

Singapore

ADD (no change)

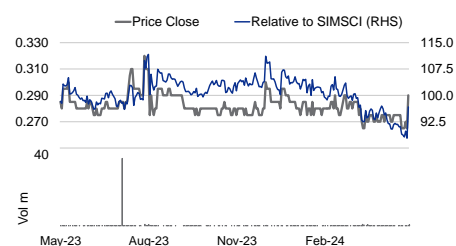
Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price:	S\$0.29
Target price:	S\$0.35
Previous target:	S\$0.35
Up/downside:	20.7%
CGSI / Consensus:	0.0%
Reuters:	HYPH.SI
Bloomberg:	HYP SP
Market cap:	US\$66.50m
	S\$89.57m
Average daily turnover:	US\$0.02m
	S\$0.02m
Current shares o/s:	308.8m
Free float:	24.1%

*Source: Bloomberg

Key changes in this note

➤ No changes.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.4	3.6	1.8
Relative (%)	2.1	-4.6	1.1

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

Analyst(s)



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Hyphens Pharma International

Positive revenue momentum in 1Q24

- We think HYP's 1Q24 net profit of S\$2.73m, in line at 26.2%/24.7% of our and Bloomberg consensus FY24 estimates, is sustainable.
- 1Q24 revenue of S\$48.0m, its second-highest quarterly revenue ever, helped offset the 3.2% pts yoy GP margin squeeze due to ongoing cost pressures.
- Reiterate Add as we remain positive on its revenue momentum; our DCF-based (WACC: 14.6%, LTG: 1.0%) TP remains unchanged at S\$0.35.

Robust revenue momentum: low base yoy, but high base qoq

HYP's 1Q24 net profit of S\$2.73m grew a steep 97.6% yoy due to a low base in 1Q23. Supply chain disruptions, which led to the low revenue and profit base in 1Q23, have eased since, translating to the vastly improved net profit yoy. The 6.6% qoq decline in net profit was coming off a record quarterly revenue of S\$53.1m in 4Q23; management in its trading update on 14 May 2024 attributed this to stock-up activities by distributors during the 4Q23 quarter. Nevertheless, 1Q24 continued to show robust revenue momentum seen since 1Q22 post its acquisition of Novem in 4Q21 (Fig 2).

Margin pressure from macroeconomic conditions

Gross profit margin declined 3.2% pts yoy in 1Q24, partially due to a confluence of factors including (1) continued cost pressure and (2) a higher sales mix of lower-margin products. HYP also disclosed that the weaker local currencies HYP conducts its sales in (e.g. RM and VND) against the US\$ and €, which the bulk of its supply of pharmaceutical products from brand principals are denominated in, also continued to put pressure on its GPM, and it continues to find it challenging to pass through the increased cost. HYP also previously guided during its FY23 results briefing that it will be looking to improve its sales mix by focusing on higher-margin products to improve margins.

Reiterate Add; TP unchanged as we monitor margin trends

We reiterate our Add call as we think HYP will continue to see incremental revenue growth in FY24F from FY23 with its expanded product portfolio, including new products such as infant care and medical aesthetic products added to its specialty pharmaceutical portfolio and expansion of distribution channels for its Ocean Health supplements into 7-Eleven convenient stores in Singapore. HYP also continues to be on the lookout for potential M&A opportunities that align with its strategic goals of expanding its product portfolio and presence across ASEAN. We keep our TP unchanged at S\$0.35 as we continue to watch for margin trends ahead. Re-rating catalysts include: margin expansion from better cost pass-through, additional funding for its digital venture, DocMed, as well as earlier commercialisation of products such as Wynzora, a topical treatment for plaque psoriasis, which was successfully in-licenced in Mar 2024 and is undergoing product registration in various countries today, it said. Downside risks include: continued depreciation of RM or VND against € and/or US\$ resulting in margin deterioration and termination of contracts with key brand principals.

