Hyphens — Asean's Specialty Pharma Company	Date: 11th August 2019	Team Name: Prinsep Capital	Team No: 63	Team Leader: Kenny Chia Wei Hao

Hyphens Pharma (SGX:1J5)

Undervalued proxy to ASEAN Pharmaceuticals

Hyphens is a specialty pharmaceutical and consumer healthcare company. Its business segments include Specialty Pharma Principals, Medical Hypermart and Digital, as well as Proprietary Brands.

Investment Theses

Tailwinds from macro trends

(1) ASEAN healthcare spending to increase in tandem with rising income levels. (2) Ageing populations further drive growth in mature markets. (3) Rising demand for eczema drugs due to rapid urbanization.

Proven business model to capture growth

(1) Long-term partnerships with principal brands. (2) Leveraging rich industry expertise to expand proprietary brands segment. (3) Prudent risk management to ensure sustainable growth.

Highly experienced management team with significant stake

(1) Experienced executives with an average tenure of 15 years with the firm. (2) Bringing in human capital to expand proprietary brands segment. (3) Significant insider ownership ensures alignment with management and minority shareholders.

Competitive Strengths: (1) Established presence in ASEAN countries and well-positioned to benefit from the region's growth. (2) Strong regulatory capabilities in an industry with high barriers to entry. (3) Portfolio of international brands and strong relationships with principals.

Valuation Methodology

Our target price was derived using a Discounted Cash Flow (DCF) model as our primary valuation method. We have also used a sum-of-the-parts, RIM and DDM valuation as a sense check for our primary valuation.

Key Risks: (1) Highly dependent on brand principals. (2) Product registration & renewal risks. (3) Principal & Customer concentration risks. (4) Foreign exchange fluctuation risks.

Key Catalysts: (1) Adoption of a share buyback mandate. (2) Attractive acquisition target. (3) Potential acquisitions.

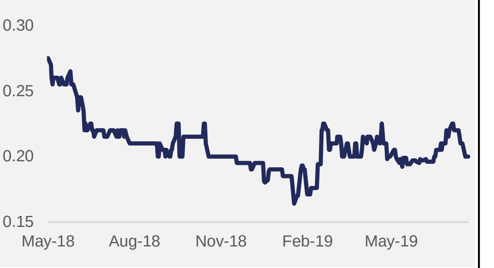
Key Financials

	2017A	2018A	2019E	2020E	2021E
Revenue (S$m)	112.7	120.9	127.1	131.3	135.6
Revenue Growth	11.6%	7.3%	5.1%	3.3%	3.3%
Gross Margin	32.8%	33.7%	31.1%	31.2%	31.4%
Net Income (S$m)	6.1	5.4	5.4	5.5	5.7
Net Margin	5.4%	4.5%	4.3%	4.2%	4.2%
EPS (cents)	2.5	2.0	1.8	1.8	1.9
ROE	32.3%	13.8%	12.6%	12.3%	12.3%

Initiate BUY

Share Price:	**S$0.20**
Target Price:	**S$0.29**
Upside:	**45%**

Share Performance Since IPO in May '18



Key Statistics

GICS Industry:	Pharmaceuticals
Bloomberg Ticker:	HYP:SP
52 week range:	S$0.16 - 0.24
Free float:	20.1%
Avg 3-mth daily vol	0.2m
Shares:	300.43m
Market Cap:	S$60.1m

Key Shareholders

Inomed Pte Ltd	65.4%
Tan Chwee Choon	14.6%
Nikko Asset Management Asia	3.6%
Phillip Capital Management	0.4%

DCF Valuation as at 11th August 2019

Risk Free Rate	1.87%
Equity Risk Premium	5.96%
Beta	1.00
Country Risk Premium	2.29%
Weighted Average Cost of Capital	10.1%
Target Price	S$0.29
Total Return	45%

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Business Description

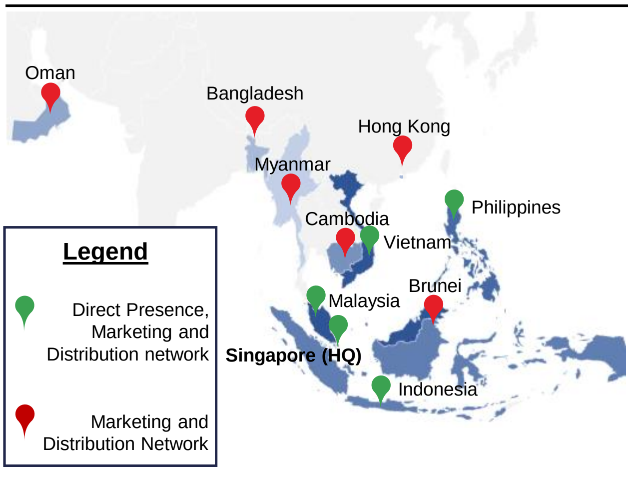
Hyphens was listed on SGX-Catalist on 18th May 2018. Its core business comprises of three segments:

