

Singapore

ADD (no change)

Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price:	S\$0.28
Target price:	S\$0.34
Previous target:	S\$0.34
Up/downside:	21.4%
CGS-CIMB / Consensus:	-1.4%
Reuters:	HYPH.SI
Bloomberg:	HYP SP
Market cap:	US\$63.08m
	S\$86.58m
Average daily turnover:	US\$0.14m
	S\$0.18m
Current shares o/s:	308.8m
Free float:	24.1%

*Source: Bloomberg

Key changes in this note

➤ No changes.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-3.5	-1.8	-1.8
Relative (%)	0.9	3.6	-4.3

Major shareholders	% held
Inomed Holdings Pte Ltd	47.8
Tan Kia King	28.0

Analyst(s)

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Hyphens Pharma International

Displaying appetite for growth

- HYP announced the acquisition of the remaining 58% stake in associate Ardence across three tranches, to be fully completed earliest by FY26F.
- The first tranche will see HYP's stake increase by 23% for a consideration of S\$1.9m, fully funded by cash out of HYP's net cash of S\$28.6m as of 1H23.
- We view the deal favourably as we see Ardence as a strategic asset to grow HYP's medical aesthetics business. Reiterate Add; unchanged TP of S\$0.34.

Financial impact from the acquisition of Ardence Pharma

Hyphens Pharma International's (HYP) existing 42% stake in Ardence Pharma was a result of HYP's acquisition of Novem in end-FY21. In FY22, Ardence generated sales of S\$2.8m (Fig 1), according to HYP's analyst briefing slides (dated 19 Oct 23), as well as a net profit of S\$817k (Fig 2), based on HYP's acquisition announcement (dated 17 Oct 23). The acquisition of the remaining 58% stake in Ardence is to take place across three tranches, with the last tranche expected to complete by FY27F. The first tranche of the transaction, which will see HYP's stake in Ardence increase from 42% to 65% for a consideration of c.S\$1.9m, values Ardence at S\$8.1m, or an implied FY22F P/E of c.9.9x, and is expected to complete by end-FY23F. According to management, it would be fully funded by cash out of HYP's net cash of S\$28.6m (as of 1H23). We think that valuations are attractive, given Ardence's superior net profit margin of 29.4% to HYP's 7.0% in FY22, as well as stronger growth potential, which saw Ardence's revenue and net profit double yoy from FY21 to FY22, according to management during the analyst briefing held on 20 Oct 23.

A strategic asset to grow HYP's medical aesthetics business

Ardence was started in 2018 as a boutique pharmaceutical company. Today, Ardence serves more than 250 medical aesthetics clinics in Malaysia and is the exclusive distributor of anti-aging injectables PLINEST and NEWEST in Southeast Asia, and also has a skin-brightening oral tablet, Oxithion. Although the incremental net profit contribution from the additional 23% stake in Ardence is likely negligible in the near term, we view the deal favourably due to the cross-selling opportunities, e.g. the introduction of products from HYP's medical aesthetics portfolio into Ardence's existing channels in Malaysia and of Ardence's products into HYP's regional presence in Singapore and Vietnam.

Reiterate Add, with an unchanged DCF-based TP of S\$0.34

We maintain our Add rating with an unchanged DCF-based TP of S\$0.34 (WACC: 14.4%). We see incremental improvement in HYP's business prospects from the acquisition, especially with the successful launch of PLINEST from Ardence in Singapore in Oct. HYP's strong net cash position of S\$28.6m as of 1H23 also puts it in good position to further strengthen its portfolio across various business segments. Re-rating catalysts: earlier commercialisation of new products in its portfolio, where product registration and launch-to-market typically take 2-3 years, as well as more accretive acquisitions of proprietary brands or businesses. Downside risks: prolonged supply chain disruptions in Vietnam resulting in inventory stock out, as well as depreciation of the VND against US\$ and euro.