Financial Summary	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)	7.74	10.44	8.60	8.07	7.49
DPS (S\$)	0.011	0.045	0.010	0.011	0.012
Dividend Yield	3.8%	15.4%	3.5%	3.7%	4.0%
EV/EBITDA (x)	3.69	6.71	4.59	3.87	3.25
P/FCFE (x)	6.71	24.57	9.79	9.85	8.82
Net Gearing	(51.9%)	(35.5%)	(40.6%)	(43.9%)	(47.3%)
P/BV (x)	1.30	1.42	1.27	1.14	1.03
ROE	18.5%	13.0%	15.6%	14.9%	14.4%
EPS/Consensus EPS (x)			0.94	0.92	0.99

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Positive revenue momentum in 1Q24

Figure 1: Results comparison

FYE Dec 31 (\$m)	1Q24	1Q23	yoy % change	4Q23	qoq% change	Prev. FY24F	Remarks
Revenue	48.0	33.2	44.4%	53.1	-9.6%	183.1	1Q24 revenue in line with estimates at 26.2% of our and Bloomberg consensus' FY24F estimates. A strong 44.4% yoy growth was due to a low base in 1Q23 from supply chain disruptions, while the 9.6% qoq decline was a coming off inventory stock-up activities by distributors in 4Q23, according to management in its disclosures. No segmental disclosures but management noted in its announcement that its proprietary brands, which contributed c.15% of revenue in FY23, had declined 4% qoq.
Gross profit	17.4	13.1	32.8%	18.7	-7.0%	68.4	
Gross profit margin (%)	36.3%	39.5%	-3.2% pts	35.3%	1.0% pts	37.4%	GP margin pressures were attributed to weakening of key sales currencies (i.e. MYR and VND) against supplies currencies (i.e. EUR and USD), a sales mix of lower-margin products, as well as cost pressures.
Profit before tax	3.5	1.6	118.7%	3.6	-1.5%	13.0	
PBT margin (%)	7.4%	4.9%	2.5% pts	6.8%	0.6% pts	7.1%	
Net profit	2.73	1.38	97.6%	2.92	-6.6%	10.4	1Q24 net profit was in line at 26.2% of our FY24F estimates, suggesting controlled opex despite the GP margin compression of 3.2% pts yoy. 1Q24 net profit was also largely in line at 24.7% of Bloomberg consensus' FY24F estimates.
Net profit margin (%)	5.7%	4.1%	1.5% pts	5.5%	0.2% pts	5.7%	

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 2: HYP historical revenue trend (\$m)

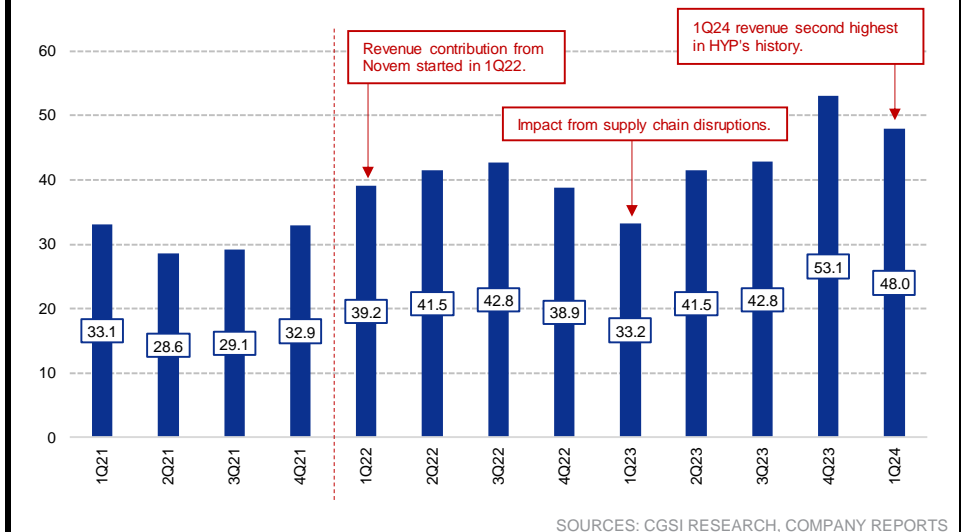


Figure 3: HYP - DCF valuation

FCF calculation (\$m)	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	Terminal Value
FCF	9.14	9.09	10.16	10.76	11.48	12.23	91.14
PV of the FCFs	9.14	7.94	7.74	7.16	6.66	6.20	46.21
Discount Factor	1.00	0.87	0.76	0.67	0.58	0.51	