(1) Specialty Pharma Principals (c.57% of FY18 revenue). Hyphens is engaged in the business of selling and marketing specialty pharmaceutical products of brand principals through exclusive distributorship or licensing and supply agreements in the relevant ASEAN countries. These principals are mainly from Europe and the US and include Guerbet SA, Biosensors International, Sofibel S.A.S., Bausch+Lomb and Chiesi Farmaceutici S.p.A. Hyphens currently has 30+ products in its portfolio.

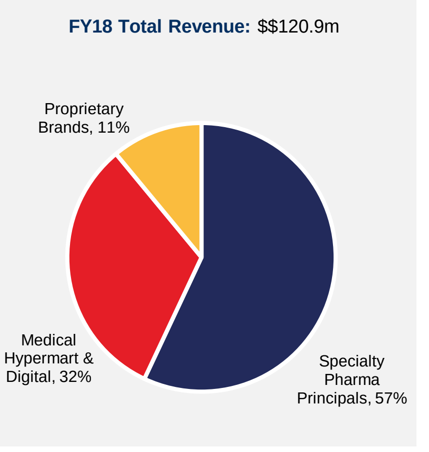
(2) Proprietary Brands (c.11% of FY18 revenue). Hyphens develops, markets and sells its own proprietary range of dermatological products and health supplement products. Hyphens' key proprietary products comprise dermocosmetic products marketed under the Ceradan® and TDF® brands as well as health supplement products marketed under the Ocean Health® brand. Hyphens markets its dermocosmetic products primarily through medical professionals, including general practitioners, dermatologists, paediatricians and pharmacists. Hyphens' health supplement products are marketed directly to consumers in Singapore via retail channels, including major retail pharmacies.

(3) Medical Hypermart and Digital (c.32% of FY18 revenue). Hyphens engages in the wholesale of pharmaceuticals and medical supplies in Singapore for healthcare professionals, healthcare institutions and retail pharmacies. Hyphens also has an online platform at http://www.pom.com.sg to support the needs of customers. This online B2B platform allows registered customers to browse Hyphens' wholesale product offerings and also serves as a platform for brand principals to provide information regarding their products to Hyphens' customers by purchasing advertising space from Hyphens.

Geographic Footprint

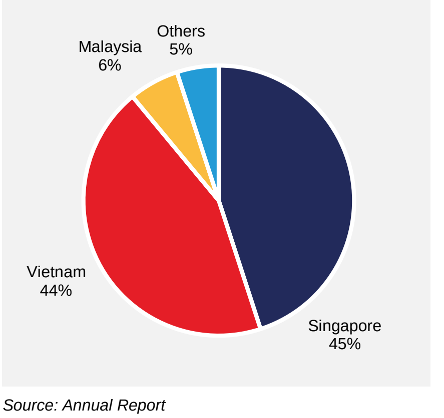


Operating Segment Sales (S$m)



Source: Annual Report

Geographic Segment Sales (S$m)



Source: Annual Report

Principal Brands*

BAUSCH + LOMB
See better. Live better.
Fenosup Lidose
Vivomixx Food Supplement
STÉRIMAR Natural Sea Water Nasal Spray
A lifestyle! Rupafin

**Selected Brands*

Proprietary Brands

Ocean HEALTH Quality You Can Trust
tdf DERMA FORMULA
Ceradan

Industry Overview

Hyphens has a stronghold in the ASEAN pharmaceuticals market, with an expanding distribution network in other parts of Asia-Pacific.

In terms of consumer healthcare spending, the Asia-Pacific region is expected to grow more aggressively compared to the world average, rising from US$92b in 2019 to US$107b in 2023. As such, the group is well-poised to benefit from the secular trend of rising consumer healthcare expenditure in the region.

Key Industry Drivers

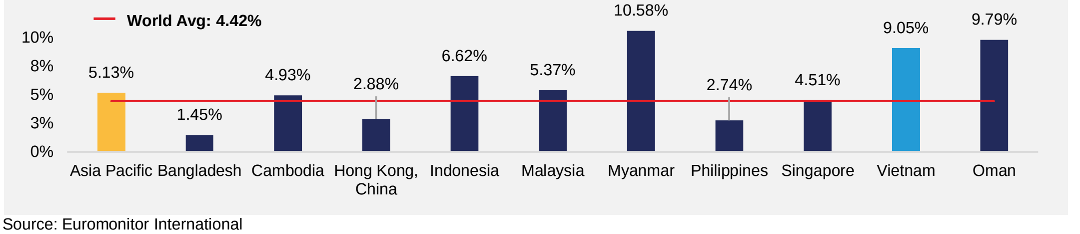
(1) Rising GDP/ Capita - Healthcare spending would grow as Asia becomes more prosperous. This comes as a greater portion of the population are financially empowered to improve their standard of living.