Financial Summary	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (S\$m)	125.9	162.3	158.3	162.2	166.3
Operating EBITDA (S\$m)	8.26	14.01	11.90	13.95	14.43
Net Profit (S\$m)	6.85	11.41	9.22	10.86	11.24
Core EPS (S\$)	0.023	0.037	0.030	0.035	0.036
Core EPS Growth	11.1%	62.1%	(19.2%)	17.8%	3.6%
FD Core P/E (x)	12.29	7.48	9.38	7.96	7.69
DPS (S\$)	0.007	0.011	0.009	0.011	0.011
Dividend Yield	2.39%	3.96%	3.21%	3.75%	3.89%
EV/EBITDA (x)	7.79	3.47	4.63	3.42	2.59
P/FCFE (x)	NA	6.48	11.57	8.87	6.56
Net Gearing	(35.6%)	(51.9%)	(45.3%)	(49.8%)	(57.2%)
P/BV (x)	1.54	1.25	1.36	1.20	1.08
ROE	13.4%	18.5%	13.9%	16.0%	14.8%
EPS/Consensus EPS (x)			1.07	1.00	1.01

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Displaying appetite for growth

Deal structure aligns management interests ►

The management shared during the analyst briefing on 20 Oct 2023 that the splitting of the transaction into three tranches to be completed over the next three years allows for the alignment of management's interest. The consideration for the subsequent two tranches of the transaction will be pegged at a multiple to FY24F and FY25F/26F* EBITDA (Fig 1), which will serve as a motivation for Ardence's management to continue to deliver growth that will benefit HYP as well. Ardence's founder, Mr. Sean Loo, will also be entering into an employment contract to be appointed as the Manager Director and Director of Ardence as part of the acquisition.

Figure 1: Key details of HYP's acquisition of Ardence

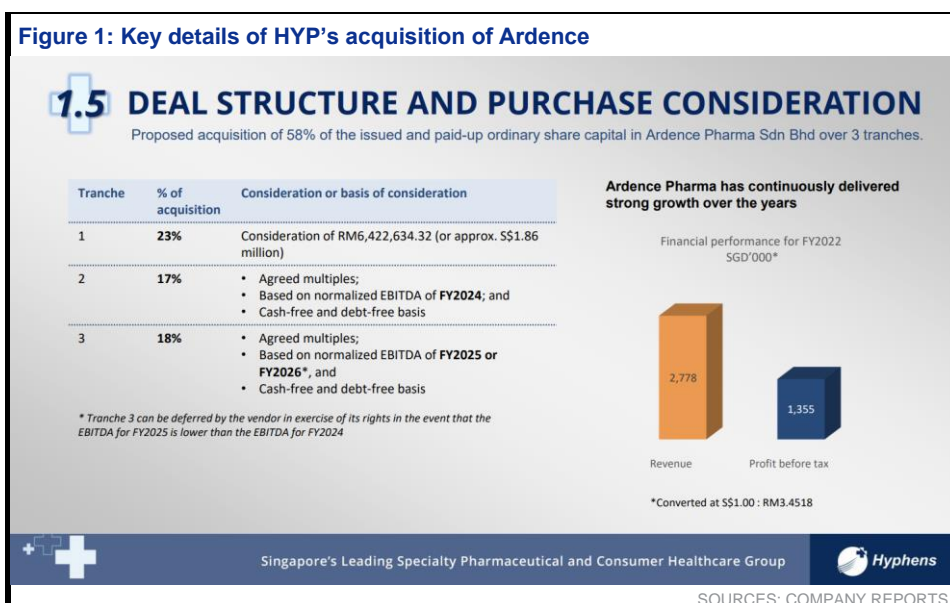


Figure 2: Impact of 23% increase in stake on HYP's FY22 PATMI

	Before the Proposed Tranche 1 Acquisition	After the Proposed Tranche 1 Acquisition
HYP FY22 PATMI (S\$000)	11,351	11,539
Shareholding in Ardence	42%	65%
Implied Ardence FY22 PATMI (S\$000)		817
Tranche 1 Consideration (S\$000)		1,861
Implied Ardence valuation (S\$000)		8,090
Implied FY22 P/E (x)		9.90

