

20 August 2019

Healthcare | Pharmaceuticals

Hyphens Pharma (HYP SP)

Buy (Maintained)

Ceradan Leading The Pack; Keep Buy

Target Price (Return) SGD0.25 (25%)
 Price: SGD0.20
 Market Cap: USD43.0m
 Avg Daily Turnover (USD/SGD) 0.02m/0.02m

- Keep BUY and DCF-based SGD0.25 TP, 25% upside plus 2.8% yield.** 2Q19 revenue decreased 6.1% YoY to SGD29m from SGD30.9m on higher sales recorded from the specialty pharma principal in 2Q18 – this is ahead of the products licensing renewal in Vietnam. This decline was offset by a 7.4% increase in sales in the proprietary brands segment due to higher sales of *Ceradan* brand products. We believe the latter products will take off progressively, while the other business segments should remain robust.
- Ceradan products are gaining traction.** Hyphen Pharma's proprietary brands segment's revenue rose 7.4% YoY to SGD3.6m from SGD3.4m previously. This was mainly due to the expansion of the distribution channel for its *Ceradan* products. Sales of *Ocean Health* brand products remained flat during this quarter. Through the brand rejuvenation of *Ocean Health's* nutritional supplements, the group hopes to attract a wider pool of consumers. Hyphens has also lined up a series of marketing activities to promote its brands.
- New specialty pharma principals.** The group has signed an exclusive distribution agreement with Syntellix for the distribution of the latter's *MAGNEZIX* range of products in Vietnam. *MAGNEZIX* implants are used to keep broken bone pieces together for quicker and safer recovery. Hyphens has also signed an exclusive distribution agreement with Lundbeck for the marketing and distribution of products targeted at the treatment of central nervous system disorders in Vietnam.
- QoQ improvements seen.** On a QoQ basis, 2Q19 has seen much improvement over 1Q19: Revenue, gross profit, and profits grew 7.4%, 7.1%, and 14.4%. This was mostly attributable to a 13% growth in the specialty pharma principal segment in Hyphens' Vietnam market, as well as a 6.2% growth in the proprietary brands segment due to the reasons mentioned above. 1H19 revenue and PAT of SGD56m and SGD3m represented 44.7% and 50% of our estimates.
- Trading at below IPO price of SGD0.26.** At the current SGD0.20 price, Hyphens is trading at a 23% discount below its IPO price and offers a decent yield of 2.8%. We think the sale of *Ceradan* products will continue to perform well. We are also optimistic about the group's specialty pharma principal segment, as it continues to sign on new principals. Key risks include unsuccessful product registrations, reliance on relationships with brand principals, and FX fluctuations.

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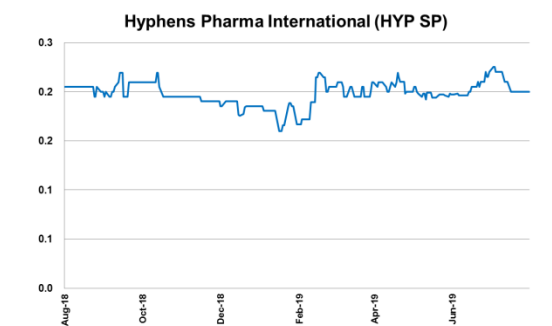


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.6	(9.1)	-	17.0	(4.8)
Relative	0.7	(1.7)	2.4	21.0	(2.2)
52-wk Price low/high (SGD)	0.16 – 0.24				



Source: Bloomberg

Forecasts and Valuation	Dec -17	Dec -18	Dec -19F	Dec -20F	Dec -21F
Total turnover (SGDm)	112.7	120.9	125.2	132.8	147.0
Recurring net profit (SGDm)	6.40	6.40	6.13	7.13	9.03
Recurring net profit growth	22.1	0.1	(4.2)	16.2	26.7
Recurring P/E (x)	9.4	9.4	9.8	8.4	6.6
P/BV (x)	3.2	1.5	1.4	1.2	1.1
P/CF (x)	11.3	6.9	9.9	8.7	7.3
Dividend Yield (%)	0.0	2.8	2.8	2.8	2.8
EV/EBITDA (x)	6.4	5.1	4.2	3.5	2.7
ROE (%)	34.0	16.4	14.0	14.5	16.0
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage (x)	35.7	54.8	62.0	71.9	91.0

Source: Company data, RHB

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Figure 1: 2Q19 results summary

SGDm	2Q19	2Q18	YoY +/- %	1H19	1H18	YoY +/- %
Revenue	29.0	30.9	(6.1%)	56.0	61.5	(9.0%)
Gross profit	10.1	11.1	(8.6%)	19.6	20.7	(5.2%)
Gross profit margin	35.0%	36.0%		35.0%	33.7%	
Profit before tax	2.0	2.2	(5.2%)	3.7	4.4	(15.3%)
PATMI	1.6	1.6	1.4%	3.1	3.4	(10.1%)
PATMI margin	5.6%	5.2%		5.5%	5.5%	

Source: Company data

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