(2) Ageing Population - The impending silver tsunami in Asian nations is set to drive growth in healthcare spending.

(3) Health and Wellness - Changes in consumer lifestyles have caused a shift in focus to supplements to maintain one's health.

Source: Company Data, Euromonitor International

Consumer Healthcare Market Growth: 2018-2023e CAGR

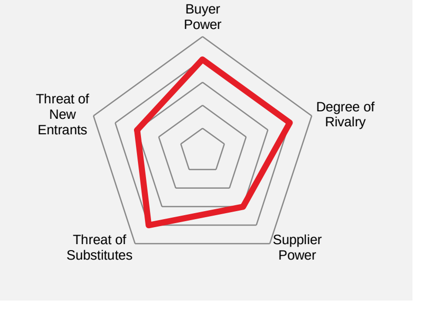


Source: Euromonitor International

Hyphens' Competitive Positioning

1. Established presence in ASEAN countries and well-positioned to benefit from the region's growth
2. Strong regulatory capabilities in an industry with high barriers to entry
3. Portfolio of internationally well-known specialty pharmaceutical products and strong relationships with principals
4. Strong sales and marketing capabilities
5. Possess a proprietary range of products and brands
6. Highly experienced and committed management team supported by strong and stable employee base

Porter's Five Forces



Source: Euromonitor International

Force	Strength	Summary
Buyer Power	Strong	Buyer power has increased in recent years due to rising healthcare costs and the increasingly availability of generics, strengthened by the oligopsony status and price control policies of state and private sector institutions that are ultimately purchasers of drugs.
Supplier Power	Moderate	Recently, larger pharmaceutical companies have turned to producing their own chemicals to enhance profits, however, smaller companies lack the resources required to do this and remain reliant on active pharmaceutical ingredients (APIs) manufacturers.
Threat of New Entrants	Moderate	New entrants must satisfy regulators that their products are safe and effective. Meeting these regulatory requirements is not only time-consuming, but costly.
Threat of Substitutes	Strong	Switching costs for consumers are relatively low. The main substitutes to branded drugs are generics and biosimilars, which can offer the same benefits at a much lower price.
Degree of rivalry	Strong	The presence of large-scale global competitors and smaller generics companies fighting for each drug approval in a lucrative market ensures rivalry is strong.

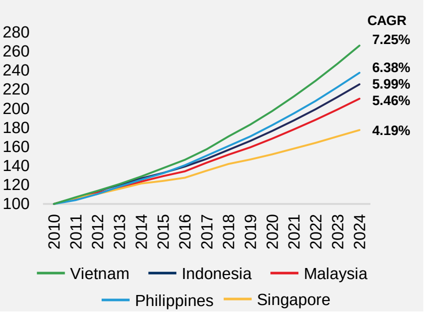
Thesis #1: Tailwinds from Macro Trends

ASEAN: The right prescription

Healthcare expenditure is expected to increase as a country becomes more wealthy and developed. As the population's wealth increases, they are more likely to be able to afford basic expenses like healthcare. To support our view, we conducted an analysis of 94 countries' GDP/ capita and consumer health expenditure/ capita, with the results yielding a positive correlation.

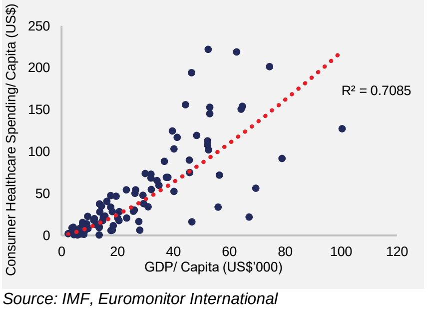
This demonstrates that economic development of core ASEAN markets form a key driver of Hyphens' continued growth. The group's strategic geographical footprint in Southeast Asia enables it to ride on the secular trend of strong economic advancement in the region.

