

Singapore

ADD (no change)

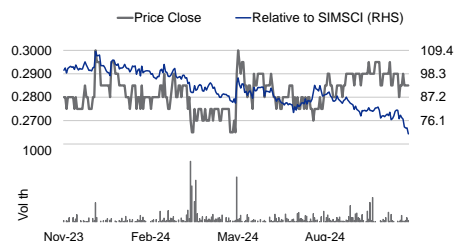
Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price:	S\$0.285
Target price:	S\$0.35
Previous target:	S\$0.40
Up/downside:	22.8%
CGSI / Consensus:	-6.7%
Reuters:	HYPH.SI
Bloomberg:	HYP SP
Market cap:	US\$65.81m
	S\$88.03m
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

- Reduce FY24F EPS by 14.8%.
- Reduce FY25F EPS by 10.6%.
- Reduce FY26F EPS by 10.1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-3.4	3.6	3.6
Relative (%)	-10.8	-18.6	-28

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

Analyst(s)



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Hyphens Pharma International

Slowing revenue momentum

- HYP reported 9M24 net profit of S\$7.5m, below at 63.4% of our FY24F estimate due to higher opex in 3Q24.
- Revenue momentum slowed in 3Q24, growing 2.5% yoy while declining 15.0% qoq after picking up in 4Q23 when supply chain disruptions eased.
- We reduce our FY24F-26F EPS estimates by 10.1-14.8% as revenue growth tapers. Reiterate Add with a lower TP of S\$0.35.

Vietnam likely culprit for slower revenue momentum

Although no segmental breakdown was provided in its 3Q24 trading update, we believe the weaker revenue momentum in 3Q24 was due to slower sales in Vietnam. This is due to the expansion in GP margins by 3.3% pts yoy and 5.1% qoq in 3Q24, as we understood from the management previously that Vietnam tends to command lower margins due to more pricing pressure in its key hospital sales channel. We think the slowing revenue momentum could suggest that the inventory replacement cycle by customers in Vietnam post the supply chain disruptions in 1H23 may have eased as well.

Higher opex weighed on margins

According to HYP, 3Q24 opex was higher due to improved sales, while manpower costs and administrative expenses also crept up, although it did not provide the quantum of the increase. We believe higher manpower costs were likely due to expansion of its sales force across key operating regions such as Vietnam, Singapore and Malaysia where HYP plans to further grow its business, according to our conversations with the management during the 1H24 analyst briefing held on 19 Aug 24.

Reiterate Add; TP reduced to S\$0.35

We reduce our FY24F-26F EPS by 10.1-14.8% as revenue momentum slows and forex movement risks arise. A strengthening US\$ is a risk for HYP, as its key principal products are sourced from the US and EU, while its key sales markets are Vietnam, Singapore and Malaysia. Our DCF-TP (WACC: 14.7%) is reduced to S\$0.35 as a result. We retain our Add call as we see potential for higher contribution from new products within its portfolio, such as its medical aesthetics products under subsidiary Ardence, as well as new product lines from its proprietary brands such as Ceradan and Ocean Health going forward. Re-rating catalysts includes higher contribution from Ardence after HYP undertakes the second tranche of stake increase from 65% to 82% after FY24F as well as subsequent funding rounds for Pan-Malayan, which houses its digital assets in DocMed and WellAway. Downside risks: unfavourable ROI for its sales and marketing expenses resulting in subdued profitability, supply chain disruptions affecting supply of key specialty pharmaceutical products, as well as poor cost pass-through reducing HYP's pricing competitiveness.

Financial Summary

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue (S\$m)	162.3	170.6	197.6	206.2	211.2
Operating EBITDA (S\$m)	14.01	10.30	13.12	14.54	15.10
Net Profit (S\$m)	11.41	8.58	10.09	11.23	12.12
Core EPS (S\$)	0.037	0.028	0.033	0.036	0.039
Core EPS Growth	62.1%	(24.8%)	17.6%	11.3%	7.9%
FD Core P/E (x)	7.61	10.26	8.72	7.84	7.26
DPS (S\$)	0.011	0.045	0.010	0.011	0.012
Dividend Yield	3.9%	15.6%	3.4%	3.8%	4.1%
EV/EBITDA (x)	3.58	6.56	5.20	4.25	3.61
P/FCFE (x)	6.60	24.14	61.46	9.76	8.67
Net Gearing	(51.9%)	(35.5%)	(30.2%)	(34.5%)	(38.7%)
P/BV (x)	1.27	1.40	1.25	1.12	1.01
ROE	18.5%	13.0%	15.1%	15.1%	14.6%
% Change In Core EPS Estimates			(14.8%)	(10.6%)	(10.1%)
EPS/Consensus EPS (x)			0.86	0.91	0.89

