

# Hyphens Pharma International Limited

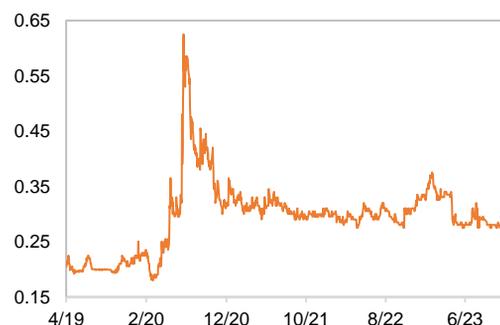
20 November 2023

## BUY (Maintained)

<b>BBG</b>	HYP SP	
<b>Market Cap</b>	S\$85.0m	
<b>Price (20 Nov 2023)</b>	S\$0.275	
<b>52-week range</b>	S\$0.239-0.331	
<b>Target Price</b> Previous Price	S\$0.33 S\$0.33	
<b>Shares Outstanding</b>	309.2m	
<b>Free Float</b>	24.2%	
<b>Major Shareholder</b>	Inomed Holding	47.8%
	Tan Kia King	28.0%

Source: Company data, Bloomberg, SAC Capital

## SHARE PRICE



Source: Bloomberg, SAC Capital

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## 3Q23 Business Update

**9M23 revenue of S\$118m (-4.8% yoy) and net profit of S\$5.7m (-45% yoy)** aligned with projections, coming in at 75%/80% of FY23E forecast. While 9M23 results reflect better performances in the Proprietary Brands (PB) segment offset by weaknesses in the Specialty Pharma Principals (SPP) and Medical Hypermart and Digital (MHD) segments, 3Q23 results reveal the contrary with recent pickup in the latter two.

SPP 3Q23 revenue grew 0.6% yoy (1Q23: -27% yoy, 2Q23: 0% yoy, 9M23: -8.3% yoy) due to (i) improved shipment supply for products sold in Vietnam; and (ii) new distributorship with Laboratoires Gilbert S.A.S. These have helped to offset the substantial drop in revenue/net profit (-S\$4.4m/S\$2.1m) due to the discontinuation of Biosensors products distributorship entering FY23. MHD 3Q23 revenue grew 1.9% yoy, bringing 9M23 revenue decline to 1.7% yoy (1H23: -3.5% yoy) – a positive sign that its bet on healthtech is gaining momentum. Despite the 4.2% yoy decline in PB 3Q23 revenue as Ceradan product sales wavered, 9M23 revenue saw a 3.9% yoy increase driven largely by stronger demand for Ocean Health supplements (1Q23: +16% yoy, 2Q23: 3% yoy). Overall, 3Q23 revenue remained largely flat at S\$42.8m (+0.1% yoy, +3.1% qoq).

Cost pressures are evident as 3Q23 gross margins fell 480bps yoy/50bps qoq to 35.4%, with gross profit down \$2m to S\$15.2m (-11.9% yoy). This has been captured in our model, with full-year gpm forecast of ~37%. 3Q23 net profit stood at S\$2.1m, flat from 2Q23 and -47.2% yoy on the back of (i) lower gross profit; (ii) increased FX losses due to movements against USD and Euro; and (iii) an exceptional 3Q22 in part due to new revenue of S\$3.8m from acquisition of Novem.

**Supply chains to normalize by FY24.** Disruptions to product supplies in 1H23 caused by manufacturers are gradually easing with expectations of a reversion to true capacities entering FY24. This should act as headwind for the company's top-line and offer opportunities to capture higher market share.

**Synergistic value from acquisitions.** Hyphens' acquisition of Ardence Pharma while accretive has not been priced in. The market seems to be taking a wait and see approach for more visible benefits and how they translate into the company's bottom-line. Considering its track record with post-acquisition integration and the presence of untapped opportunities for expansion into the rest of Southeast Asia (currently only in Singapore and Malaysia), we believe this should provide upside to the business.

**Risks.** (i) Prolonged supply chain disruption – drives downside to revenue; and (ii) persistent cost inflation – lead to further margin squeezes considering difficulty in passing higher costs to consumers.

**Reiterate BUY** with TP maintained at S\$0.33 as results remain in line with our projections. Upside re-rating potential might come from (i) faster-than-expected adoption of new product offerings; (ii) normalization of supply chains; (iii) increased capacities to capture higher demand; and (iv) revenue/margin enhancements from acquisitions.