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: Peer comparison

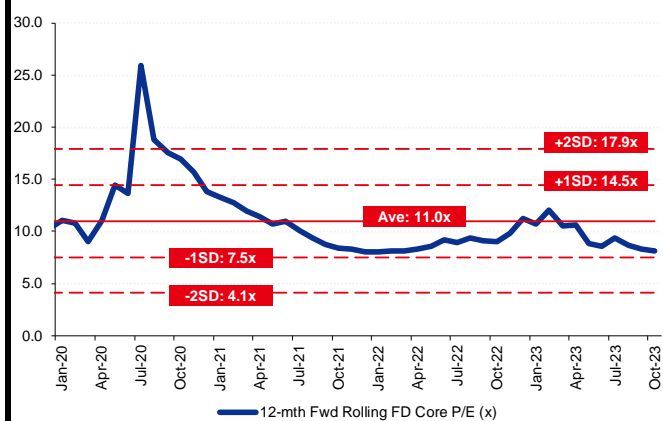
Company	Bloomberg Ticker	Recom.	Price (lci curr)	Target Price (lci curr)	Market Cap (US\$ m)	EV/EBITDA (x)		3-year EPS CAGR (%)	P/E (x)		Recurring ROE (%)		Dividend Yield (%)	
Hyphens Pharma International	HYP SP	Add	0.280	0.34	63	CY23F	CY24F		CY23F	CY24F	CY23F	CY24F	CY23F	CY24F
Mega Lifesciences	MEGA TB	Add	44.00	55.00	1,053	12.1	10.6	4.0%	16.5	15.8	25.7%	23.9%	3.4%	3.8%
Apex Healthcare Bhd	APEX MK	Non-Rated	2.47	N/A	511	13.0	12.4	1.2%	19.4	18.6	14.9%	13.4%	2.3%	2.4%
Pharmaniaga Bhd	PHRM MK	Non-Rated	0.43	N/A	178	13.1	12.9	N.A.	19.5	15.9	-18.1%	-22.1%	0.0%	1.9%
Simple average						12.7	12.2	2.6%	18.6	16.6	7.1%	5.2%	1.9%	2.7%

DATA AS AT 20 OCT 23

SOURCES: CGS-CIMB RESEARCH, COMPANY DATA, BLOOMBERG

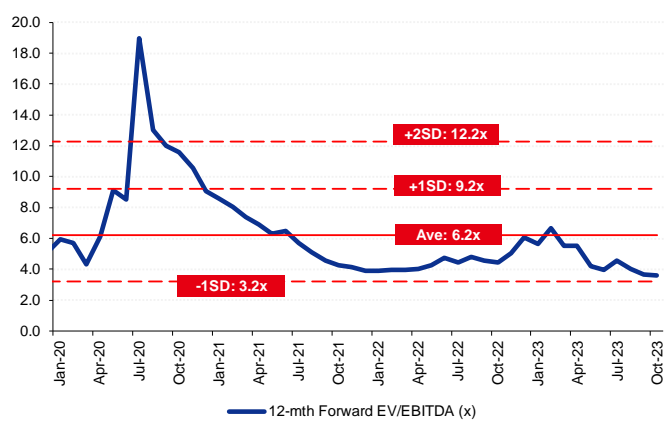
Note: Forecasts for Non-Rated companies are based on Bloomberg consensus' estimates

Figure 4: HYP's 12-month forward rolling FD core P/E (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 5: HYP's 12-month forward FD EV/EBITDA (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG



ESG in a nutshell

HYP's ESG efforts are not rated by Refinitiv or MSCI. Nevertheless, HYP has been actively pursuing E, S, and G pillars by sourcing for sustainable products, taking on initiatives with social causes to reach out to the needy, as well as abiding by its corporate governance policies. Since its listing in 2018, HYP has not been implicated in any controversy.

Keep your eye on

HYP has not faced any controversy since its listing in 2018. HYP operates within the pharmaceutical and health supplements industry that is regulated by the Ministry of Health (MOH) and Health Sciences Authority (HSA) of Singapore. It is subject to the relevant standards applicable to each of its products or risks product recalls that could adversely impact its business.

Implications

As a pharmaceutical distributor and manufacturer, customer reputation is especially pertinent to HYP. With no instances of adverse events such as product recalls, HYP appears to have high quality standards, which we believe are positive for HYP's brand equity. However, we have not ascribed a value to the brand premium as its presence remains limited within the local market.

ESG highlights

On its governance pillar, HYP has a zero-tolerance policy towards corruption and has put in place policies governing workplace ethics and business conduct. Consequently, there were no reported cases in relation to breaches of code of corporate governance, corruption, and bribery in FY21.

Implications

We think HYP's solid governance record is backed by a strong management team that has been effectively communicating expectations to its stakeholders. This is a positive for HYP, in our view.

