

Singapore

**ADD** (no change)

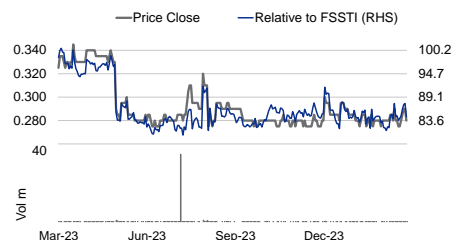
Consensus ratings\*: Buy 2 Hold 0 Sell 0

Current price:	S\$0.28
Target price:	S\$0.35
Previous target:	S\$0.32
Up/downside:	25.0%
CGSI / Consensus:	na
Reuters:	HYPH.SI
Bloomberg:	HYP SP
Market cap:	US\$64.29m
	S\$86.58m
Average daily turnover:	US\$0.01m
	S\$0.01m
Current shares o/s:	308.8m
Free float:	24.1%

\*Source: Bloomberg

**Key changes in this note**

- Increase FY24F EPS by 1.2%
- Increase FY25F EPS by 4.0%
- Introduce FY26F estimates.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	0	1.8	-17.7
Relative (%)	-0.1	0.5	-16.6

<b>Major shareholders</b>	% held
INOMED HOLDINGS PTE LTD	47.8
Tan Kia King	28.0

**Analyst(s)**



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# Hyphens Pharma International

## Positive on expanding portfolio

- HYP posted net profit of S\$8.6m for FY23, slightly above expectations at 107.3% of our FY23F estimate, as sales hit a record-high in 4Q23.
- HYP said it is looking to mend its GP margin of 35.3% in 2H23 (-3.5% pts yoy/-2.2% pts hoh) by improving its sales mix.
- Reiterate Add with a higher DCF-based TP of S\$0.35 as we see earnings growth supported by contribution from new products added to its portfolio.

### Record revenue in 4Q23 despite margin pressure

HYP achieved a record quarterly revenue of S\$53.1m in 4Q23 (+36.6% yoy/+23.9% qoq), driven by improvement in the supply chain situation that plagued sales in 1H23 for its major selling products as well as yoy stronger sales of proprietary brand products Ceradan and Ocean Health, according to its analyst presentation held on 7 Mar 24. We think HYP also benefitted from revenue contribution from new products added to its portfolio, such as infant care products from Laboratoires Gilbert S.A.S., for which HYP took over distributorship (as of 2H23) in countries where the brand has an existing sales presence.

### Looking to mend margins by optimising sales mix

HYP saw GP margin decline 3.5% pts yoy and 2.2% pts hoh to 35.3% in 2H23 as a result of higher cost pass-through from brand principals for its specialty pharmaceutical products as well as rising raw material prices for its proprietary brand products. However, HYP saw net profit margin decline by a lower 1.0% pt yoy and improve 0.6% pt hoh on the back of better control over distribution and administrative costs. Moving forward, HYP shared that it will be looking to optimise its sales mix via efforts that include focusing on its medical aesthetics portfolio in order to drive margin expansion.

### Establishing new distribution channels to drive growth

HYP continues to make headway in establishing new distribution channels for its portfolio of products, such as its recent (Feb 24) partnership with 7-Eleven Singapore to sell its Ocean Health supplements in selected 7-Eleven stores in Singapore and the signing of an exclusive distribution agreement with leading Moroccan pharmaceutical company Cooper Pharma to distribute its range of Ceradan skincare products in five Middle East countries (i.e. Saudi Arabia, United Arab Emirates, Kuwait, Qatar and Bahrain), which we think will boost sales volume for HYP.

### Reiterate Add with higher TP of S\$0.35 (WACC: 14.6%; LTG: 1.0%)

We raise our FY24F/25F EPS by 1.2%/4% on the back of stronger revenue growth, partially offset by weaker GP margins as HYP seeks to improve its sales mix to lift its profitability. This lifts our TP to S\$0.35. We retain our Add call as we think HYP will continue to see incremental benefits from its expanded product portfolio. Re-rating catalysts: sustained revenue momentum and improving GP margins. Downside risks: termination of contracts with key brand principals and subdued sales of proprietary brand products.

