



Hyphens Pharma Intl Ltd

(HYP SP/HYPH.SI)

Novem Acquisition to boost top and bottom-line growth

Megan Choo / 65 6202 1190 / megan.choo@kqi.com

- **A good set of FY21 results.** Hyphens' net profit increased 11.1% YoY to S\$6.8mn in FY21, compared to the 5.6% decline in FY20. Meanwhile revenue grew 4.1% in FY21 and gross profit margin rose 2.1 ppts to 38.2%.
- **Novem acquisition financially lucrative.** Hyphens acquired Novem, a Singapore-based leading healthcare-focused distributor of pharmaceutical products, nutraceutical products and medical services in early December 2021. The acquisition is expected to bring earnings accretion to Hyphens' FY22 results and beyond.
- **Singapore's first HSA-registered e-pharmacy.** In early January this year, the company's WellAway e-pharmacy was officially launched. Subsequently, the establishment opened up deals for Hyphens, such as the recent collaboration with SATA CommHealth to deliver a new primary healthcare system for migrant workers.
- We maintain Hyphens with an **Outperform** recommendation but revised our TP down to S\$0.38 due to the overall de-rating of valuation multiples across the sector.

Financials & Key Operating Statistics

YE Dec (S\$'000)	2020A	2021A	2022F	2023F	2024F
Revenue	120,977	125,883	139,718	146,503	153,619
Net profit after tax	6,163	6,846	7,825	8,293	8,901
EPS (SGD cents)	2.05	2.27	2.53	2.69	2.88
EPS growth (%)	-5.5%	10.7%	11.6%	6.0%	7.3%
P/E (x)	14.1	13.1	11.4	10.8	10.1
DPS (SGD Cents)	0.62	0.67	0.77	0.81	0.87
Div Yield (%)	2.1%	2.3%	2.6%	2.8%	3.0%
Net Margin (%)	5.1%	5.4%	5.6%	5.7%	5.8%
Gearing (%)	net cash				
Price / Book (x)	1.8	1.6	1.5	1.4	1.2
ROE (%)	13.1	12.5	13.0	12.6	12.3

Source: Company Data, KGI Research

FY21 financials: YoY improvement. Revenue was up 4.1% YoY to S\$125.9mn in FY21, while gross profit rose 10.2% YoY to S\$48.1mn. This was mainly due to the improvement of gross profit margin to 38.2% in FY21, compared to 36.1% in the previous period. Net profit after tax rose 11.1% YoY to S\$6.8mn, translating to a net profit margin of 5.4%, 0.3ppts higher compared to FY20. Basic and diluted EPS increased from 2.05 Sing Cents in FY20 to 2.27 Sing Cents in FY21.

Value add from Novem acquisition. Novem is a Singapore-based leading healthcare-focused distributor of pharmaceutical products, nutraceutical products and medical services. The company has more than 40 brand principals mainly across Europe and Asia and serves more than 1000 active customers including hospitals, polyclinics, specialists and general practitioners. It has more than 150 products in its portfolio, including proprietary brands of generics and in-house developed nutraceutical products. The acquisition of Novem is expected to contribute positively to Hyphens' business, and already added close to S\$1mn revenue within a

Maintain: Outperform

Price as of 1 Apr 22 (SGD)	0.29	Performance (Absolute)	
12M TP (S\$)	0.38	1 Month (%)	-1.7
Previous TP (S\$)	0.48	3 Month (%)	-3.3
Upside (%)	31.1%	12 Month (%)	-6.1
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (S\$m)	90		
Issued Shares (mn)	309		
Vol - 3M Daily avg (mn)	0.0		
Val - 3M Daily avg (S\$m)	0.0		
Free Float (%)	24.1%		
Major Shareholders		Previous Recommendations	
Tan Kia King	24.7%	16-Nov-20	N S\$0.36
Tan Chwee Choon	12.3%	6-Nov-20	OP S\$0.48
		28-Jun-21	OP S\$0.43

month of operations in December 2021. The acquisition will also further strengthen Hyphens' proprietary brands business segment with the addition of Novem's proprietary brand of products and strengthen the company's market leadership position in Singapore.

Leveraging on e-pharmacy license for expansion. In early January this year, Hyphens announced its official launch of WellAway e-pharmacy, a digital platform where patients can receive e-prescriptions from a qualified medical doctor and have the medicine delivered directly to them. Pharmaceutical group, Servier Singapore, is working closely with WellAway to explore possibilities of healthcare digitalisation. With this golden ticket of being Singapore's first HSA-registered e-pharmacy, more collaboration and deals are expected to occur moving forward.

