

Hyphens Pharma International Ltd

Disruption in specialty pharma supply



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SINGAPORE | HEALTHCARE | 1Q23 UPDATE

18 May 2023

- 1Q23 results were below expectations. Revenue and PATMI were 19%/10% of our forecasts. Revenue suffered from the cessation of Biosensors and delay shipments in Vietnam.
- Specialty pharma revenue declined by 27%. The loss of Biosensor distribution in Dec 22 was well flagged. The surprise was supply disruption from three specialty pharma manufacturers.
- We cut our FY23e earnings by 31% to S\$9.1mn and the DCF target price is lowered to S\$0.39 (prev. S\$0.445). Our BUY recommendation is maintained. We expect the supply constraints to spill over into 2Q23. Proprietary brands have performed well with 16% growth. It will be a multi-year journey for proprietary brands to reach scale and compete even more effectively in the region. Investments into DocMed, another \$5.4mn over the next 2-3 years could drag earnings but can be deemed as one-off upfront cost to develop the platform.

Results at a glance

SGD '000	1Q23	1Q22	YoY	Comments (YoY)
Revenue	33,234	39,168	-15.2%	Loss of Biosensors and supplier delays.
Gross profit	13,115	15,024	-12.7%	
Profit, net of tax	1,379	3,198	-56.9%	Higher R&D and travelling expenses.
Gross profit margin	39.5%	38.4%	1.1%	
Net profit margin	4.1%	8.2%	-4.0%	

Source: Company, PSR; Note# Only limited financials were provided.

The Positive

+ Healthy growth in proprietary brands. Proprietary brands revenue increased by 16% in 1Q23 supported by higher demand for Ceradan® dermatological products. Ceradan® and Ocean Health® have a pipeline of new products to be launched this year. The Group launched Ceradan® Advanced Emollient Wash in Singapore and Malaysia during 1Q2023.

The Negatives

- Supply disruption in specialty products. Specialty revenue fell 27% due to the cessation of the distributorship of Biosensors products in Dec 22 and the delay in the shipment of key products in Vietnam. Of the three suppliers facing production disruption, two resumed production in 2Q23.

- Weaker operating margins. Net profit margin suffered from higher R&D and travelling expenses. Margins will be weighed down further from DocMed investments into the platform.

Outlook

The supply constraints in specialty products are expected to ease in 2H23 triggering a rebound in sales. Proprietary product growth has been stable supported by new products and channels. An earnings drag will be additional spending on DocMed of around S\$5.4mn over the next two to three years. We deem this spending as one-off and a driver to additional revenue in the hypermart segment.

Maintain BUY with lower TP of S\$0.39 (prev. S\$0.445)

Hyphen enjoys a net cash balance sheet of S\$33mn, pays a yield of 4% and is trading at PE ratio of 10x.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.280
FORECAST DIV	SGD 0.0112
TARGET PRICE	SGD 0.390
TOTAL RETURN	43.3%

COMPANY DATA

BLOOMBERG CODE	HYP SP
O/S SHARES (MN):	309
MARKET CAP (USD mn / SGD mn):	64.5 / 86.6
52 - WK HI/LO (SGD):	0.375 / 0.270
3M Average Daily T/O (mn):	0.10

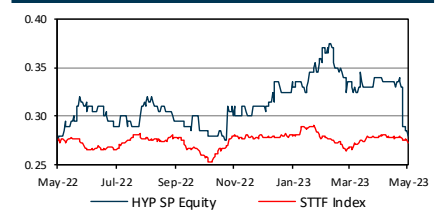
MAJOR SHAREHOLDERS

Inomed Holding Pte Ltd	38.8%
Tan Kia King	24.7%
Tan Chwee Choon	12.3%

PRICE PERFORMANCE

	1MTH	3MTH	YTD
COMPANY	(13.4)	(17.0)	(12.1)
STTF	(1.1)	(0.9)	1.3

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, (S\$'000)	FY21	FY22	FY23e	FY24e
Revenue	125,883	162,316	160,921	167,357
EBITDA	10,555	17,251	14,284	15,799
NPAT	6,846	11,409	9,129	10,882
EPS (S\$ Cents)	2.2	2.2	3.7	3.0
P/E (x)	12.6	7.6	9.5	7.9
P/B (x)	1.6	1.2	1.1	1.0
Div Yield	2.4%	4.0%	4.0%	4.0%
ROE	13.4%	18.3%	12.5%	13.7%

Source: Company Data

VALUATION METHOD

DCF @ WACC = 9.2%, g = 2.0%

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Financials

Income Statement

Y/E Dec, S\$'000	FY20	FY21	FY22	FY23e	FY24e
Revenue	123,698	125,883	162,316	160,921	167,357
Cost of sales	(79,939)	(77,800)	(99,507)	(98,162)	(100,414)
Gross profit	43,759	48,083	62,809	62,759	66,943
Marketing and distribution costs	(26,523)	(28,394)	(33,267)	(35,403)	(35,982)
Administrative expenses	(10,138)	(11,639)	(14,561)	(16,092)	(17,572)
Finance costs	(110)	(95)	(238)	(181)	(199)
Other income and gains	2,248	964	658	87	94
Other losses	(2,128)	(680)	(1,584)	(500)	(500)
EBITDA	9,299	10,555	17,251	14,284	15,799
Profit before tax	7,108	8,256	14,291	11,271	13,434
Income tax expense	(945)	(1,410)	(2,882)	(2,141)	(2,552)
Minority Interest	-	-	(58)	(80)	(100)
Profit after tax	6,163	6,846	11,409	9,129	10,882