<b>Financial Summary</b>	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue (S\$m)	162.3	170.6	183.1	190.9	195.6
Operating EBITDA (S\$m)	14.01	10.30	13.52	14.38	14.89
Net Profit (S\$m)	11.41	8.58	10.41	11.10	11.95
Core EPS (S\$)	0.037	0.028	0.034	0.036	0.039
Core EPS Growth	62.1%	(24.8%)	21.3%	6.6%	7.7%
FD Core P/E (x)	7.48	10.08	8.30	7.79	7.23
DPS (S\$)	0.011	0.045	0.010	0.011	0.012
Dividend Yield	4.0%	15.9%	3.6%	3.9%	4.1%
EV/EBITDA (x)	3.47	6.41	4.37	3.66	3.04
P/FCFE (x)	6.48	23.72	9.46	9.51	8.51
Net Gearing	(51.9%)	(35.5%)	(40.6%)	(43.9%)	(47.3%)
P/BV (x)	1.25	1.37	1.22	1.10	0.99
ROE	18.5%	13.0%	15.6%	14.9%	14.4%
% Change In Core EPS Estimates			1.24%	3.96%	
EPS/Consensus EPS (x)			0.99	1.03	

SOURCES: CGSI RESEARCH, COMPANY REPORTS

## Positive on expanding portfolio

### HYP in-licence new product Wynzora for psoriasis ➤

On 12 Mar 24, HYP entered into an exclusive licence, supply and commercialisation agreement with MC2 Therapeutics (MC2) for the exclusive rights to register and commercialise Wynzora, a topical treatment for plaque psoriasis, across 10 ASEAN countries. Psoriasis is a chronic disease in which the immune system becomes overactive, leading to itchiness as a result of scaly and inflamed skin, and which typically affects the scalp, elbows and knees. HYP will have to go through a series of product registration stages before the commercialisation of Wynzora across the various countries.

Figure 1: Results comparison

FYE Dec 31 (\$m)	2H23	2H22	yoy % chg	1H23	hoh % chg	FY23	FY22	yoy % chg	Prev FY23F	Comments
Revenue	95.9	81.6	17.5%	74.7	28.3%	170.6	162.3	5.1%	160.3	Revenue reached a record level of S\$53.1m in 4Q23 to bring FY23 revenue to S\$170.6m, ahead of our expectations at 106.4% of our FY23F estimates.
<b>Gross profit</b>	<b>33.9</b>	<b>31.7</b>	<b>6.8%</b>	<b>28.0</b>	<b>20.9%</b>	<b>61.9</b>	<b>62.8</b>	<b>-1.4%</b>	<b>60.3</b>	
GP margin (%)	35.3%	38.9%	-3.5% pts	37.5%	-2.2% pts	36.3%	38.7%	-2.4% pts	37.6%	Decline in GP margin in 2H23 by 3.5% pts yoy/2.2% pts hoh was a result of brand principals passing on costs.
Operating costs	(26.4)	(24.8)	6.4%	(23.7)	11.4%	(50.0)	(47.8)	4.6%	(50.5)	
<b>EBITDA</b>	<b>8.0</b>	<b>8.0</b>	<b>-0.5%</b>	<b>5.7</b>	<b>40.6%</b>	<b>13.6</b>	<b>17.3</b>	<b>-20.9%</b>	<b>14.6</b>	
Net interest income/(costs)	(0.1)	(0.2)	-28.5%	(0.2)	-20.6%	(0.3)	(0.2)	41.8%	(0.3)	
Other gains/(losses)	(1.2)	(0.6)	112.8%	(0.3)	266.8%	(1.6)	(1.5)	7.0%	0.0	
Pretax profit	6.4	6.5	-1.3%	4.2	52.4%	10.6	14.3	-26.1%	10.3	
Tax	(1.3)	(1.3)	2.5%	(0.7)	100.3%	(2.0)	(2.9)	-31.1%	(2.3)	
Tax rate (%)	20.8%	20.0%	0.8% pts	15.8%	5.0% pts	18.8%	20.2%	-1.4% pts	22.4%	
Minority interests	0.1	(0.0)	n.m.	(0.0)	-227.9%	0.0	0.1	n.m.	-	
<b>Net profit</b>	<b>5.1</b>	<b>5.2</b>	<b>-2.2%</b>	<b>3.5</b>	<b>43.4%</b>	<b>8.6</b>	<b>11.4</b>	<b>-24.8%</b>	<b>8.0</b>	<b>FY23 net profit of S\$8.6m was slightly above expectations at 107.3% of our FY23F estimates, on strong sales recovery in 4Q23.</b>
Reported EPS (Scts)	1.62	1.68	-3.6%	1.15	40.9%	2.77	3.69	-24.9%	2.6	
Revenue breakdown	2H23	2H22	yoy % chg	1H23	hoh % chg	FY23	FY22	yoy % chg	Prev FY23F	Comments
Specialty pharmaceuticals	60.2	47.3	27.2%	42.0	43.3%	102.2	95.7	6.8%	92.8	Sale of specialty pharmaceutical picked in 2H23, growing 27.2% yoy to S\$60.2m, likely contributed by new products
Proprietary brands	13.8	12.7	8.6%	11.8	17.1%	25.7	23.4	9.4%	24.6	
Medical Hypermart	21.8	21.6	1.3%	20.9	4.5%	42.7	43.2	-1.1%	42.9	
	<b>95.9</b>	<b>81.6</b>	<b>17.5%</b>	<b>74.7</b>	<b>28.3%</b>	<b>170.6</b>	<b>162.3</b>	<b>5.1%</b>	<b>160.3</b>	

