

# Hyphens Pharma International Limited

Date: 17 March 2021

**BUY**  
(Maintained)

**Target Price: S\$0.370**  
(+19.4%)

**HYP SP**

**Price: S\$0.310** (as at 16 March 2021)



Share price	1M	3M	6M	1Y
Hyphens Pharma	-6.1%	+3.3%	-21.5%	+63.2%
Catalist Index	-2.8%	+7.6%	+10.4%	+61.1%

<b>Market Capitalisation</b>	S\$93.1 million
<b>Current Price</b>	S\$0.310
<b>Shares Outstanding</b>	300.4 million
<b>Free Float</b>	22.0%
<b>Major Shareholder</b>	Inomed Holding Pte Ltd 39.9% Tan Kia King 25.4% Tan Chwee Choon 12.7%
<b>Recommendation of other brokers</b>	1 Neutral 1 Accumulate

Source: Company data, Bloomberg, SAC Capital

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## Growing regional presence

**FY2020 revenue grew but net profit hurt by higher provisions.** Revenue rose 3.6% yoy to S\$123.7m, driven by 25.9% increase in sales of the proprietary brands products. However, net profit fell 5.6% to S\$6.2m, after higher allowance for inventory obsolescence (S\$1.6m) and higher advertising expenses (S\$1.6m), offset by increase in government grants for job support (S\$1.7m).

**Proprietary brands products were the key revenue driver.** Albeit being the smallest of the three business segments (14.7% of total sales), proprietary brands was the key revenue growth driver (up 25.9%), with higher demand for dermatological products under Ceradan brand and nutritional supplements under Ocean Health brand. Hyphens also expanded its overseas footprint, through the distribution of Ocean Health in Sri Lanka, Ceradan in China, and TDF Fairence in South Korea.

**Marginal adjustments to our earnings estimates.** We lowered our revenue estimates marginally (FY2021E -2.9%, FY2022E -2.8%) to reflect slower sales as COVID-induced buying eases with the rollout of vaccines. However, we remained optimistic on the potential of the proprietary products and their penetration into new markets.

We have raised our earnings estimates slightly (FY2021E +8.7%, FY2022E 0.0%) to factor in the benefit of the extension of job support scheme, and lower distribution and administrative expenses than our previous forecast. In addition, FY2023E estimates are introduced, which reflect 3.1% and 3.8% yoy growth for revenue and net profit respectively.

**Maintain BUY but at lower fair value of S\$0.37 (from S\$0.39).** Our DCF-derived target price translates into a FY21E P/E of 18.3x.

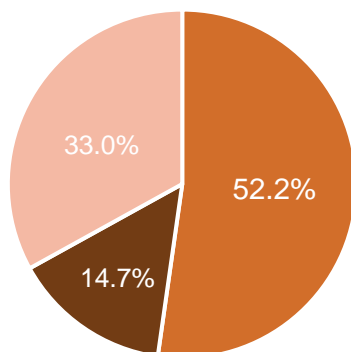
**Key Risks:** Product differentiation, foreign exchange uncertainty, supply chain disruption.

## Key Financials

Year ended 31 Dec (S\$'000)	FY2019A	FY2020A	FY2021E	FY2022E	FY2023E
<b>Revenue</b>	119,442	123,698	130,150	134,200	138,395
<b>% change</b>	-1.2%	3.6%	5.2%	3.1%	3.1%
<b>Profit/(loss) before tax</b>	7,987	7,108	7,339	7,785	8,084
<b>Pretax margin</b>	6.7%	5.7%	5.6%	5.8%	5.8%
<b>Net profit</b>	6,530	6,163	6,069	6,438	6,685
<b>EPS (S cents)</b>	2.17	2.05	2.02	2.14	2.23
<b>P/E (x)</b>	14.3	15.1	15.3	14.5	13.9
<b>P/B (x)</b>	2.1	2.0	1.8	1.7	1.6
<b>Net Debt/Equity (%)</b>	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

## Investment Highlights

### FY2020 Revenue



- Specialty Pharma Principals
- Proprietary Brands
- Medical Hypermart & Digital

Source: Company Data, SAC Capital

### Business Overview:

Hyphens Pharma International Limited is primarily engaged in the marketing, distribution and sales of specialty pharmaceutical products in countries in the ASEAN region. The Group also develops and sells a range of proprietary dermatological and health supplement products, which fall under its Proprietary Brands business segment. The Group's wholly owned subsidiary Pan Malayan is a wholesale provider of pharmaceutical and medical supplies in Singapore.