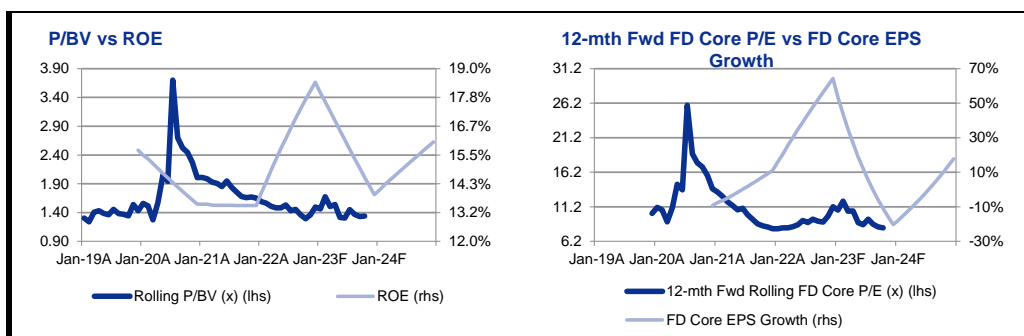
Trends

In terms of Environment, in FY21, HYP launched a refill pack for its Ocean Health Omega-3 Fish Oil 1000mg product. This refill pack is the first refill pouch in Singapore's health supplement category and it uses 90% less plastic compared to the large Ocean Health Omega-3 Fish Oil bottle.

Implications

Should the refill pack be accepted favourably by consumers, HYP will consider using the more environmentally-friendly refill pack for other supplements, as indicated in its FY21 annual report. We have not factored this into our valuations.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

Profit & Loss

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	126.8	162.9	158.3	162.2	166.3
Gross Profit	49.0	63.4	61.8	63.4	65.1
Operating EBITDA	8.3	14.0	11.9	14.0	14.4
Depreciation And Amortisation	0.0	0.0	(0.7)	(0.7)	(0.7)
Operating EBIT	8.3	14.0	11.2	13.3	13.8
Financial Income/(Expense)	(0.0)	(0.2)	(0.2)	(0.2)	(0.2)
Pretax Income/(Loss) from Assoc.	0.0	0.5	0.5	0.5	0.5
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	8.3	14.3	11.5	13.6	14.1
Exceptional Items					
Pre-tax Profit	8.3	14.3	11.5	13.6	14.1
Taxation	(1.4)	(2.9)	(2.3)	(2.7)	(2.8)
Exceptional Income - post-tax					
Profit After Tax	6.8	11.4	9.2	10.9	11.2
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6.8	11.4	9.2	10.9	11.2
Recurring Net Profit	6.8	11.4	9.2	10.9	11.2
Fully Diluted Recurring Net Profit	6.8	11.4	9.2	10.9	11.2

Cash Flow

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	8.26	14.01	11.90	13.95	14.43
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3.46)	2.14	(2.84)	(2.76)	1.66
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense		(0.66)	(0.66)	(0.66)	(0.66)
Other Operating Cashflow	2.66	2.87	2.91	3.20	2.14
Net Interest (Paid)/Received	(0.02)	(0.20)	(0.18)	(0.18)	(0.18)
Tax Paid	(1.42)	(2.15)	(2.66)	(2.30)	(2.71)
Cashflow From Operations	6.02	16.02	8.48	11.25	14.68
Capex	(0.56)	(0.56)	(1.00)	(1.50)	(1.50)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(14.16)	0.21	0.00	0.00	0.00
Other Investing Cashflow	(0.27)	(0.66)	0.00	0.00	0.00
Cash Flow From Investing	(14.99)	(1.01)	(1.00)	(1.50)	(1.50)
Debt Raised/(repaid)	3.68	(1.86)	0.00	0.00	0.00
Proceeds From Issue Of Shares	0.00	6.10	0.00	0.00	0.00
Shares Repurchased					
Dividends Paid	(1.86)	(2.07)	(14.54)	(2.78)	(3.24)
Preferred Dividends					
Other Financing Cashflow	(0.91)	(1.02)	0.00	0.00	0.00
Cash Flow From Financing	0.91	1.15	(14.54)	(2.78)	(3.24)
Total Cash Generated	(8.07)	16.17	(7.07)	6.97	9.94
Free Cashflow To Equity	(5.30)	13.16	7.48	9.75	13.18
Free Cashflow To Firm	(8.88)	15.25	7.73	10.00	13.44