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 2: Earnings revisions

FYE Dec 31 (\$m)	New			Old			% change		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	183.1	190.9	195.6	164.2	168.3	-	11.5%	13.5%	N.A.
<b>Gross profit</b>	<b>68.4</b>	<b>71.6</b>	<b>73.6</b>	<b>64.3</b>	<b>66.0</b>	<b>-</b>	<b>6.4%</b>	<b>8.5%</b>	<b>N.A.</b>
GPM (%)	37.4%	37.5%	37.6%	39.2%	39.3%	N.A.	-1.8% pts	-1.7% pts	N.A.
EBIT	13.3	14.2	15.2	13.2	13.7	-	0.8%	3.6%	N.A.
<b>Reported PATMI</b>	<b>10.4</b>	<b>11.1</b>	<b>12.0</b>	<b>10.3</b>	<b>10.7</b>	<b>-</b>	<b>0.8%</b>	<b>3.7%</b>	<b>N.A.</b>
Core PATMI	10.4	11.1	12.0	10.3	10.7	-	0.8%	3.7%	N.A.
NPM (%)	5.7%	5.8%	6.1%	6.3%	6.4%	N.A.	-0.6% pts	-0.5% pts	N.A.
<b>EPS (Scts)</b>	<b>3.37</b>	<b>3.59</b>	<b>3.87</b>	<b>3.33</b>	<b>3.45</b>	<b>-</b>	<b>1.2%</b>	<b>4.0%</b>	<b>N.A.</b>

SOURCES: CGSI RESEARCH, COMPANY REPORTS

**Figure 3: HYP - DCF valuation**

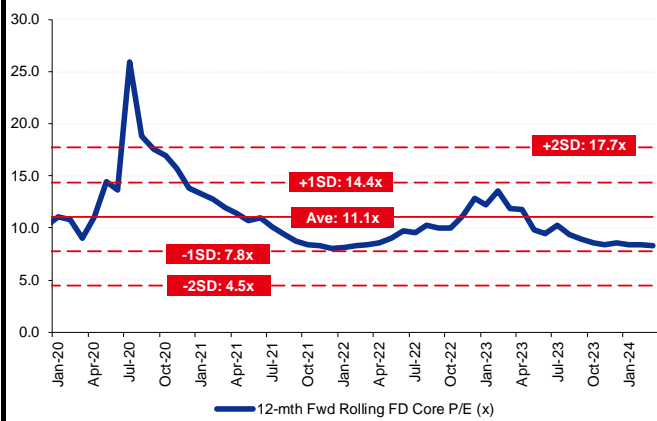
FCF calculation (\$m)	FY23	FY24F	FY25F	FY26F	FY27F	FY28F	Terminal Value
FCF	5.34	9.14	9.09	10.16	10.76	11.48	91.14
PV of the FCFs	5.34	9.14	7.94	7.74	7.16	6.66	46.21
Discount Factor	1.00	1.00	0.87	0.76	0.67	0.58	