### Higher provisions dragged profits down

FY2020 revenue increased 3.6% yoy, but NPAT declined 5.6% due to higher provisions and distribution costs. Topline increased by 3.6% yoy from S\$119.4 million in FY2019 to S\$123.7 million in FY2020, mainly due to higher sales from the proprietary brands segment which grew by 25.9% with a higher demand for dermatological products under the Ceradan brand and nutritional supplements under Ocean Health brand. Gross profit margin for FY2020 remained relatively stable at 35.4% (FY2019: 35.7%).

However, the bottomline saw a yoy decline due to higher allowance for inventory obsolescence and higher advertising and promotional expenses to promote products in proprietary brands and specialty pharma principals segments. Hyphens' net profit decreased by 5.6% from S\$6.5 million in FY2019 to S\$6.2 million in FY2020.

### Other Losses

Hyphens' one-off losses include a charge of S\$1.6 million for the provision for inventory obsolescences. Provision was charged on 1) specialty pharma inventory with weaker demand from the lockdown in the Philippines (S\$0.2m) and overall inventory (S\$0.1m); 2) at medical hypermart for short shelf-life items such as flu vaccines (S\$0.2m); 3) write down of personal protective equipment (PPE) to net realisable value in view of higher supply in the market (S\$0.6m); and 4) Covid-19 diagnostic test kits (S\$0.5m).

With the extension of the government's Jobs Support Scheme (JSS) by 6 months to September 2021, Hyphens will continue to benefit from the government grants, although we expect lower grants in FY2021 compared to FY2020.

We expect topline to continue to increase from higher sales in the proprietary brands segment and penetration into new markets. We also expect that the advertising and promotional expenses budget to continue to rise in FY2021 as they bring their products to more markets.

### E-pharmacy licence awarded

Hyphens has been awarded an e-pharmacy licence for WellAway Pharmacy in 2020 by the Health Sciences Authority in Singapore. WellAway Pharmacy is a healthcare service delivery, which delivers the medicine to patients after remote diagnosis and treatment, or telemedicine service. WellAway aims to leverage on the medical and logistical expertise of Pan-Malayan, to work closely with medical clinics in Singapore.

### **Increasing focus on Proprietary Brands**

Revenue from proprietary brands segment rose 25.9% yoy, from S\$14.5 million to S\$18.2 million. This was due to higher demand for dermatological products under Ceradan brand and nutritional supplements under Ocean Health brand.

Hyphens is placing more focus on its proprietary brands segment, with higher R&D costs incurred, growing 110.7% yoy from S\$0.2 million to S\$0.4 million. We believe this is just the start of higher R&D investment into the segment as it shifts its focus to building core brands and increase outreach.

In line with this, Hyphens expanded its proprietary brands footprint overseas, namely the distribution of Ocean Health into Sri Lanka, Ceradan into Mainland China, and TDF Fairence into South Korea. This is a step forward to tap into bigger markets outside Southeast Asia. In FY2020, sales contribution from proprietary brands make up 14.7% of total revenue (FY2019: 12.1%). Although we do not expect high increase in their sales contribution in the short term, as brand and recognition and loyalty take time to build, we believe these ventures are strategic in the long-term.

We expect administrative expenses to increase yoy with increased R&D costs for the next few periods in their bid to grow their proprietary brands segment. In addition, we expect distribution costs to increase with higher advertising and promotional expenses in their new markets.

As these products are developed, marketed and sold by Hyphens, gross margins from the proprietary brands segment is the highest out of the three segments.

### **Marginal adjustments to our earnings estimates**

We lowered our revenue estimates marginally (FY2021E -2.9%, FY2022E -2.8%) to reflect slower sales as COVID-induced buying eases with the rollout of vaccines. However, we remained optimistic on the potential of the proprietary products and their penetration into new markets.