GDP/Capita 2010-24e (Rebased*)



Source: IMF **Rebased to 100*

Correlation: GDP vs Health Exp. (2018)



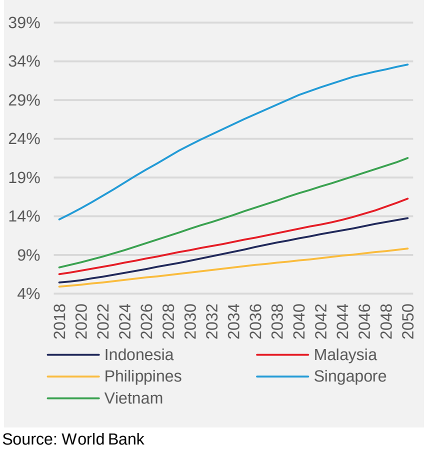
Source: IMF, Euromonitor International

Capturing growth on all fronts

ASEAN is being gripped by an ageing population - According to ERIA, the proportion of people over the age of 65 in ASEAN (save for the Philippines) is expected to triple from 2015 to 2050. This large propellant of nations' healthcare spending, which would benefit the group.

With its geographically diversified revenue streams, Hyphens would be a beneficiary of income-driven healthcare spending in developing nations such as Vietnam, as well as healthcare expenditure growth arising from the ageing population in mature economies like Singapore.

% of Population Aged 65+ (2018-50)



Source: World Bank

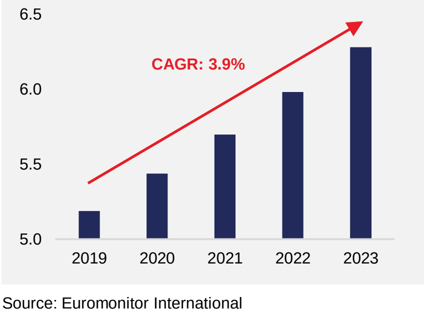
Dermatology: No rash decisions

Through its proprietary brands Ceradan and TDF, Hyphens has deep expertise in the area of dermatological treatments. Management has guided that they would leverage on this circle of competence to create value moving forward. This would allow the group to cement its position in the region and partake in a growing dermatologicals market in Asia-Pacific (3.9% CAGR from 2019-2023).

In particular, there is a substantial market in the treatment market for Atopic Dermatitis (eczema). The global eczema drugs market is set to grow at a 7.7% CAGR from 2016-2022 to US$6.4b. Studies show a statistical correlation between urban environments and the onset of the skin condition. In Singapore alone, with a 100% urbanized population, eczema affects 11% of adults and 21% of children. Moreover, half of local eczema sufferers deal with the skin condition for life. With the increased urbanization of the rest of emerging Asia, the total addressable market for the Ceradan line will increase.

In addition to the growing skincare treatment market, Hyphens Pharma has also identified the increasing demand of skin-whitening products in Southeast Asian countries like the Philippines. TDF. The group's proprietary skincare line would be a beneficiary of this trend.

APAC Dermatologicals Market (US$ b)



Source: Euromonitor International

Thesis #2: Proven Business Model to Capture Growth

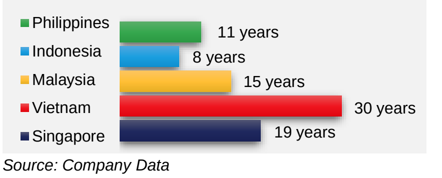
Sustainable partnerships with principal brands

Hyphens has long-term relationships with its brand principals, covering exclusive distributorships and licensing & supply agreements. The group's success in securing partnerships with these principals are largely propelled by key competencies that are apparent across its established marketing and distribution network. Year to date, the group has secured two exclusive distribution agreements with renowned principals. The partnerships are with: **(1) Lundbeck** - for products that treat disorders in the central nervous system, as well as **(2) Syntellix** – for its MAGNEZIX bioabsorbable metallic implants used in bone recovery.

Key competencies

(1) Strong regulatory capabilities: The group has built up strong regulatory expertise, underpinned by a 16-strong team solely dedicated to the regulatory functions of the business. Hyphens' familiarity with the local regulatory environment in ASEAN nations would put them in good stead to attract international principals to work with them.

Years of Operational Experience



Source: Company Data

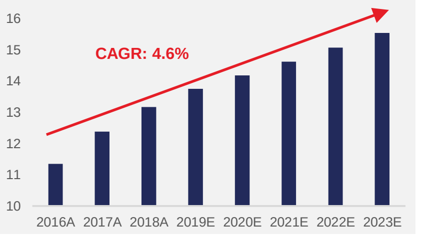
(2) Operating expertise: The group's familiarity with the market infrastructure in each geographical market enables it to effectively market and sell its principals' products. This can be attributed to the group's long tenure in the countries it operates in. The group has also developed significant industry experience, allowing it to understand various products and the optimal positioning of those products in relevant markets. This is advantageous in securing new partnerships and vital for distributorship renewals.