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Slowing revenue momentum

Figure 1: Results comparison

FYE Dec 31 (\$m)	3Q24	3Q23	yoy % change	2Q24	qoq% change	Prev. FY24F	Remarks
Revenue	43.9	42.8	2.5%	51.7	-15.0%	204.8	3Q24 revenue improved 2.5% yoy but declined 15.0% qoq, with the slowdown in revenue momentum suggesting that there was an inventory restocking post supply chain disruptions from 1H23, which may have started to ease in 3Q24.
Gross profit	17.0	15.2	12.1%	17.4	-2.2%	69.6	
Gross profit margin (%)	38.7%	35.4%	3.3% pts	33.6%	5.1% pts	34.0%	Gross margin improvement of 5.1% pts qoq suggests an underlying change in sales mix, which would probably be a result of slower revenue from Vietnam, which typically commands lower margins.
Profit before tax	2.8	2.8	-1.3%	3.9	-29.7%	14.8	
PBT margin (%)	6.3%	6.5%	-0.2% pts	7.6%	-1.3% pts	7.2%	
Net profit	2.02	2.14	-5.6%	3.15	-36.0%	11.8	Net profit declined 5.6% yoy, as opex increased, attributed to higher distribution and staff costs, as well as administrative expenses.
Net profit margin (%)	4.6%	5.0%	-0.4% pts	6.1%	-1.5% pts	5.8%	

FYE Dec 31 (\$m)	9M24	9M23	yoy % change	Prev. FY24F	% of	Remarks
Revenue	143.5	117.5	22.1%	204.8	70.1%	9M24 revenue fell short of expectations at 70.1% of both our and Bloomberg consensus' FY24F estimates after a slower 3Q24.
Gross profit	51.8	43.2	19.9%	69.6	74.4%	9M24 gross profit however, was in line at 74.4% of our FY24F estimates, due to favourable sales mix.
Gross profit margin (%)	36.1%	36.7%	-0.7% pts	34.0%	2.1% pts	
Profit before tax	10.2	7.0	46.4%	14.8	69.0%	
PBT margin (%)	7.1%	5.9%	1.2% pts	7.2%	-0.1% pts	
Net profit	7.51	5.66	32.6%	11.84	63.4%	9M24 net profit of S\$7.5m was below expectations at 63.4% of both our and Bloomberg consensus' FY24F estimates.
Net profit margin (%)	5.2%	4.8%	0.4% pts	5.8%	-0.6% pts	

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS
*Limited quarterly disclosures

Figure 2: Forecast changes

FYE Dec 31 (\$m)	New			Old			% change		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	197.6	206.2	211.2	204.8	213.7	218.87	-3.5%	-3.5%	-3.5%
Gross profit	67.1	70.2	72.1	69.6	72.8	74.81	-3.6%	-3.6%	-3.6%
GPM (%)	33.9%	34.1%	34.1%	34.0%	34.1%	34.2%	0.0% pts	0.0% pts	0.0% pts
EBIT	12.9	14.3	15.5	15.1	16.0	17.16	-14.5%	-10.4%	-9.9%
Reported PATMI	10.1	11.2	12.1	11.8	12.6	13.48	-14.8%	-10.6%	-10.1%
Core PATMI	10.1	11.2	12.1	11.8	12.6	13.48	-14.8%	-10.6%	-10.1%
NPM (%)	5.1%	5.4%	5.7%	5.8%	5.9%	6.2%	-0.7% pts	-0.4% pts	-0.4% pts
EPS (Scts)	3.26	3.63	3.92	3.83	4.06	4.36	-14.8%	-10.6%	-10.1%