We have raised our earnings estimates slightly (FY2021E +8.7%, FY2022E 0.0%) to factor in the benefit of the extension of job support scheme, and lower distribution and administrative expenses. In addition, FY2023E estimates are introduced, which reflect 3.1% and 3.8% yoy growth for revenue and net profit respectively.

### **Maintain BUY rating at lower target price of S\$0.37**

We maintain a BUY rating on Hyphens Pharma, but lower fair value to S\$0.37 (from S\$0.39). Our DCF-derived target price translates into a FY21E P/E of 18.3x. Our target price implies a 19.4% upside.

## Business Segments

Hyphens is a leading specialty pharmaceutical and consumer healthcare group with a diverse geographical footprint. The Group's primary business is the marketing and sale of specialty pharmaceutical products in selected ASEAN countries through exclusive distributorships or licensing and supply agreements with brand principals. In addition, the Group develops, markets and sells its range of proprietary dermatological and health supplements under its Proprietary Brands segment, and also engages in the wholesale of pharmaceuticals and medical supplies in Singapore through wholly-owned subsidiary Pan Malayan Pharmaceuticals Pte Ltd.

The Group's businesses can be categorised into 3 segments:

- Specialty Pharma Principals
- Proprietary Brands
- Medical Hypermart and Digital

### Specialty Pharma Principals



Source: Company Data

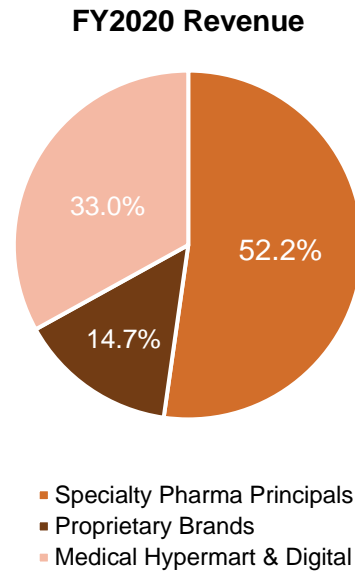
Hyphens markets and distributes specialty pharmaceutical products in ASEAN through distributorship or licensing agreements with brand principals mainly from Europe and the United States. Its core expertise is in the field of dermatology, pediatrics and neonatology, allergy, cardiology and radiology.

### Proprietary Brands



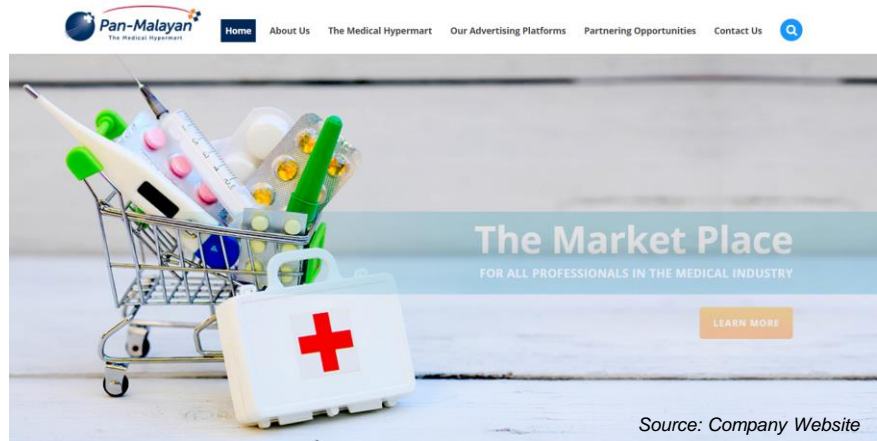
Source: Company Data

The Group's proprietary products are mainly dermatological products and health supplements. Launched in 2011, Ceradan® was the first product, which is a dermatological product targeted at eczema patients. It has extended the range to include TDF, a line of dermo-cosmetic products, and Ocean Health® for health supplements, through the acquisition of Ocean Health® Singapore in 2016. Ceradan® Advanced was launched in July 2019. The procurement of CG 210 hair-loss product line in August 2020 makes it the latest addition to the Group's proprietary brands products.