Expertise transferrable to proprietary brands

The group has leveraged its competencies to develop and market its own proprietary brands. The creation of this new business segment in 2011 has boosted the group's profitability as proprietary products typically command a higher average gross margin of 62% (vs 41.6% for principal brands).

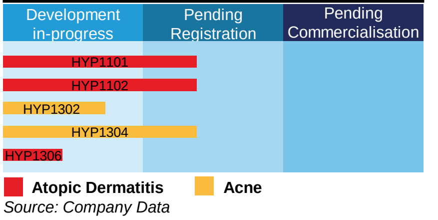
Hyphens is committed to strengthening this segment - The group has released two products year to date, namely Ceradan Advanced and TDF Fairence T-Complex. This is bolstered by a robust pipeline that would further drive growth. Earlier this year, the group also signed a MOU with A*STAR which would build on earlier partnerships to engage in R&D to serve unmet dermatological needs, which include eczema, acne, and pigmentary disorders. The group aims to bring unique innovative products to the market as early as 2020 in a bid to cement its position as a dominant player in the ASEAN pharmaceutical and consumer healthcare space.

Proprietary Brands Revenue (S$m)



Source: Company Data, Team Estimates

Proprietary Product Pipeline (2019)



Source: Company Data

Prudent risk management

In July, we attended the exclusive corporate visit to Hyphens' corporate headquarters organized by InvestingNote. During the live discussion, management guided that the group engages in low-risk R&D, focusing on identifying existing problems and innovating on existing solutions to create new value. The group emphasizes that it is not in the business of taking excessive risks that would yield an all-or-nothing return. On that note, the group would focus on its existing capabilities in dermatology to deliver growth in the future. In tandem with engaging in R&D, it is also looking to expand its geographical footprint to create new pathways for sales.

The group is also on the lookout for suitable M&A targets for inorganic growth. However, they would exercise prudence in their purchase plans. Rather than going on an acquisition spree, the group would rather focus on organic growth in terms of developing new products and refining current products. Such risk controls would ensure that the group continues to expand sustainably.

Thesis #3: Highly Experienced Management Team With Significant Stake

Experienced and stable management team. Hyphens' executive team has an average tenure of 15 years. The team comprises of professionals with extensive industry and management experience which has provided Hyphens a specialized understanding of the complexities involved in the pharmaceutical and consumer health industry in ASEAN and its processes. The recent exclusive distributorship agreements with Lundbeck and Syntellix as well as the MOU with A*ccelerate underscores the capability of the management.

New hires under the proprietary brands segment expected to drive future growth. Hyphens recently added the following key positions under the dermatology business unit - business development director, vice-president for the Philippines, and associate marketing director. In Feb 2019, Hyphens also appointed Ms Elaine Yeh, an industry veteran with over two decades worth of pharmaceutical experience, to head the dermatology business unit. We believe that this newly assembled team with an experienced director will drive further topline growth in the proprietary brands segment moving forward.

High insider ownership (80%) ensures alignment of interests with shareholders. Lim See Wah (Chairman, Executive Director & CEO) and Tan Kia King (Non-Executive Director) owns 40% and 25.4% of Hyphens respectively through their 61.1% and 38.9% stake in Inomed Holdings Pte Ltd which owns 65.4% of Hyphens. In addition, Tan Chwee Choon (Executive Director) has a 14.6% stake in Hyphens. As such, collective insider ownership comes up to 80%. As a founder-led company with key executives owning a significant stake in the business, there is an incentive to take a long term view for the business that aligns their interests with those of shareholders.

	Name & Position	Profile
	Lim See Wah Chairman, Executive Director & CEO	Founder of the group since it was started in September 1998 and is currently responsible for overseeing the overall operations and managing the group's strategic direction. He has more than 25 years of experience working in the pharmaceutical industry.
	Tan Chwee Choon Executive Director	He has had more than 35 years of experience in the pharmaceutical and consumer healthcare industries. He joined the group in January 2004 and is currently responsible for managing the Indochina operations.
	Fang Lee Wei CFO	Responsible for overseeing the overall financial management of our Group. She joined Hyphens in 2010 and has more than 20 years of experience in audit, corporate finance and financial management.
	John Leong General Manager, Hyphens Pharma	Responsible for the overall business management in Malaysia, Indonesia, and the Philippines. He joined Hyphens in 2015 with more than two decades of extensive experience in the pharmaceutical industry.
	Jason Yeo General Manager, Hyphens Pharma (Singapore)	Responsible for the overall management and growth of Hyphens Pharma and Ocean Health businesses in Singapore. He joined Hyphens in 2002.
	David Lim General Manager, Pan-Malayan Pharmaceuticals	Responsible for the overall management of Pan-Malayan Pharmaceuticals. Prior to joining Pan-Malayan Pharmaceuticals in 2000, he spent over 13 years in various MNCs and SMEs.