Valuation	
Enterprise value	91.06
Less: net cash/(debt)	16.55
Less: minority interest	-
Add: associates	-
<b>Equity value</b>	<b>107.60</b>
Number of shares	309.20
<b>Equity value per share</b>	<b>0.350</b>

WACC	
Rf	3.5%
Beta	1.30
Cost of equity	14.6%
WACC	14.6%
Terminal growth	1.0%

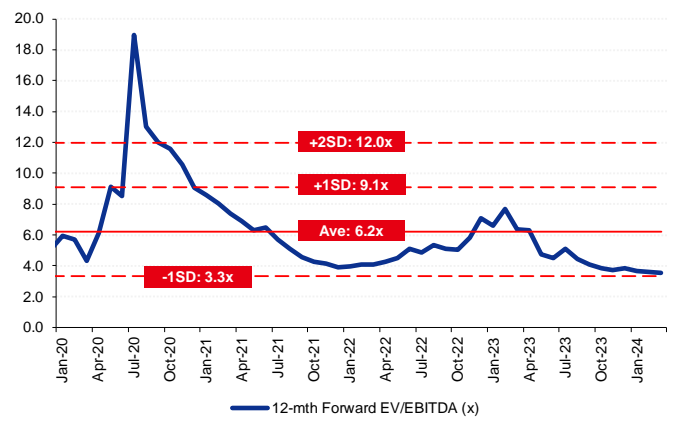
SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 4: HYP's 12-mth rolling fwd core P/E (x)**



SOURCES: CGSI RESEARCH, COMPANY REPORTS, BLOOMBERG

**Figure 5: HYP's 12-mth rolling fwd EV/EBITDA (x)**



SOURCES: CGSI RESEARCH, COMPANY REPORTS, BLOOMBERG



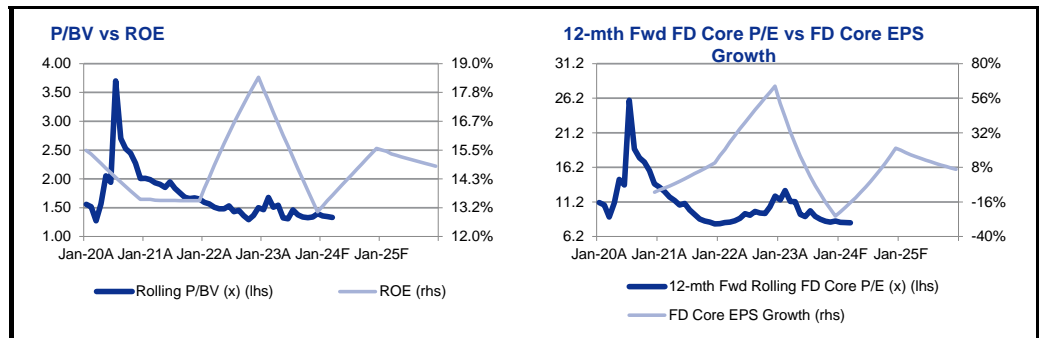
## ESG in a nutshell

HYP's ESG efforts are not rated by Refinitiv or MSCI. Nevertheless, HYP has been actively working on E, S, and G pillars via 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><b>Keep your eye on</b></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 risk product recalls that could adversely impact its business.</p>	<p><b>Implications</b></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><b>ESG highlights</b></p> <p>In terms of governance, 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 FY22.</p>	<p><b>Implications</b></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><b>Trends</b></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, according to the company.</p>	<p><b>Implications</b></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>

