

# Hyphens Pharma International Ltd

18 Nov 2021

## BUY (Maintained)

|                                   |  |
|-----------------------------------|--|
| <b>BBG</b>                        | HYP SP   |
| <b>Market cap</b>                 | S\$92.6m   |
| <b>Price (17 Nov 2021)</b>        | S\$0.30  |
| <b>52-week range</b>              | S\$0.285 – S\$0.375  |
| <b>Target Price</b>               | S\$0.40 (previously S\$0.37)   |
| <b>Shares Outstanding</b>         | 308.8m   |
| <b>Free Float</b>                 | 24%  |
| <b>Major Shareholder</b>          | Lim See Wah (38.8%)<br>Tan Kia King (24.7%)<br>Tan Chwee Choon (12.3%) |
| <b>P/BV (06/21)</b>               | 1.8x   |
| <b>Net Debt to EBITDA (12/20)</b> | Net cash   |

Source: Company data, Bloomberg, SAC Capital  
Note: all data assume Novem acquisition is completed

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## Strategic Acquisition of Novem Group

**Raised our target price to S\$0.40.** Hyphens announced a S\$16.3m acquisition of Novem group, S\$13.8m paid in cash and remaining in shares. We estimate this could add S\$12m to sales and S\$1.3m to net profit in FY22E. The deployment of cash on hand will lift ROE to 14.0% in FY22E. Our FY22E earnings estimates is raised by 20%, and we introduced our FY23E forecast. Our revised target price is 8.1% higher at S\$0.40 based on DCF (WACC 14.8%).

**A 20-year track record.** Novem distributes pharmaceutical, nutraceutical products and medical devices, representing more than 40 brand principals in Europe and Asia. It has >150 products including branded generics and in-house developed nutraceutical products, which are usually dispensed by doctors. Novem is entrenched in the public sector - 60% of sales are to government hospitals and polyclinics – and serves more than 1,000 customers. It enjoys higher gross margin of 40% from B2B sales. On a blended basis, Hyphens' FY22E margin will rise by 1.5 ppt to 37.6%.

**The acquisition adds value** through: 1) broadens Hyphens' reach to the public sector. Hyphens' strengths lie in consumer products sold mainly through retail channels; and 2) adds principals and portfolio of drugs for diseases and therapeutic areas such as musculoskeletal, cardiology, ophthalmology and general surgery; and 3) enables cross-selling between Hyphens' and Novem's products and among the doctors.

**Maintain BUY.** The lockdown in 3Q affected 25% of sales in Vietnam, its second largest market (37% of revenue). With significantly lower government grants this year (FY21E: S\$0.3m, FY20: S\$2m), we expect earnings to grow by 4.2% in FY21E, but a stronger 30.7% in FY22E.

| YE 31 Dec (S\$m)   | FY19A | FY20A | FY21E | FY22E | FY23E |
|--------------------|-------|-------|-------|-------|-------|
| Revenue            | 119.4 | 123.7 | 129.9 | 148.8 | 160.7 |
| EBIT               | 8.0   | 7.0   | 7.8   | 10.2  | 14.0  |
| Net profit         | 6.5   | 6.2   | 6.4   | 8.4   | 11.5  |
| EPS (S cents)      | 2.2   | 2.1   | 2.1   | 2.7   | 3.7   |
| DPS (S cents)      | 1.0   | 0.6   | 0.6   | 0.8   | 1.2   |
| Net cash / (debt)  | 22.7  | 22.6  | 27.0  | 19.7  | 27.3  |
| <b>Valuation</b>   |       |       |       |       |       |
| EBIT margin (%)    | 6.7   | 5.7   | 6.0   | 6.9   | 8.7   |
| ROIC (%)           | 31.9  | 26.5  | 27.5  | 21.9  | 30.3  |
| EV/EBITDA (x)      | 6.8   | 7.4   | 6.4   | 6.1   | 4.2   |
| P/E (x)            | 13.8  | 14.6  | 14.0  | 11.0  | 8.0   |
| Dividend yield (%) | 3.3   | 2.1   | 2.1   | 2.8   | 3.8   |