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

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

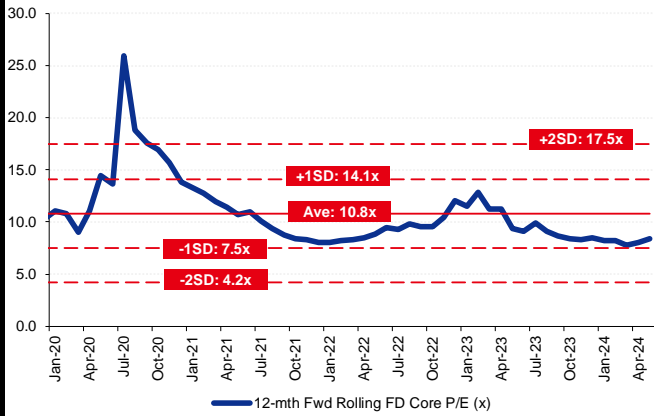
SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: Peer comparison (as at 15 Mar 2024)

Company	Bloomberg Ticker	Recom.	Price (lci curr)	Target Price (lci curr)	Market Cap (US\$ m)	EV/EBITDA (x) CY24F	EV/EBITDA (x) CY25F	3-year EPS CAGR (%)	P/E (x) CY24F	P/E (x) CY25F	Recurring ROE (%) CY24F	Recurring ROE (%) CY25F	Dividend Yield (%) CY24F	Dividend Yield (%) CY25F
Hyphens Pharma International	HYP SP	Add	0.290	0.35	67	4.5	3.9	11.6%	8.6	8.1	15.7%	14.9%	3.5%	3.7%
Mega Lifesciences	MEGA TB	Add	40.50	53.00	968	10.6	9.9	3.2%	15.3	14.3	24.7%	23.7%	4.4%	4.7%
Duopharma Biotech Bhd	DBB MK	Hold	1.21	1.59	247	8.1	7.3	N.A.	13.7	12.5	11.3%	11.4%	2.2%	2.4%
Simple average						9.3	8.6	3.2%	14.5	13.4	18.0%	17.5%	3.3%	3.5%

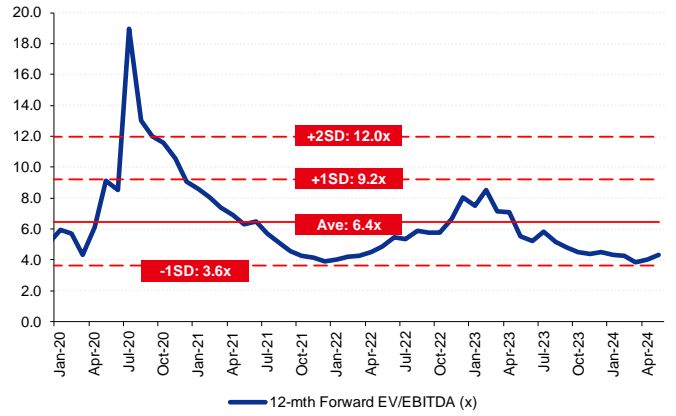
SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Figure 5: HYP 12-mth rolling fwd core P/E (x)



SOURCES: CGSI RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 6: HYP 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.

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 risk 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

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.

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 positive for HYP, in our view.

Trends

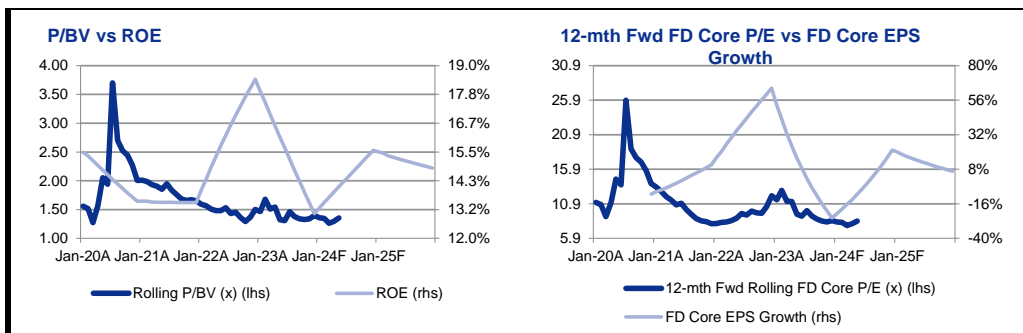
In terms of environment, in FY21, HYP launched a refill pack for its Ocean Health Omega-3 Fish Oil 1000mg product. This refill pack is the first refill pouch in Singapore's health supplement category and it uses 90% less plastic compared to the large Ocean Health Omega-3 Fish Oil bottle, according to the company.