SOURCES: CGSI RESEARCH, REFINITIV

## BY THE NUMBERS



### Profit & Loss

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
<b>Total Net Revenues</b>	<b>162.9</b>	<b>171.3</b>	<b>183.1</b>	<b>190.9</b>	<b>195.6</b>
<b>Gross Profit</b>	<b>63.4</b>	<b>62.6</b>	<b>68.4</b>	<b>71.6</b>	<b>73.6</b>
<b>Operating EBITDA</b>	<b>14.0</b>	<b>10.3</b>	<b>13.5</b>	<b>14.4</b>	<b>14.9</b>
Depreciation And Amortisation	0.0	0.0	(0.7)	(0.7)	(0.1)
<b>Operating EBIT</b>	<b>14.0</b>	<b>10.3</b>	<b>12.9</b>	<b>13.7</b>	<b>14.8</b>
Financial Income/(Expense)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Pretax Income/(Loss) from Assoc.	0.5	0.5	0.5	0.5	0.5
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
<b>Profit Before Tax (pre-EI)</b>	<b>14.3</b>	<b>10.6</b>	<b>13.0</b>	<b>13.9</b>	<b>14.9</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>14.3</b>	<b>10.6</b>	<b>13.0</b>	<b>13.9</b>	<b>14.9</b>
Taxation	(2.9)	(2.0)	(2.6)	(2.8)	(3.0)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>11.4</b>	<b>8.6</b>	<b>10.4</b>	<b>11.1</b>	<b>12.0</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>11.4</b>	<b>8.6</b>	<b>10.4</b>	<b>11.1</b>	<b>12.0</b>
Recurring Net Profit	11.4	8.6	10.4	11.1	12.0
<b>Fully Diluted Recurring Net Profit</b>	<b>11.4</b>	<b>8.6</b>	<b>10.4</b>	<b>11.1</b>	<b>12.0</b>

### Cash Flow

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
<b>EBITDA</b>	<b>14.01</b>	<b>10.30</b>	<b>13.52</b>	<b>14.38</b>	<b>14.89</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	2.14	(4.24)	(1.14)	(1.04)	(0.62)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(0.66)	(0.70)	(0.66)	(0.66)	(0.11)
Other Operating Cashflow	2.87	2.53	3.26	2.32	2.07
Net Interest (Paid)/Received	(0.20)	(0.28)	(0.31)	(0.31)	(0.31)
Tax Paid	(2.15)	(2.60)	(2.54)	(2.60)	(2.77)
<b>Cashflow From Operations</b>	<b>16.02</b>	<b>5.01</b>	<b>12.14</b>	<b>12.09</b>	<b>13.16</b>
Capex	(0.56)	(0.30)	(3.00)	(3.00)	(3.00)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	0.21	0.12	0.00	0.00	0.00
Other Investing Cashflow	(0.66)	0.35	0.00	0.00	0.00
<b>Cash Flow From Investing</b>	<b>(1.01)</b>	<b>0.17</b>	<b>(3.00)</b>	<b>(3.00)</b>	<b>(3.00)</b>
Debt Raised/(repaid)	(1.86)	(1.53)	0.00	0.00	0.00
Proceeds From Issue Of Shares	6.10	0.00	0.00	0.00	0.00
Shares Repurchased					
Dividends Paid	(2.07)	(14.56)	(2.66)	(3.12)	(3.33)
Preferred Dividends					
Other Financing Cashflow	(1.02)	(1.19)	0.00	0.00	0.00
<b>Cash Flow From Financing</b>	<b>1.15</b>	<b>(17.28)</b>	<b>(2.66)</b>	<b>(3.12)</b>	<b>(3.33)</b>
Total Cash Generated	16.17	(12.10)	6.49	5.97	6.82
<b>Free Cashflow To Equity</b>	<b>13.16</b>	<b>3.65</b>	<b>9.14</b>	<b>9.09</b>	<b>10.16</b>
<b>Free Cashflow To Firm</b>	<b>15.25</b>	<b>5.45</b>	<b>9.45</b>	<b>9.40</b>	<b>10.46</b>