## Income Statement

| FYE 31 Dec (\$m)    | FY20A        | FY21E        | FY22E        | FY23E        |
|---------------------|--------------|--------------|--------------|--------------|
| <b>Revenue</b>      | <b>123.7</b> | <b>129.9</b> | <b>148.8</b> | <b>160.7</b> |
| Cost of sales       | (77.9)       | (80.9)       | (90.8)       | (97.1)       |
| <b>Gross profit</b> | <b>45.8</b>  | <b>49.0</b>  | <b>58.1</b>  | <b>63.6</b>  |
| Other income        | -            | -            | -            | -            |
| Operating expenses  | (38.7)       | (39.5)       | (45.5)       | (47.5)       |
| <b>EBITDA</b>       | <b>7.1</b>   | <b>9.5</b>   | <b>12.6</b>  | <b>16.1</b>  |
| Depreciation        | (2.1)        | (1.9)        | (2.3)        | (2.1)        |
| Associates & JV     | -            | -            | -            | -            |
| Exceptional items   | 2.0          | 0.3          | -            | -            |
| <b>EBIT</b>         | <b>7.0</b>   | <b>7.8</b>   | <b>10.3</b>  | <b>14.0</b>  |
| Finance costs       | 0.1          | (0.1)        | (0.1)        | (0.1)        |
| Pretax profit       | 7.1          | 7.7          | 10.1         | 13.9         |
| Tax expense         | (0.9)        | (1.3)        | (1.7)        | (2.4)        |
| Minority interests  | -            | -            | -            | -            |
| <b>Net profit</b>   | <b>6.2</b>   | <b>6.4</b>   | <b>8.4</b>   | <b>11.5</b>  |

## Balance Sheet

| FYE 31 Dec (\$m)               | FY20A       | FY21E       | FY22E        | FY23E        |
|--------------------------------|-------------|-------------|--------------|--------------|
| <b>Assets</b>                  |             |             |              |              |
| PPE                            | 4.8         | 2.9         | 2.3          | 1.7          |
| Intangible assets              | 7.9         | 7.9         | 19.1         | 18.5         |
| Novem                          | -           | -           | 4.5          | 4.5          |
| <b>Non-current assets</b>      | <b>12.7</b> | <b>10.8</b> | <b>25.8</b>  | <b>24.7</b>  |
| Inventories                    | 16.9        | 16.9        | 17.7         | 18.9         |
| Trade receivables              | 29.4        | 29.2        | 32.6         | 35.2         |
| Prepayments & deposits         | 0.6         | 0.6         | 0.6          | 0.6          |
| Cash                           | 27.5        | 32.0        | 25.2         | 33.5         |
| <b>Current assets</b>          | <b>74.4</b> | <b>78.6</b> | <b>76.1</b>  | <b>88.2</b>  |
| <b>Total assets</b>            | <b>87.1</b> | <b>89.4</b> | <b>101.9</b> | <b>112.9</b> |
| <b>Liabilities</b>             |             |             |              |              |
| Other financial liabilities    | 1.4         | 1.4         | 1.4          | 1.4          |
| Trade payables                 | 33.2        | 31.0        | 34.8         | 37.3         |
| Tax provisions                 | 1.3         | 1.3         | 1.7          | 2.4          |
| <b>Current liabilities</b>     | <b>36.0</b> | <b>33.8</b> | <b>38.0</b>  | <b>41.0</b>  |
| Other financial liabilities    | 3.6         | 3.6         | 3.6          | 3.6          |
| Deferred tax                   | 0.4         | 0.4         | 0.4          | 0.4          |
| <b>Non-current liabilities</b> | <b>4.0</b>  | <b>4.0</b>  | <b>4.0</b>   | <b>4.0</b>   |
| <b>Net assets</b>              | <b>47.2</b> | <b>51.7</b> | <b>59.9</b>  | <b>67.9</b>  |
| <b>Equity</b>                  |             |             |              |              |
| Share capital                  | 32.6        | 32.6        | 35.1         | 35.1         |
| Other reserves                 | (15.1)      | (15.1)      | (15.1)       | (15.1)       |
| Retained earnings              | 29.6        | 34.1        | 39.9         | 47.9         |
|                                | <b>47.2</b> | <b>51.7</b> | <b>59.9</b>  | <b>67.9</b>  |
| Minority interests             | -           | -           | -            | -            |
| <b>Total equity</b>            | <b>47.2</b> | <b>51.7</b> | <b>59.9</b>  | <b>67.9</b>  |