Financial Analysis

Stable long-term revenue growth

Hyphens' sustained revenue growth is backed by strong macro trends. Its rich industry experience will also aid in the execution of its marketing and distribution strategies. While Hyphens has signed key exclusive distributorship deals with Specialty brands like Lundbeck and Syntellix recently, it is difficult to quantify the benefits of such catalysts due to lack of adoption rate visibility. As such, even though we believe Hyphens would continue securing new partnerships, we project a conservative revenue growth rate of 3%, slightly below the 5.1% growth rate seen in the APAC pharmaceutical market.

Dip in margins on rising exposure to Vietnam

In Hyphens' 1Q19 results report, management commented that sales contributions from Vietnam typically carry lower margins. As sales growth in Vietnam is expected to outstrip that of Singapore, we opine that Vietnam's percentage contribution to the group's revenue would rise in the future. Accordingly, the group's gross margins are expected to decrease. However, the weakening in gross margins will be more than offset by the absolute growth in the bottom-line.

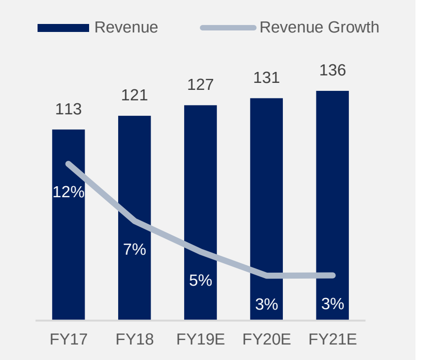
Solid cash-generating business

Hyphens' business is a self-sustaining business without the need for external financing through strong and stable positive operating cash flow and free cash flow generation. Free cash flow is expected to spike to S$9m this year due to the non-recurrence of a S$3m one-off capex in FY18. Hyphens' asset-light, low capex business model allows it to obtain a high FCF yield of 15.0%. It also boasts a robust net cash position of S$21.1m (~35% of market cap or 7.0¢/share).

High return on equity with minimal debt levels

Hyphens continues to maintain a high ROE (12%-14%) post-IPO despite employing a low equity multiplier. With only S$3m of debt at the end of FY18 and subsequently only S$1m of debt at the end of 1Q19, we can expect the company to pay off the remaining debt and maintain an equity-only capital structure going forward.

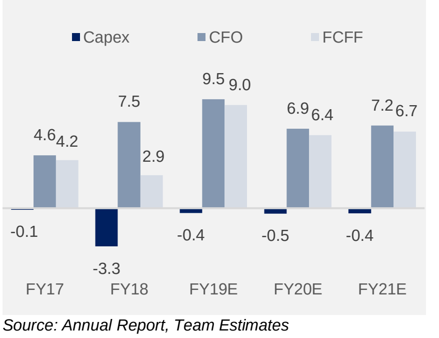
Hyphens' Revenue (S$m)



Margins	FY17	FY18	FY19E	FY20E	FY21E
Gross	33%	34%	31%	31%	31%
EBITDA	8%	8%	7%	7%	7%
EBIT	7%	7%	5%	5%	5%
PBT	6%	6%	5%	5%	5%
PAT	5%	4%	4%	4%	4%

Source: Annual Report, Team Estimates

Hyphens' FCF, CFO and Capex (S$m)



Source: Annual Report, Team Estimates

Liquidity and Solvency Ratios

	FY17	FY18	FY19E	FY20E	FY21E
Current Ratio	1.3	1.8	1.9	1.9	2.0
Quick Ratio	0.9	1.5	1.6	1.6	1.7
Debt/EBITDA	0.4	0.3	0.0	0.0	0.0
Debt/EBIT	0.5	0.3	0.0	0.0	0.0
EBITDA/Int. Exp.	43x	73x	50x	96x	131x
EBIT/Int. Exp.	39x	67x	38x	72x	98x

Source: Annual Report, Team Estimates

Dupont Analysis	Dec-17	Dec-18	Dec-19E	Dec-20E	Dec-21E
PAT Margin	5%	4%	4%	4%	4%
Asset Turnover	1.9x	1.6x	1.5x	1.6x	1.6x
Equity Multiplier	3.2x	1.9x	1.9x	1.9x	1.8x
Return on Equity	32%	14%	13%	12%	12%
Return on Asset	12%	10%	7%	7%	7%