## 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
<b>Revenue</b>	<b>121.0</b>	<b>125.9</b>	<b>162.3</b>	<b>153.5</b>	<b>161.7</b>
Cost of sales	(77.3)	(77.8)	(99.5)	(96.0)	(101.2)
<b>Gross profit (loss)</b>	<b>43.6</b>	<b>48.1</b>	<b>62.8</b>	<b>57.6</b>	<b>60.4</b>
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)
<b>EBITDA</b>	<b>9.1</b>	<b>10.3</b>	<b>17.7</b>	<b>11.7</b>	<b>12.7</b>
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
<b>EBIT</b>	<b>7.0</b>	<b>8.3</b>	<b>14.5</b>	<b>8.7</b>	<b>10.1</b>
Finance costs	0.1	0.0	(0.2)	(0.2)	(0.2)
<b>Pretax profit (loss)</b>	<b>7.1</b>	<b>8.3</b>	<b>14.3</b>	<b>8.5</b>	<b>9.9</b>
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
<b>Net profit (loss)</b>	<b>6.2</b>	<b>6.8</b>	<b>11.4</b>	<b>7.1</b>	<b>8.2</b>

## Cash Flow Statement

FYE Dec (S\$m)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Pretax profit (loss)</b>	<b>7.1</b>	<b>8.3</b>	<b>14.3</b>	<b>8.5</b>	<b>9.9</b>
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)
<b>Operating cash flow</b>	<b>4.1</b>	<b>5.6</b>	<b>16.9</b>	<b>5.9</b>	<b>10.3</b>
Capex	(1.2)	(0.7)	(1.3)	(1.5)	(1.5)
Others	0.2	(14.2)	0.3	0.1	0.1
<b>Investing cash flow</b>	<b>(1.0)</b>	<b>(14.9)</b>	<b>(1.0)</b>	<b>(1.4)</b>	<b>(1.4)</b>
<b>Free cash flow</b>	<b>3.1</b>	<b>(9.3)</b>	<b>15.9</b>	<b>4.4</b>	<b>8.8</b>
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)
<b>Financing cash flow</b>	<b>(1.8)</b>	<b>0.8</b>	<b>1.1</b>	<b>(16.1)</b>	<b>(3.5)</b>
<b>Net change in cash &amp; equivalents</b>	<b>1.4</b>	<b>(8.5)</b>	<b>17.0</b>	<b>(11.6)</b>	<b>5.3</b>

## Balance Sheet

FYE Dec (S\$m)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Assets</b>					
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	0.0	0.0
Investment in subsidiaries	0.0	0.0	0.0	4.8	5.1
Deferred tax assets	0.0	0.1	0.1	0.1	0.1
<b>Total non-current assets</b>	<b>12.7</b>	<b>25.1</b>	<b>24.8</b>	<b>25.6</b>	<b>24.5</b>
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	23.0	28.3
<b>Total current assets</b>	<b>74.4</b>	<b>74.1</b>	<b>89.7</b>	<b>82.2</b>	<b>90.6</b>
<b>Total assets</b>	<b>87.1</b>	<b>99.2</b>	<b>114.5</b>	<b>107.8</b>	<b>115.1</b>
<b>Liabilities</b>					
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
<b>Total non-current liabilities</b>	<b>4</b>	<b>1.9</b>	<b>4.1</b>	<b>4.1</b>	<b>4.1</b>
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
<b>Total current liabilities</b>	<b>36</b>	<b>42.6</b>	<b>40.1</b>	<b>41</b>	<b>43.3</b>
<b>Total liabilities</b>	<b>40.0</b>	<b>44.5</b>	<b>44.2</b>	<b>45.1</b>	<b>47.5</b>
<b>Net assets</b>	<b>47.2</b>	<b>54.7</b>	<b>70.3</b>	<b>62.7</b>	<b>67.7</b>
<b>Equity</b>					
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
<b>Total equity</b>	<b>47.2</b>	<b>54.7</b>	<b>70.3</b>	<b>62.7</b>	<b>67.7</b>

## Ratios

FYE Dec	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Profitability (%)</b>					
Gross margin	36.1	38.2	38.7	37.5	37.4
EBIT margin	5.8	6.6	8.9	5.6	6.2
<b>Liquidity (x)</b>					
Current ratio	2.1	1.7	2.2	2	2.1
Interest coverage ratio	-	-	-	-	-
Net debt to equity (%)	Net cash				
<b>Valuation (x)</b>					
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
<b>Cash Conversion Cycle (CCC)</b>					
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
<i>n.m.: not meaningful</i>					

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