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	19.46	36.48	29.41	36.38	46.32
Total Debtors	28.54	31.11	29.63	32.60	31.17
Inventories	25.08	21.26	23.81	24.36	24.93
Total Other Current Assets	0.64	0.81	0.81	0.81	0.81
Total Current Assets	73.72	89.65	83.65	94.16	103.23
Fixed Assets	4.17	3.02	1.76	0.72	0.74
Total Investments	0.31	2.67	3.13	3.59	4.05
Intangible Assets	20.15	19.07	18.41	17.76	17.10
Total Other Non-Current Assets	0.07	0.06	0.06	0.06	0.06
Total Non-current Assets	24.69	24.82	23.36	22.12	21.95
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	40.85	37.42	35.64	36.42	37.22
Other Current Liabilities	1.71	2.66	2.30	2.71	2.81
Total Current Liabilities	42.56	40.07	37.95	39.13	40.03
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0.88	3.33	3.33	3.33	3.33
Total Non-current Liabilities	0.88	3.33	3.33	3.33	3.33
Total Provisions	0.34	0.79	0.79	0.79	0.79
Total Liabilities	43.78	44.20	42.07	43.26	44.15
Shareholders' Equity	54.63	69.03	63.70	71.78	79.78
Minority Interests	0.00	1.25	1.25	1.25	1.25
Total Equity	54.63	70.27	64.95	73.02	81.03

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	4.1%	28.9%	(2.5%)	2.5%	2.5%
Operating EBITDA Growth	17.4%	69.6%	(15.1%)	17.2%	3.5%
Operating EBITDA Margin	6.56%	8.63%	7.52%	8.60%	8.68%
Net Cash Per Share (S\$)	0.06	0.12	0.10	0.12	0.15
BVPS (S\$)	0.18	0.22	0.21	0.23	0.26
Gross Interest Cover	86.95	58.88	44.07	52.10	53.99
Effective Tax Rate	17.1%	20.2%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	27%	18%	158%	26%	29%
Accounts Receivables Days	84.03	67.07	70.00	70.19	70.00
Inventory Days	98.44	84.98	85.18	89.22	88.97
Accounts Payables Days	156.7	125.9	129.2	124.8	124.5
ROIC (%)	27.6%	30.8%	25.5%	29.1%	29.6%
ROCE (%)	16.3%	22.3%	16.5%	19.2%	17.8%
Return On Average Assets	7.4%	10.9%	8.5%	9.9%	9.4%

Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Specialty pharma principals gross margin	0.5	0.5	0.5	0.5	0.5
Proprietary brands gross margin	0.6	0.6	0.6	0.6	0.6
Medical hypermart and digital gross margin	0.2	0.2	0.2	0.2	0.2

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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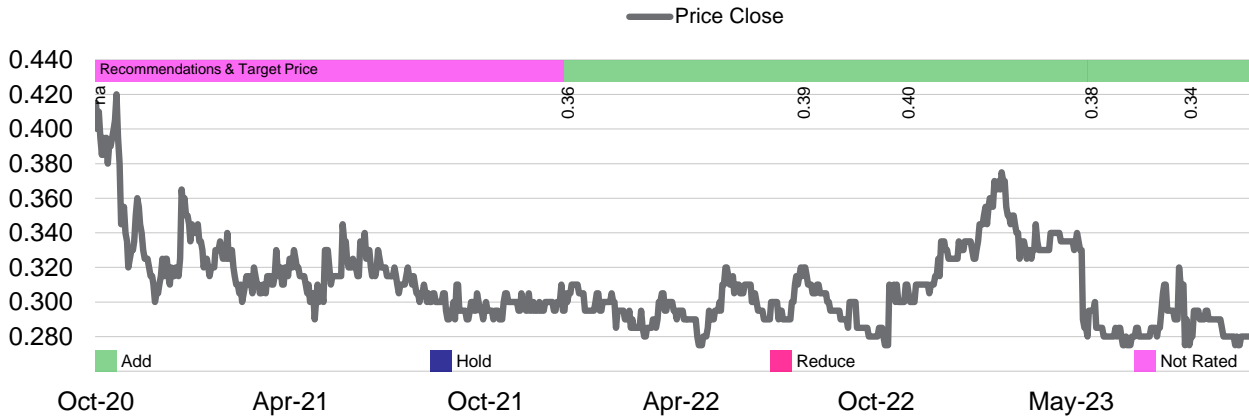
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2023		
634 companies under coverage for quarter ended on 30 September 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

Spitzer Chart for stock being researched (2 year data)

Hyphens Pharma International (HYP SP)



Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
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