Source: Company Data, SAC Capital

## Medical Hypermart and Digital



The Medical Hypermart is an online B2B platform for the wholesale of pharmaceutical and medical supplies in Singapore. It leverages on the network and industry presence of Pan Malayan, which has been operating in this business segment since late 1940s. Users of the platform include healthcare professionals, healthcare institutions and retail pharmacies. The platform also enables brand principals to publish product information and educational material that will raise awareness and brand profile among the medical professionals.

### Geographical Footprint

The Group has a direct presence in Singapore, Indonesia, Malaysia, Philippines and Vietnam, as well as marketing and distribution networks in Bangladesh, Brunei, Cambodia, Hong Kong, Myanmar and Oman. With the partnership with SUTL HK, the Group seeks to target the markets in Hong Kong Special Administrative Region ("HK SAR"), Macau and Duty-Free Channels in China. In addition, Hyphens expanded Ocean Health distribution into Sri Lanka, and Ceradan into Mainland China in 2HFY20.



## Income Statement

	Fiscal Year Ended 31 Dec				
\$'000	FY2019A	FY2020A	FY2021E	FY2022E	FY2023E
<b>Revenue</b>	<b>119,442</b>	<b>123,698</b>	<b>130,150</b>	<b>134,200</b>	<b>138,395</b>
Cost of sales	(76,773)	(79,939)	(85,354)	(87,271)	(90,227)
<b>Gross profit</b>	<b>42,669</b>	<b>43,759</b>	<b>44,796</b>	<b>46,929</b>	<b>48,168</b>
Interest Income	157	180	72	94	94
Other income and gains	389	2,248	1,000	427	427
Distribution costs	(24,837)	(26,523)	(27,592)	(28,048)	(28,371)
Administrative expenses	(9,772)	(10,138)	(10,153)	(10,845)	(11,455)
Finance costs	(138)	(110)	(110)	(110)	(110)
Other losses	(481)	(2,128)	(675)	(663)	(669)
<b>Profit before tax from continuing operations</b>	<b>7,987</b>	<b>7,108</b>	<b>7,339</b>	<b>7,785</b>	<b>8,084</b>
Income tax expense	(1,457)	(945)	(1,270)	(1,347)	(1,398.5)
<b>Profit, net of tax</b>	<b>6,530</b>	<b>6,163</b>	<b>6,069</b>	<b>6,438</b>	<b>6,685</b>
Earnings Per Share (cents)					
Basic and Diluted	2.17	2.05	2.02	2.14	2.23

## Balance Sheet

	Fiscal Year Ended 31 Dec				
(\$'000)	FY2019A	FY2020A	FY2021E	FY2022E	FY2023E
Plant and equipment	5,948	4,807	4,790	4,712	4,986
Intangible assets	7,462	7,890	8,036	7,940	7,910
Deferred tax assets	105	47	47	47	47
<b>Total non-current assets</b>	<b>13,515</b>	<b>12,744</b>	<b>12,873</b>	<b>12,699</b>	<b>12,944</b>
Inventories	11,431	16,888	12,393	12,671	13,100
Trade and other receivables	28,654	29,421	31,865	32,857	33,884
Prepayments	366	564	564	564	564
Cash and cash equivalents	26,165	27,526	34,347	37,979	42,253
<b>Total current assets</b>	<b>66,616</b>	<b>74,399</b>	<b>79,169</b>	<b>84,070</b>	<b>89,801</b>
<b>Total assets</b>	<b>80,131</b>	<b>87,143</b>	<b>92,042</b>	<b>96,770</b>	<b>102,745</b>
Share capital	32,641	32,641	32,641	32,641	32,641
Retained earnings	26,467	29,626	33,442	37,206	41,542
Other reserves	(15,032)	(15,092)	(15,092)	(15,092)	(15,092)
<b>Total equity</b>	<b>44,076</b>	<b>47,175</b>	<b>50,991</b>	<b>54,755</b>	<b>59,091</b>
Deferred tax liabilities	469	409	409	409	409
Lease liabilities, non-current	2,442	3,558	3,558	3,558	3,558
<b>Total non-current liabilities</b>	<b>2,911</b>	<b>3,967</b>	<b>3,967</b>	<b>3,967</b>	<b>3,967</b>
Income tax payable	1,459	1,345	1,270	1,347	1,399
Trade and other payables	30,628	33,240	35,815	36,701	38,289
Lease liabilities, current	757	-	-	-	-
Other financial liabilities, current	1,057	1,416	-	-	-
<b>Total current liabilities</b>	<b>33,144</b>	<b>36,001</b>	<b>37,085</b>	<b>38,048</b>	<b>39,687</b>
<b>Total liabilities</b>	<b>36,055</b>	<b>39,968</b>	<b>41,052</b>	<b>42,015</b>	<b>43,654</b>
<b>Total equity and liabilities</b>	<b>80,131</b>	<b>87,143</b>	<b>92,042</b>	<b>96,769</b>	<b>102,745</b>

