

Hyphens Pharma International Ltd

17 August 2023

BUY (Maintain)

BBG	HYP SP
Market cap	S\$86.6m
52-week range	S\$0.270 – S\$0.375
Current Price	S\$0.280
Target Price Previous Price	S\$0.33 S\$0.34
Shares Outstanding	309.2m
Free Float	24.24%
Major Shareholders	Lim See Wah 47.75% Tan Kia King 28.01%
P/BV (1H23)	1.3x
Net Debt to EBITDA (1H23)	Net cash

Source: Company data, Bloomberg, SAC Capital

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Navigating Challenges Amidst Ongoing Improvements

1H23 revenue/net profit is in line with our projections, coming in at 51%/42% of our full-year forecast. Specialty Pharma Principals (SPP) 1H23 revenue experienced a drop of 12.9% yoy (-27% yoy in 1Q23, 0% yoy in 2Q23) to S\$42.0m on the back of (i) missing S\$4.4m/S\$2.1m in revenue/net profit from the discontinuation of the distribution agreement for Biosensors products ended in Dec; (ii) shipping delays for specific products; and (iii) the absence of one-off tender awarded to Novem in 1H2022. Proprietary Brands (PB) 1H23 revenue rose 9.1% yoy to S\$11.8m (+16% yoy in 1Q23, 3% yoy in 2Q23) fuelled by greater demand for Ceradan dermatological products and Ocean Health supplements. Medical Hypermart and Digital 1H23 revenue declined 3.5% yoy to S\$20.9m.

Despite the challenges the Group faced which caused 1Q23 revenue to plunge by 15.2%, 2Q23 revenue came in at S\$41.5m (+0% yoy, +24.8% qoq) buoyed by more tenders won by Novem and higher sales coming from SPP and PB. 2Q23 gross margins dipped 2.7pp yoy/3.5pp qoq to 35.9% and net profit stood at S\$2.2m (-28.1% yoy, +55.6% qoq).

Richer portfolio. In 1H23, Hyphens (i) secured licenses to develop and commercialize Byfavo procedural sedation drug in Singapore; (ii) authorized by Laboratoires Gilbert S.A.S. to distribute its product line (Physiolac, Physiodose, Dologel, and A-Cerumen items) in regions including Hong Kong, Laos, Mongolia, Singapore, Vietnam, Malaysia, Indonesia, Philippines, Thailand, and Brunei; and (iii) rolled out Ocean Health gummy supplements to captivate a younger audience.

Extending digital healthtech to Malaysia. After kickstarting the joint venture with Hoang Duc in Vietnam to create a B2B Virtual Medical Hypermart for pharmaceutical supplies, the Group launched TechMed in Malaysia. The management indicated plans to intensify product development and platform expansion efforts.

Expanding into the Medical Aesthetic (MA) market. The approval of Nabota, a premium-quality botulinum toxin aiming to enhance facial wrinkles, the introduction of Plinest for revitalization and anti-ageing purposes, in conjunction with its existing products, has prompted Hyphens to establish its own specialized MA division. The Group is well-positioned to take advantage of the thriving MA market in Asia-Pacific which is anticipated to grow at a CAGR of 13.7% between 2023 to 2027, reaching USD9.7b by 2030, according to Data Bridge Market Research.

Supply disruption, although better, persists. Manufacturers' incapacity to meet the accumulated demand has resulted in a deficit of supply for certain products within Hyphens' SPP portfolio. Adherence to regulatory standards has prevented an instant expansion of production capacity. While one supplier has returned to regular operations, another is only capable of partial supply. In Vietnam, some of Hyphens' supplies have been fully depleted, potentially prompting consumers to switch to substitute brands. The management foresees that the final supplier coming back online by the year's end.

Special interim dividend of 3.6 Cents/sh was announced as part of its 5th-anniversary celebration since IPO, all while maintaining a robust net cash position of S\$19.4m.