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 of HYP.

SOURCES: CGSI RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

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

Cash Flow

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	14.01	10.30	13.52	14.38	14.89
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)
Cashflow From Operations	16.02	5.01	12.14	12.09	13.16
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
Cash Flow From Investing	(1.01)	0.17	(3.00)	(3.00)	(3.00)
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
Cash Flow From Financing	1.15	(17.28)	(2.66)	(3.12)	(3.33)
Total Cash Generated	16.17	(12.10)	6.49	5.97	6.82
Free Cashflow To Equity	13.16	3.65	9.14	9.09	10.16
Free Cashflow To Firm	15.25	5.45	9.45	9.40	10.46

SOURCES: CGSI RESEARCH ESTIMATES, 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
Total Current Assets	89.65	92.06	96.22	104.88	113.30
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
Total Non-current Assets	24.82	28.61	28.81	29.95	31.34
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
Total Current Liabilities	40.07	49.24	45.84	47.66	48.86
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3.33	4.41	4.41	4.41	4.41
Total Non-current Liabilities	3.33	4.41	4.41	4.41	4.41
Total Provisions	0.79	1.25	1.25	1.25	1.25
Total Liabilities	44.20	54.90	51.50	53.32	54.52
Shareholders' Equity	69.03	62.99	70.74	78.72	87.34
Minority Interests	1.25	2.88	2.88	2.88	2.88
Total Equity	70.27	65.86	73.62	81.60	90.21

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 ESTIMATES, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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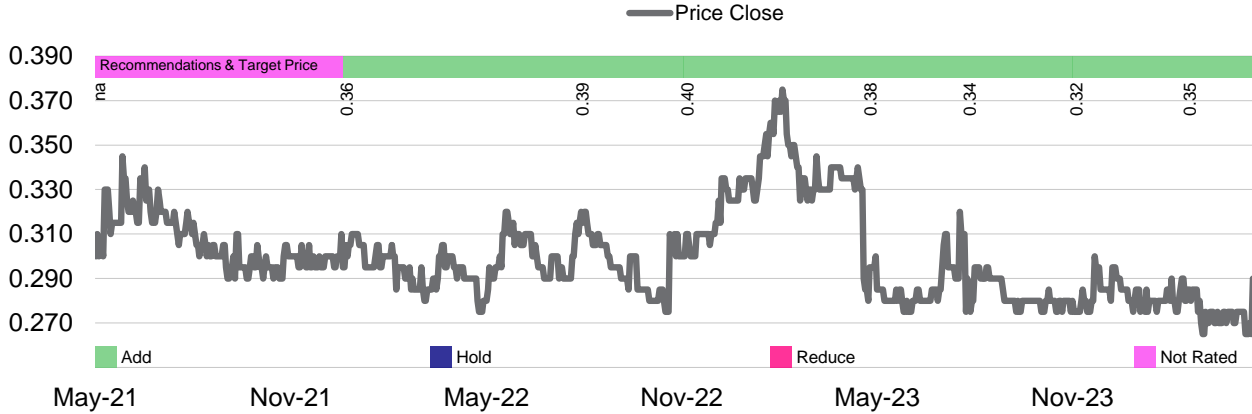
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2024		
634 companies under coverage for quarter ended on 31 March 2024		
	Rating Distribution (%)	Investment Banking clients (%)
Add	65.5%	1.3%
Hold	24.1%	0.2%
Reduce	10.4%	0.3%

Spitzer Chart for stock being researched (2 year data)

Hyphens Pharma International (HYP SP)



Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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