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: HYP - DCF Valuation

FCF calculation (\$m)	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	Terminal Value
FCF	1.43	9.02	10.15	10.78	11.53	12.32	108.27
PV of the FCFs	1.43	7.94	7.86	7.36	6.92	6.51	57.22
Discount Factor	1.00	0.88	0.77	0.68	0.60	0.53	

Valuation	
Enterprise value	95.24
Less: net cash/(debt)	(15.32)
Less: minority interest	-
Add: associates	-
Equity value	110.56
Number of shares	309.20
Equity value per share (\$)	0.350

WACC	13.6%
Rf	3.0%
Terminal growth	2.0%
Equity risk premium	12.0%
Beta	1.3
Cost of equity	14.7%
Debt-to-equity	0.10
Cost of debt	4.5%
Tax rate	17.0%
Effective cost of debt	3.7%

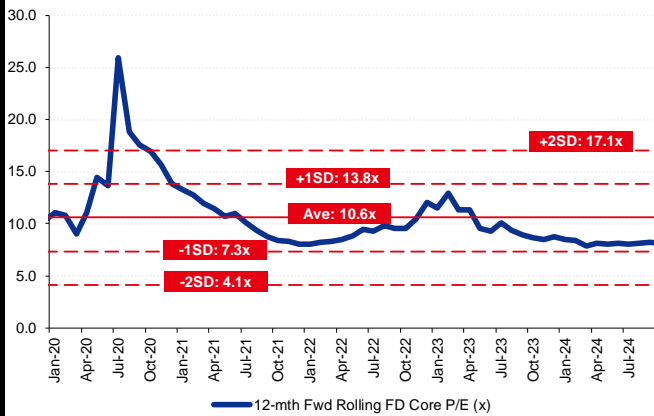
SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: Peers comparison (as of 13 Nov 24)

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	0.285	0.35	66	4.3	3.6	17.4%	7.4	7.0	17.4%	16.4%	4.0%	4.3%
Mega Lifesciences	MEGA TB	Hold	37.50	40.50	939	11.5	9.7	1.3%	15.3	14.7	21.9%	21.0%	3.5%	4.0%
Duopharma Biotech Bhd	DBB MK	Add	1.23	1.55	267	9.8	7.8	N.A.	18.7	13.4	8.7%	11.7%	2.1%	3.0%
Simple average						10.6	8.8	1.3%	17.0	14.0	15.3%	16.4%	2.8%	3.5%

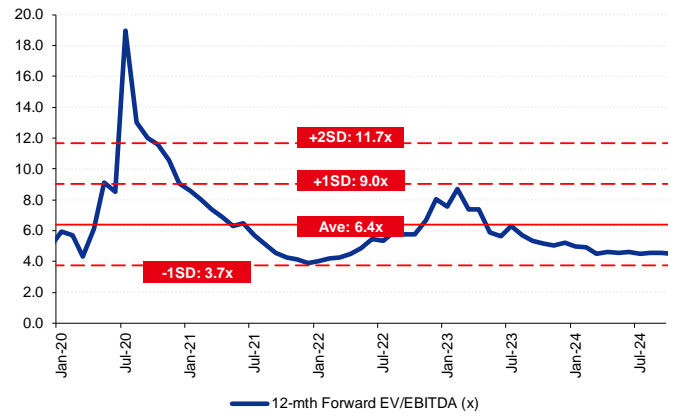
SOURCES: CGSI RESEARCH ESTIMATES, BLOOMBERG

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 LSEG 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

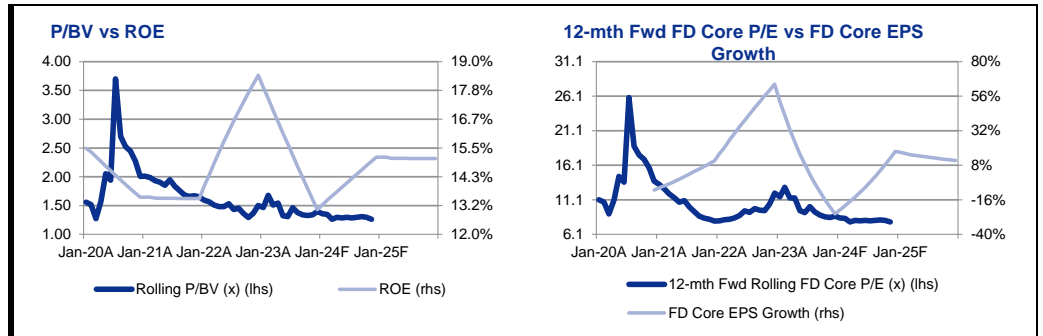
In terms of environment, in FY21, HYP launched a refill pack for its Ocean Health Omega-3 Fish Oil 1000mg product. This refill pack is the first refill pouch in Singapore's health supplement category and it uses 90% less plastic compared to the large Ocean Health Omega-3 Fish Oil bottle, according to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

