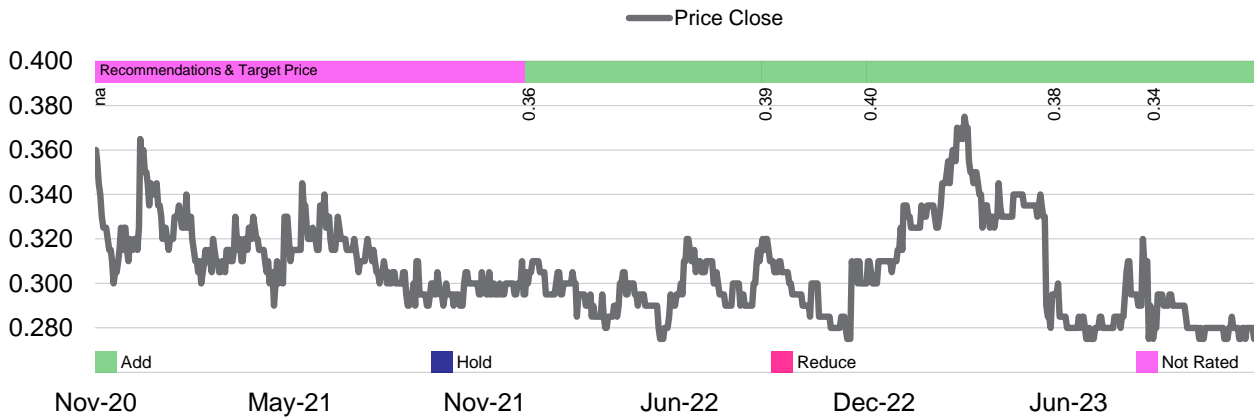
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2023		
634 companies under coverage for quarter ended on 30 September 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

Spitzer Chart for stock being researched (2 year data)

Hyphens Pharma International (HYP SP)



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- Add** The stock's total return is expected to exceed 10% over the next 12 months.
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