Source: Annual Report, Team Estimates

Working Capital Ratios	Dec-17	Dec-18	Dec-19E	Dec-20E	Dec-21E
Days Receivables Outstanding (Days)	71	81	88	89	87
Days Payables Outstanding (Days)	144	150	137	141	136
Days Inventory Outstanding (Days)	54	55	46	47	47
Cash Conversion Cycle (Days)	-19	-15	-2	-6	-2

Source: Annual Report, Team Estimates

Valuation

We issue a BUY recommendation on Hyphens Pharma International Ltd with a target price of S$0.29, representing a 45% upside from the closing price of S$0.20 per share on 8th August 2019. Our target price was derived using a Discounted Cash Flow (DCF) model as our primary valuation method. We have also used a SOTP, RIM and DDM valuation as a sense check for our primary valuation. These secondary valuations support our DCF-backed target price.

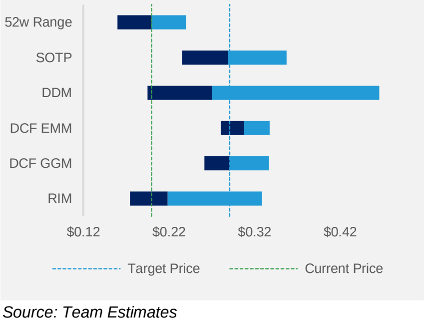
Estimating the risk-adjusted discount rate

We applied a WACC of 10.1% to discount the projected FCFF. We assume the company's long-term absolute debt levels to be zero after paying off the remaining S$1m of debt that is due within a year. The computation of cost of equity is based on the Capital Asset Pricing Model using the following inputs: a) risk-free rate equivalent to the 10-year Singapore Government bond rate of 1.87% b) Singapore's mature market equity risk premium of 5.96% c) beta of 1.00 d) weighted average country risk premium of 2.3% using revenue contribution by geography as weights.

SOTP valuation offers further support

We valued Hyphens using a sum-of-the-parts analysis based on valuation of its business segments of 1) Specialty Pharma Principals; 2) Proprietary Brands; and 3) Medical Hypermart and Digital. After incorporating a 20% holding company discount, our target price stands at S$0.29, implying an upside of 45%.

Football Field Analysis



Source: Team Estimates

DCF Valuation Assumptions

Risk Free Rate	1.87%
Market Risk Premium	5.96%
Adjusted Beta	1.00
Country Risk Premium	2.29%
Cost of Equity	10.11%
WACC	10.1%
Terminal Growth Rate	1.00%

Source: Team Estimates

SOTP Valuation Assumptions

Specialty Pharma LTM EV/Revenue	0.2x
Proprietary Brands NTM EV/Revenue	3.3x
Digital Hypermart NTM EV/Revenue	0.5x
Holding Company Discount	20%
Fair Value per Share	0.29
Upside	45%

Source: Team Estimates

Discounted Cash Flow Analysis (S$m)

	FY19E	FY20E	FY21E	FY22E	FY23E
Earnings before Interest and Taxes (EBIT)	**6.8**	**6.8**	**7.0**	**7.3**	**7.6**
Less: Taxes	(1.2)	(1.2)	(1.3)	(1.3)	(1.4)
Net Operating Profits after Taxes (NOPAT)	**5.6**	**5.6**	**5.8**	**6.0**	**6.2**
Add: Depreciation	1.9	2.0	2.1	2.2	2.3
Add: Amortisation	0.3	0.3	0.3	0.3	0.2
Less: Capital Expenditure	(0.5)	(0.5)	(0.5)	(0.6)	(0.6)
Less: Changes in Net Operating Working Capital	1.7	(0.9)	(0.9)	(0.9)	(2.8)
Free Cash Flow to Firm (FCFF)	**9.0**	**6.4**	**6.7**	**6.9**	**5.3**
Present Value of Free Cash Flows	**8.6**	**5.5**	**5.3**	**4.9**	**3.4**
Present Value of Cumulative FCFF	27.7				
Present Value of Terminal Value	38.1				
Implied Enterprise Value	**65.8**				
Less: Debt	(3.0)				
Less: Non-controlling Interest	0.0				
Add: Cash	24.6				
Add: Investments	0.0				
Implied Equity Value	**87.5**				
Fair Value per Share (SGD)	**0.29**				
Upside	45%				