BY THE NUMBERS



Profit & Loss

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Net Revenues	162.9	171.3	197.6	206.2	211.2
Gross Profit	63.4	62.6	67.1	70.2	72.1
Operating EBITDA	14.0	10.3	13.1	14.5	15.1
Depreciation And Amortisation	0.0	0.0	(0.7)	(0.7)	(0.1)
Operating EBIT	14.0	10.3	12.5	13.9	15.0
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	12.6	14.0	15.1
Exceptional Items					
Pre-tax Profit	14.3	10.6	12.6	14.0	15.1
Taxation	(2.9)	(2.0)	(2.5)	(2.8)	(3.0)
Exceptional Income - post-tax					
Profit After Tax	11.4	8.6	10.1	11.2	12.1
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	11.4	8.6	10.1	11.2	12.1
Recurring Net Profit	11.4	8.6	10.1	11.2	12.1
Fully Diluted Recurring Net Profit	11.4	8.6	10.1	11.2	12.1

Cash Flow

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	14.01	10.30	13.12	14.54	15.10
Cash Flow from Invt. & Assoc.					
Change In Working Capital	2.14	(4.24)	(8.45)	(1.36)	(0.80)
(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)	(2.52)	(2.81)
Cashflow From Operations	16.02	5.01	4.43	12.02	13.15
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)	(3.03)	(3.37)
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)	(3.03)	(3.37)
Total Cash Generated	16.17	(12.10)	(1.22)	5.99	6.78
Free Cashflow To Equity	13.16	3.65	1.43	9.02	10.15
Free Cashflow To Firm	15.25	5.45	1.74	9.33	10.45

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	22.15	28.14	34.92
Total Debtors	31.11	41.11	43.32	45.19	46.29
Inventories	21.26	25.53	33.98	35.39	36.20
Total Other Current Assets	0.81	2.06	2.06	2.06	2.06
Total Current Assets	89.65	92.06	101.50	110.78	119.47
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	48.91	50.85	51.95
Other Current Liabilities	2.66	2.54	2.52	2.81	3.03
Total Current Liabilities	40.07	49.24	51.44	53.65	54.98
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	57.10	59.31	60.64
Shareholders' Equity	69.03	62.99	70.42	78.63	87.38
Minority Interests	1.25	2.88	2.88	2.88	2.88
Total Equity	70.27	65.86	73.30	81.50	90.25

Key Ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	28.9%	5.1%	15.8%	4.3%	2.4%
Operating EBITDA Growth	69.6%	(26.5%)	27.4%	10.8%	3.8%
Operating EBITDA Margin	8.63%	6.04%	6.64%	7.05%	7.15%
Net Cash Per Share (S\$)	0.12	0.08	0.07	0.09	0.11
BVPS (S\$)	0.22	0.20	0.23	0.25	0.28
Gross Interest Cover	58.88	37.04	40.59	45.23	48.84
Effective Tax Rate	20.2%	18.8%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	18%	170%	26%	27%	28%
Accounts Receivables Days	67.07	77.26	78.18	78.34	79.05
Inventory Days	84.98	78.56	83.41	93.10	93.94
Accounts Payables Days	125.9	133.3	127.3	127.4	128.6
ROIC (%)	32.0%	24.4%	20.7%	19.7%	20.7%
ROCE (%)	22.3%	14.9%	17.6%	17.7%	17.2%
Return On Average Assets	10.9%	7.5%	8.2%	8.5%	8.5%

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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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2024		
588 companies under coverage for quarter ended on 30 September 2024		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.0%	0.5%
Hold	23.5%	0.9%
Reduce	9.5%	0.2%

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.
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<i>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.</i>	
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