## Cash Flow

| FYE 31 Dec (\$m)            | FY20A        | FY21E        | FY22E         | FY23E        |
|-----------------------------|--------------|--------------|---------------|--------------|
| Pretax profit               | 7.1          | 7.7          | 10.1          | 13.9         |
| Depreciation & amortisation | 2.1          | 1.9          | 2.3           | 2.1          |
| Associates & JV             | -            | -            | -             | -            |
| Net finance expense         | (0.1)        | 0.1          | 0.1           | 0.1          |
| Non-fund items              | (0.1)        | -            | -             | -            |
| Working capital changes     | (3.8)        | (1.9)        | (0.5)         | (1.4)        |
| Interest paid               | 0.1          | (0.1)        | (0.1)         | (0.1)        |
| Tax paid                    | (1.1)        | (1.3)        | (1.3)         | (1.7)        |
| <b>Operating cash flow</b>  | <b>4.2</b>   | <b>6.4</b>   | <b>10.7</b>   | <b>12.8</b>  |
| Capex                       | (0.4)        | -            | (1.0)         | (1.0)        |
| Net investments             | -            | -            | (16.3)        | -            |
| Fixed assets disposal       | -            | -            | -             | -            |
| Others                      | (0.8)        | -            | -             | -            |
| <b>Investing cash flow</b>  | <b>(1.2)</b> | <b>-</b>     | <b>(17.3)</b> | <b>(1.0)</b> |
| <b>Free cash flow</b>       | <b>3.0</b>   | <b>6.4</b>   | <b>(6.6)</b>  | <b>11.8</b>  |
| Dividend paid               | (3.0)        | (1.9)        | (2.6)         | (3.5)        |
| Borrowings                  | 1.4          | -            | -             | -            |
| Equity                      | -            | -            | 2.4           | -            |
| <b>Financing cash flow</b>  | <b>(1.6)</b> | <b>(1.9)</b> | <b>(0.2)</b>  | <b>(3.5)</b> |
| <b>Net change</b>           | <b>1.4</b>   | <b>4.5</b>   | <b>(6.8)</b>  | <b>8.3</b>   |

## Ratios

| FYE 31 Dec (\$m)             | FY20A    | FY21E    | FY22E    | FY23E    |
|------------------------------|----------|----------|----------|----------|
| <b>Profitability (%)</b>     |          |          |          |          |
| Gross margin                 | 35.4     | 36.2     | 37.9     | 38.6     |
| EBIT margin                  | 5.7      | 6.0      | 6.9      | 8.7      |
| <b>Liquidity (x)</b>         |          |          |          |          |
| Current ratio                | 2.1      | 2.3      | 2.0      | 2.1      |
| Net Debt/EBITDA              | Net cash | Net cash | Net cash | Net cash |
| Interest coverage ratio      | n.a.     | n.a.     | n.a.     | n.a.     |
| Net Debt to Equity (%)       | n.a.     | n.a.     | n.a.     | n.a.     |
| <b>Valuation (x)</b>         |          |          |          |          |
| P/E                          | 14.6     | 14.0     | 11.0     | 8.1      |
| P/B                          | 1.9      | 1.7      | 1.5      | 1.4      |
| EV/EBITDA                    | 7.4      | 6.4      | 6.1      | 4.1      |
| <b>Cash Conversion Cycle</b> |          |          |          |          |
| Trade receivable days        | 87       | 82       | 80       | 80       |
| Inventory days               | 79       | 76       | 71       | 71       |
| Trade payable days           | 156      | 140      | 140      | 140      |

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