SOURCES: CGSI RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Cash And Equivalents	36.48	23.37	29.86	35.83	42.65
Total Debtors	31.11	41.11	37.61	39.23	40.18
Inventories	21.26	25.53	26.69	27.77	28.41
Total Other Current Assets	0.81	2.06	2.06	2.06	2.06
<b>Total Current Assets</b>	<b>89.65</b>	<b>92.06</b>	<b>96.22</b>	<b>104.88</b>	<b>113.30</b>
Fixed Assets	3.02	4.86	5.26	6.60	7.63
Total Investments	2.67	0.00	0.46	0.92	1.38
Intangible Assets	19.07	23.58	22.92	22.26	22.15
Total Other Non-Current Assets	0.06	0.17	0.17	0.17	0.17
<b>Total Non-current Assets</b>	<b>24.82</b>	<b>28.61</b>	<b>28.81</b>	<b>29.95</b>	<b>31.34</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	37.42	46.71	43.24	44.89	45.87
Other Current Liabilities	2.66	2.54	2.60	2.77	2.99
<b>Total Current Liabilities</b>	<b>40.07</b>	<b>49.24</b>	<b>45.84</b>	<b>47.66</b>	<b>48.86</b>
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3.33	4.41	4.41	4.41	4.41
<b>Total Non-current Liabilities</b>	<b>3.33</b>	<b>4.41</b>	<b>4.41</b>	<b>4.41</b>	<b>4.41</b>
Total Provisions	0.79	1.25	1.25	1.25	1.25
<b>Total Liabilities</b>	<b>44.20</b>	<b>54.90</b>	<b>51.50</b>	<b>53.32</b>	<b>54.52</b>
Shareholders' Equity	69.03	62.99	70.74	78.72	87.34
Minority Interests	1.25	2.88	2.88	2.88	2.88
<b>Total Equity</b>	<b>70.27</b>	<b>65.86</b>	<b>73.62</b>	<b>81.60</b>	<b>90.21</b>

### Key Ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	28.9%	5.1%	7.3%	4.3%	2.4%
Operating EBITDA Growth	69.6%	(26.5%)	31.3%	6.4%	3.6%
Operating EBITDA Margin	8.63%	6.04%	7.38%	7.53%	7.62%
Net Cash Per Share (\$\$)	0.12	0.08	0.10	0.12	0.14
BVPS (\$\$)	0.22	0.20	0.23	0.25	0.28
Gross Interest Cover	58.88	37.04	41.89	44.69	48.17
Effective Tax Rate	20.2%	18.8%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	18%	170%	26%	28%	28%
Accounts Receivables Days	67.07	77.26	78.70	73.46	74.11
Inventory Days	84.98	78.56	83.37	83.35	84.04
Accounts Payables Days	125.9	133.3	135.9	127.5	128.5
ROIC (%)	32.0%	24.4%	21.4%	22.5%	23.5%
ROCE (%)	22.3%	14.9%	18.1%	17.4%	17.0%
Return On Average Assets	10.9%	7.5%	8.7%	8.7%	8.7%

### Key Drivers

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Specialty pharma principals gross margin	0.5	0.4	0.4	0.4	0.4
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: CGSI RESEARCH, COMPANY REPORTS

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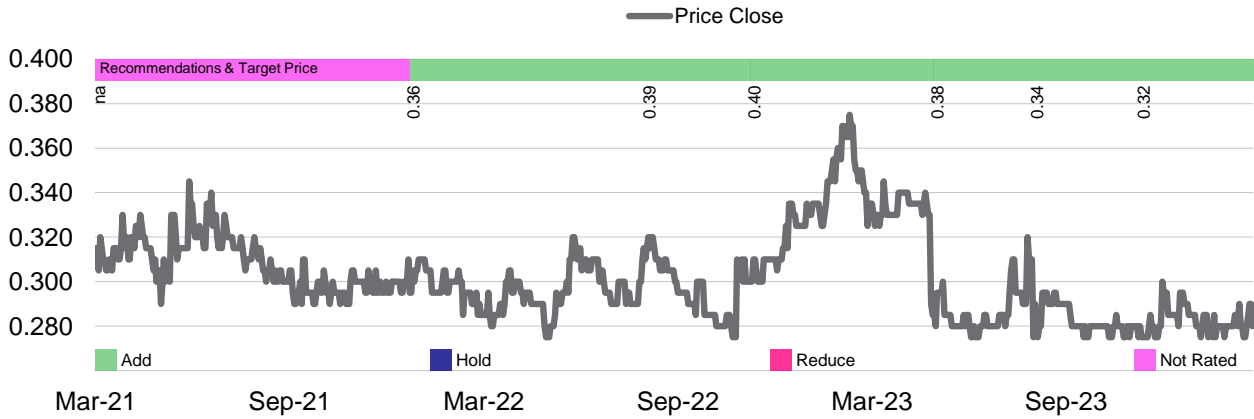
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	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

Spitzer Chart for stock being researched ( 2 year data )

Hyphens Pharma International (HYP SP)



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