Per share data

Y/E Dec, SG cents	FY20	FY21	FY22	FY23e	FY24e
EPS	2.05	2.22	3.69	2.96	3.52
DPS	0.62	0.67	1.11	1.12	1.13
BVPS	15.7	17.7	22.8	24.6	27.0

Cash Flows

Y/E Dec, S\$'000	FY20	FY21	FY22	FY23e	FY24e
CFO					
Profit before tax	7,108	8,256	14,291	11,271	13,434
Adjustments	1,893	2,661	2,596	2,413	1,715
Working capital changes	(3,810)	(3,464)	2,142	(2,647)	(6,880)
Operating cash flow	5,191	7,453	19,029	11,037	8,269
Taxes paid, others	(1,061)	(1,415)	(2,152)	(2,141)	(2,552)
Net operating cash flow	4,130	6,038	16,877	8,896	5,717
CFI					
CAPEX, net	(1,193)	(835)	(1,228)	(1,000)	(1,000)
Acquisition of subsidiaries	-	(14,156)	179	-	-
Others	180	74	42	-	-
Net investing cash flow	(1,013)	(14,917)	(1,007)	(1,000)	(1,000)
CFE					
Proceeds from issuance of shares	-	-	-	-	-
IPO expenses	-	-	6,100	-	-
Dividends	(3,004)	(1,863)	(2,069)	(3,427)	(3,458)
Loans, net of repayments	1,248	2,677	(2,882)	(181)	(199)
Net financing cash flow	(1,756)	814	1,149	(3,608)	(3,657)
Net change in cash	1,361	(8,065)	17,019	4,287	1,060
CCE, end	27,526	19,461	36,480	40,767	41,827

Source: Company, PSR Estimates

Balance Sheet

Y/E Dec, S\$'000	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
Plant and equipment	4,807	4,408	3,017	2,209	1,765
Associate	-	2,306	2,667	3,267	3,917
Intangible assets	7,890	18,300	19,072	18,047	17,325
Others	47	65	61	61	61
Total non-current assets	12,744	25,079	24,817	23,584	23,068
Inventories	16,888	25,290	21,260	19,167	25,667
Trade and other receivables	23,736	28,722	31,106	31,236	33,021
Cash and cash equivalents	27,526	19,461	36,480	40,767	41,827
Others	564	639	806	806	806
Total current assets	68,714	74,112	89,652	91,976	101,320
Total assets	81,458	99,191	114,469	115,560	124,389
LIABILITIES					
Others	3,967	1,898	4,123	4,123	4,123
Total non-current liabilities	3,967	1,898	4,123	4,123	4,123
Trade and other payables	27,555	33,563	35,077	30,467	31,872
Others	2,761	8,994	4,997	4,997	4,997
Total current liabilities	30,316	42,557	40,074	35,464	36,869
Total liabilities	34,283	44,455	44,197	39,587	40,992
EQUITY					
Share capital	32,641	35,083	35,083	35,083	35,083
Retained earnings	29,626	34,609	43,760	49,382	56,705
Others	(15,092)	(14,956)	(8,571)	(8,491)	(8,391)
Total equity	47,175	54,736	70,272	75,974	83,397

Valuation Ratios

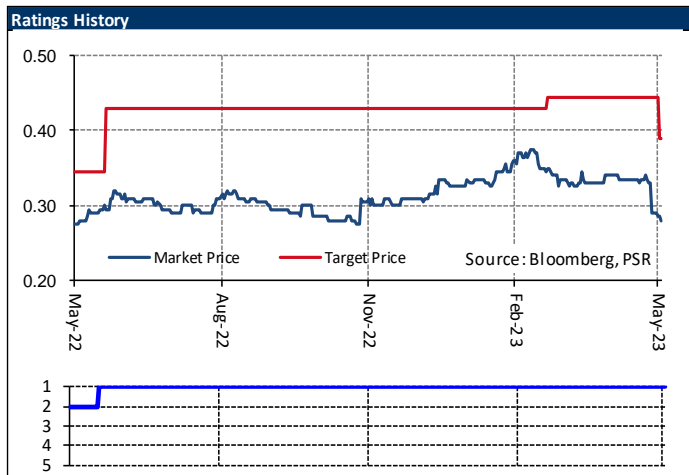
Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	13.6	12.6	7.6	9.5	7.9
P/B (x)	1.8	1.6	1.2	1.1	1.0
EV/EBITDA (x)	6.1	6.3	2.9	3.2	2.8
Dividend Yield	2.2%	2.4%	4.0%	4.0%	4.0%

Growth & Margins

	FY20	FY21	FY22	FY23e	FY24e
Growth					
Revenue	3.6%	1.8%	28.9%	-0.9%	4.0%
Gross profit	2.6%	9.9%	30.6%	-0.1%	6.7%
EBITDA	-8.2%	13.5%	63.4%	-17.2%	10.6%
Net Profit	-5.6%	11.1%	66.7%	-20.0%	19.2%
Margins					
Gross margin	35.4%	38.2%	38.7%	39.0%	40.0%
EBITDA margin	7.5%	8.4%	10.6%	8.9%	9.4%
Net Profit Margin	5.0%	5.4%	7.0%	5.7%	6.5%

Key Ratios

	FY20	FY21	FY22	FY23e	FY24e
ROE	13.5%	13.4%	18.3%	12.5%	13.7%
ROA	7.6%	7.6%	10.7%	7.9%	9.1%
Net gearing (x)	Net cash	Net cash	Net cash	Net cash	Net cash



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks
 We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation.

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