Docmed, a subsidiary of Hyphens, recently announced in early March that it has signed a partnership agreement with SATA CommHealth to deliver a new primary healthcare system for migrant workers starting 1 April 2022. Under the partnership, WellAway e-pharmacy will provide e-pharmacy medication delivery to the migrant worker patient after teleconsultation by SATA CommHealth. Docmed's collaboration with WellAway eliminates the need to manage a large inventory of medications and e-prescriptions are conveniently delivered to the masses.

Valuation & Action: We maintain Hyphens with an **Outperform** recommendation but revised our TP down to S\$0.38 due to the overall de-rating of valuation multiples across the sector. Our TP is based on 15.0x P/E to FY22F EPS of S\$0.025.

Risks: Covid-19 operational risk, Forex risk, Margin pressure due to competition.

Figure 1: Revenue by geographical segment (S\$'000)

Country	FY2020	FY2021	YoY Change (%)
Singapore	60,801	64,109	5.4%
Vietnam	43,910	41,605	-5.2%
Malaysia	7,892	10,637	34.8%
Others	8,374	9,532	13.8%
Total	120,977	125,883	4.1%

Source: Company Data, KGI Research

Vietnam: On track to recover. Geographically, Vietnam is the second largest contributor to Hyphens' business. However, Vietnam's revenue declined 5.2% YoY to S\$41.6mn in FY21, which was largely correlated to the spike in Covid-19 cases in 2H21. This was due to the tendency of patients with chronic illnesses to delay visits to hospitals over concerns of catching the Covid-19 virus.

Moving forward, Vietnam is poised for a gradual recovery in 2022 and revenue is expected to return to FY20 levels. Despite Covid-19 cases reaching a high of over 250k earlier this month, the number of cases seem to have peaked and given the high vaccination rates and easing of restrictions nationwide and worldwide, normalisation is starting to take shape with patients starting to revisit doctors for medication.

Vietnam aside, Hyphens' overall top-line is well-supported by Singapore, which contributes slightly over 50% to total revenue. Singapore's revenue saw an increase of 5.4% YoY and is expected to improve in further years following the financial value add from the acquisition of Novem, which will boost Hyphens' specialty pharma and medical hypermart segment.

Exclusive licensing deal. In December 2021, Hyphens announced that it has signed an exclusive license and supply agreement with DKSH's subsidiary, Favorex Pte Ltd, to commercialise Ustekinumab biosimilar produced by Alvotech Hf in Singapore, Malaysia and the Philippines. The proposed Ustekinumab biosimilar, which is undergoing clinical studies, is a human monoclonal antibody that targets interleukin-12 ("IL-12") and interleukin-23 ("IL-23") for the treatment of immune mediated disorders like plaque psoriasis, psoriatic arthritis and Crohn's disease. According to an article in Nature earlier this year, the worldwide sales of Ustekinumab was estimated to reach US\$ 8.4bn in 2021.

Forecasts.

YE 31 Dec (S\$'000)	Previous FY21 forecast	Actual FY21	Previous FY22 forecast	Updated FY22 forecast
Revenue	129,049	125,883	134,757	139,718
Cost of sales	(84,199)	(77,800)	(87,423)	(86,350)
Gross profit	44,849	48,083	47,334	53,367
Net profit after tax	6,627	6,846	7,590	7,825

Revenue. Actual FY21's revenue was below our forecast of S\$129mn, however net profit after tax exceeded our expectations, as a result of better gross profit margin in FY21, which stood at 38.2% compared to 36.1% in the previous period. This was mainly due to a change in sales mix, which saw higher sales generated from regions with better margins and vice versa. Lower sales generated from Vietnam, the geographical segment with generally lower margins ironically led to an overall improvement.

Moving forward, we have adjusted our FY22 revenue forecast to include the full sales contribution from Novem, amounting to approximately S\$12mn, extrapolated from the S\$1mn sales contribution in FY21 during the month of December. We have also factored in organic growth of the company to arrive at approximately S\$140mn revenue for FY22. For FY23 and beyond, revenue is projected to grow approximately at 5% YoY, in line with the historical average growth rate. For FY22 onwards, gross profit margin was adjusted upwards to 38.2%, consistent with FY21 actual results.

Valuations.

Healthcare peers in Singapore, such as Q&M dental is currently trading at approximately 15x forward P/E, while closest competitors, Apex Healthcare and Pharamaniaga listed in Malaysia, Koa Shoji Holdings listed in Japan and Korean Drug Co listed in Korea are currently trading at average forward P/E of 14.2x. In relation to the overall downgrade of multiples within the sector, we have used 15x P/E pegged to FY22 EPS for our updated valuation.

Financials.