## Ratios

	Fiscal Year Ended 31 Dec				
	FY2019A	FY2020A	FY2021E	FY2022E	FY2023E
<i>Adoption of SFRS 16 Leases increased lease liability in FY2019</i>					
<b>Profitability (%)</b>					
Gross profit/(loss) margin	35.7%	35.4%	34.4%	35.0%	34.8%
Profit/(loss) before tax margin	6.7%	5.7%	5.6%	5.8%	5.8%
<b>Liquidity (x)</b>					
Current ratio	2.0	2.1	2.1	2.2	2.3
Quick ratio	1.7	1.6	1.8	1.9	1.9
Interest coverage ratio	58.9	65.6	67.7	71.8	74.5
Net Debt to Equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
<b>Valuation (x)</b>					
P/S	0.8	0.8	0.7	0.7	0.7
P/E	14.3	15.1	15.3	14.5	13.9
Core P/E at target price	17.0	18.0	18.3	17.3	16.6
P/B	2.1	2.0	1.8	1.7	1.6
P/NTA	2.5	2.4	2.2	2.0	1.8
<b>Cash Conversion Cycle</b>					
Trade receivable days	89	86	86	88	88
Inventory days	54	77	53	53	53
Trade payable days	144	144	143	142	142
CCC days	0	18	-4	-1	-1

## Cash Flows Statement

	Fiscal Year Ended 31 Dec				
(\$'000)	FY2019A	FY2020A	FY2021E	FY2022E	FY2023E
<b>Profit/(loss) before tax</b>	<b>7,987</b>	<b>7,108</b>	<b>7,339</b>	<b>7,785</b>	<b>8,084</b>
Amortisation of intangible assets	406	401	401	401	401
Depreciation of plant and equipment	1,599	1,680	1,703	1,892	2,250
Changes in working capital	935	(3,810)	2,502	(513)	(289)
Others	(157)	(180)	(72)	(94)	(94)
<b>Net cashflows from operating activities</b>	<b>9,453</b>	<b>4,130</b>	<b>10,736</b>	<b>8,207</b>	<b>9,036</b>
Purchase of plant and equipment	(502)	(371)	(1,500)	(2,000)	(1,700)
Purchase of intangible assets	(104)	(829)	(253)	(306)	(371)
Interest received	157	180	72	94	94
<b>Net cash flows used in investing activities</b>	<b>-449</b>	<b>-1,013</b>	<b>-1,681</b>	<b>-2,212</b>	<b>-1,978</b>
Gross proceeds from IPO	-	-	-	-	-
Dividends paid to equity owners	(1,650)	(3,004)	(2,124)	(2,253)	(2,674)
Repayment of borrowings	(2,700)	-	-	-	-
Proceeds from borrowings	-	-	-	-	-
Others	(842)	1,249	(110)	(110)	(110)
<b>Net cash flows from (used in) financing activities</b>	<b>(5,192)</b>	<b>(1,755)</b>	<b>(2,234)</b>	<b>(2,363)</b>	<b>(2,784)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,812</b>	<b>1,361</b>	<b>6,821</b>	<b>3,631</b>	<b>4,275</b>
Cash and cash equivalents at beginning	22,353	26,165	27,526	34,347	37,979
<b>Cash and cash equivalents, ending balance</b>	<b>26,165</b>	<b>27,526</b>	<b>34,347</b>	<b>37,979</b>	<b>42,253</b>

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<b>Analyst name</b>	<b>Quantum of position</b>
Nil	Nil

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