Reiterate BUY with a lower TP of \$0.33 as we revise EPS down by 10-14% over FY23E-FY24E to reflect higher distribution cost, mitigated by better-than-expected revenue growth in 2Q23 as compared to 1Q23. Upside re-rating might come from (i) accelerated adoption of new product offerings, DocMed's platform in Vietnam and TechMed in Malaysia; (ii) faster-than-expected alleviation of the supply chain. Risks include prolonged supply chain disruption followed by loss in revenue and market share, and inability to pass down inflated supply prices and OPEX.

FYE 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 (loss)	6.2	6.8	11.4	7.1	8.2
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
Net cash (Net debt)	25.1	13.4	32.0	21.6	26.9
Valuation					
EBIT margin (%)	5.8	6.6	8.9	5.6	6.2
ROIC (%)	16.9	16.1	28.9	16.7	20.1
EV/EBITDA (x)	7.5	7.3	4.0	5.4	4.5
P/E (x)	15.1	13.2	9.2	12.3	10.6
Dividend yield (%)	2.0	2.2	3.3	3.9	3.8

Income Statement

FYE Dec (\$m)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	121.0	125.9	162.3	153.5	161.7
Cost of sales	(77.3)	(77.8)	(99.5)	(96.0)	(101.2)
Gross profit (loss)	43.6	48.1	62.8	57.6	60.4
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)
EBITDA	9.1	10.3	17.7	11.7	12.7
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
EBIT	7.0	8.3	14.5	8.7	10.1
Finance costs	0.1	(0.0)	(0.2)	(0.2)	(0.2)
Pretax profit (loss)	7.1	8.3	14.3	8.5	9.9
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
Net profit (loss)	6.2	6.8	11.4	7.1	8.2

Balance Sheet

FYE Dec (\$m)	FY20A	FY21A	FY22A	FY23E	FY24E
Assets					
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	3.0	3.3
Deferred tax assets	0.0	0.1	0.1	0.1	0.1
Total non-current assets	12.7	25.1	24.8	23.8	22.7
Inventories	16.9	25.3	21.3	24.5	25.8
Trade and other receivables	29.4	28.7	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	24.8	30.1
Total current assets	74.4	74.1	89.7	84.0	92.4
Total Assets	87.1	99.2	114.5	107.8	115.1
Liabilities					
Deferred tax liabilities	0.4	1.0	0.8	0.8	0.8
Other financial liabilities, non-current	1.7	0.9	0.1	0.1	0.1
Bank Borrowings	1.8	0.0	3.2	3.2	3.2
Total non-current liabilities	4.0	1.9	4.1	4.1	4.1
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
Total current liabilities	36.0	42.6	40.1	41.0	43.3
Total Liabilities	40.0	44.5	44.2	45.1	47.5
Net Assets	47.2	54.7	70.3	62.7	67.7
Equity					
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)
Owner's Equity	47.2	54.7	69.0	61.5	66.4
Non controlling interests	0.0	0.0	1.2	1.2	1.2
Total Equity	47.2	54.7	70.3	62.7	67.7

Cash Flow Statement

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

Ratios

FYE Dec (\$m)	FY20A	FY21A	FY22A	FY23E	FY24E
Profitability (%)					
Gross margin	36.1	38.2	38.7	37.5	37.4
EBIT margin	5.8	6.6	8.9	5.6	6.2
Liquidity (x)					
Current ratio	2.1	1.7	2.2	2.0	2.1
Interest coverage ratio	-	-	-	-	-
Net Debt to Equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Valuation (x)					
P/E	15.1	13.2	9.2	12.3	10.6
P/B	2.0	1.7	1.5	1.4	1.3
EV/EBITDA	7.5	7.3	4.0	5.4	4.5
Cash Conversion Cycle (CCC)					
Trade receivable days	88.8	83.3	69.9	80.6	80.6
Inventory days	79.7	118.6	78.0	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

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