INCOME STATEMENT (S\$'000)	2020A	2021A	2022F	2023F	2024F
Revenue	120,977	125,883	139,718	146,503	153,619
Cost of sales	-77,341	-77,800	-86,350	-90,544	-94,942
Gross Profit	43,636	48,083	53,367	55,959	58,677
Other income and gains	2,295	964	1,070	1,122	1,176
Share of profit of an associate	0	17	0	0	0
Distribution costs	-26,523	-28,394	-32,135	-33,696	-35,025
Administrative expenses	-10,138	-11,639	-12,918	-13,546	-14,203
Profit from Operations	9,270	9,031	9,384	9,840	10,625
Finance income/(expenses)	-110	-95	-105	-111	-116
Other losses	-2,052	-680	0	0	0
Profit before Tax	7,108	8,256	9,279	9,729	10,509
Income tax	-945	-1,410	-1,454	-1,437	-1,608
Profit after tax	6,163	6,846	7,825	8,293	8,901
BALANCE SHEET (S\$'000)	2020A	2021A	2022F	2023F	2024F
Cash and cash equivalents	27,526	19,461	25,976	32,833	40,307
Trade and other receivables	23,736	28,543	28,543	28,543	28,543
Inventory	16,888	25,076	25,076	25,076	25,076
Other current assets	564	639	639	639	639
Current Assets	68,714	73,719	80,234	87,091	94,565
Property, plant and equipment	4,807	4,171	3,252	2,258	1,225
Intangible assets	7,890	20,150	20,032	19,974	19,763
Other non-current assets	47	372	372	372	372
Non-current Assets	12,744	24,693	23,656	22,604	21,360
Total assets	81,458	98,412	103,890	109,695	115,925
Trade and other payables	27,555	33,563	33,563	33,563	33,563
Borrowings (current)	1,416	7,289	7,289	7,289	7,289
Other current liabilities	1,345	1,705	1,705	1,705	1,705
Current Liabilities	30,316	42,557	42,557	42,557	42,557
Borrowings (non-current)	3,558	880	880	880	880
Other non-current liabilities	409	342	342	342	342
Non-current liabilities	3,967	1,222	1,222	1,222	1,222
Share capital	32,641	35,083	35,083	35,083	35,083
Retained earnings	29,626	34,609	40,087	45,892	52,122
Other reserves	-15,092	-15,059	-15,059	-15,059	-15,059
Total Equity	47,175	54,633	60,111	65,916	72,146
Total Liabilities and Equity	81,458	98,412	103,890	109,695	115,925
CASH FLOW STATEMENT (S\$'000)	2020A	2021A	2022F	2023F	2024F
Net income before tax	7,108	8,256	9,279	9,729	10,509
Depreciation & Amortisation	2,081	2,204	1,871	1,962	2,057
Other non-cash adjustments	-188	457	31	37	42
Change in Working Capital	-3,810	-3,464	0	0	0
Income Tax Paid	-1,061	-1,415	-1,454	-1,437	-1,608
CF from operating activities	4,130	6,038	9,728	10,291	11,000
Purchase/Disposal of PPE	-364	-562	-478	-470	-504
Purchase/Disposal of intangibles	-829	-134	-356	-440	-310
Acquisition of subsidiaries, net of cash acquired	0	-14,156	0	0	0
Other CFI	180	-65	74	74	74
CF from investing activities	-1,013	-14,917	-760	-836	-739
Dividends Paid	-3,004	-1,863	-2,348	-2,488	-2,670
Debt Raised / (Repaid)	2,141	3,677	0	0	0
Equity Raised / (Bought Back)	0	0	0	0	0
Other Cash from Financing	-893	-1,000	-105	-111	-116
CF from financing activities	-1,756	814	-2,453	-2,598	-2,786
Net increase in cash & cash equiv.	1,361	-8,065	6,515	6,857	7,474
Beginning Cash	26,165	27,526	19,461	25,976	32,833
Ending Cash	27,526	19,461	25,976	32,833	40,307
KEY RATIOS	2020A	2021A	2022F	2023F	2024F
Profitability					
EPS (SGD Cents)	2.05	2.27	2.53	2.69	2.88
EPS Growth (%)	-5.5%	10.7%	11.6%	6.0%	7.3%
DPS (SGD Cents)	0.62	0.67	0.77	0.81	0.87
Dividend Yield (%)	2.1%	2.3%	2.6%	2.8%	3.0%
Profitability (%)					
Gross margin	36.1%	38.2%	38.2%	38.2%	38.2%
Net margin	5.1%	5.4%	5.6%	5.7%	5.8%
ROE	13.1%	12.5%	13.0%	12.6%	12.3%
ROA	7.6%	7.0%	7.5%	7.6%	7.7%
Financial Structure					
Interest coverage (x)	nm	nm	nm	nm	nm
Total Debt/Equity (%)	-47.8%	-20.7%	-29.6%	-37.4%	-44.5%
Net Gearing (%)	net cash				
Market Valuation (x)					
Price / Earnings	14.1	13.1	11.4	10.8	10.1
Price / Book	1.8	1.6	1.5	1.4	1.2

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Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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Not Rated (NR)	The stock is not rated by KGI Securities.
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