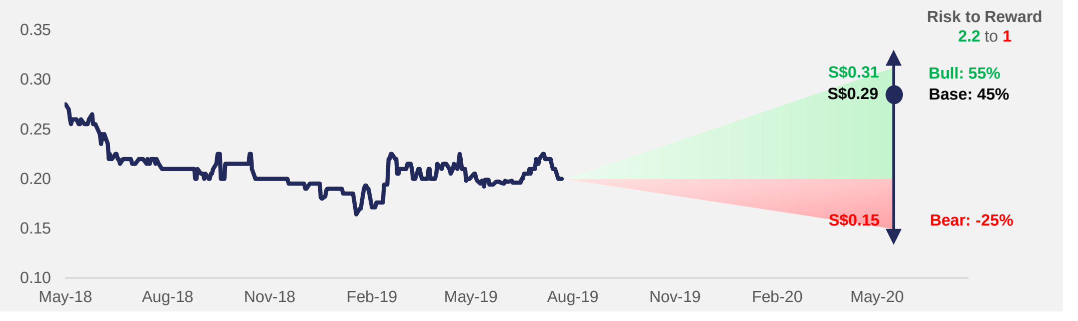
Source: Team Estimates

Valuation

Opportunity to enter at a 23% discount to cornerstone investors

Nikko Asset Management, Qilin Asset Management, and Maxi-Harvest each entered into cornerstone subscription agreements at the IPO offer price of S$0.26, for an aggregate amount of ~S$7.9m. Investors who buy into Hyphens now are getting this counter at a 23% discount compared to these funds.

Upside/Downside Spectrum



Risk to the current price of $0.20 is skewed (2.2:1) to the upside

Bull Case (S$0.31): Newly signed exclusive agreements with Lundbeck and Syntellix outperform expectations due to high market take-up rate, significantly spurring revenue growth for Hyphens. We expect a recovery in Medical Hypermart and digital segment with consistent 5% YoY revenue growth, in line with APAC's consumer healthcare market long-term growth rate.

Base Case (S$0.29): We expect moderate reception from the market regarding the new Lundbeck and Syntellix products. Yearly revenue growth is set to normalize to conservative 3%, slightly below the APAC consumer healthcare market long-term CAGR of 5%. We expect margins to decline due to increased sales contribution from Vietnam, which typically has lower margins.

Bear Case (S$0.15): We forecast a termination of contract with a single major supplier/customer causing a significant 20% YoY decrease in FY19 revenue. We also forecast higher marketing expense per new customer to mitigate poor take-up rates for the Lundbeck and Syntellix products. The decline in topline, together with the increase in operating expenses, would ultimately put pressure on Hyphens' profitability and valuations.

Trading Comparables

		FY18				
Company	**Market Cap (S$m)**	**ROE (%)**	**P/E (x)**	**P/B (x)**	**EV/EBITDA (x)**	**EV/Sales (x)**
Hyphens Pharma International	60.08	13.8	10.3x	1.5x	3.3x	0.3x
Specialty Pharma Distributors						
Shunten International Holdings	203.11	-3.1	N.A	7.2x	12.5x	3.5x
Codupha	9.21	12.0	6.3x	0.8x	14.1x	0.3x
Millennium Pharmacon International Tbk P	13.31	8.7	7.0x	0.6x	7.4x	0.2x
Nam Duoc JSC	12.38	25.9	4.5x	1.1x	3.8x	0.5x
Median	N.A	**10.4**	**6.3x**	**0.9x**	**9.9x**	**0.4x**
Proprietary Brands						
Blackmores	1509.09	37.8	22.3x	7.5x	22.4x	4.2x
Extrawell (China)	39.66	6.0	3.6x	0.2x	N.A	1.7x
Traphaco High Tech Jsc (Vietnam)	163.18	13.5	17.5x	2.7x	9.4x	1.6x
TV.Pharm Pharmaceutical JSC (Vietnam)	16.22	15.8	7.7x	1.2x	4.0x	0.5x
Botanix Pharmaceuticals Ltd	185.32	-101.4	N.A	15.2x	N.A	N.A
Median	N.A	**9.8**	**7.7x**	**2.0x**	**6.7x**	**1.6x**
Hypermart						
Pharmaniaga Bhd	235.42	8.2	15.8x	1.3x	8.8x	0.6x

Source: Bloomberg, Team Estimates

Key Investment Risks

1) Highly dependent on brand principals. Under the specialty pharma business segment, Hyphens acquires products from its brand principals and then sells them in the ASEAN markets. As most of these distributorship agreements are on fixed terms, there is a possibility that the principals decide not to renew the agreements. This would lead to a loss in sales from the distribution of products from those brand principals.

2) Product Registration & Renewal Risks. Filing an application and obtaining product registration for a product is an extensive, lengthy, expensive and uncertain process. Furthermore, regulators may delay, limit or deny product registration of a product for various reasons. In the past, Hyphens had experienced delays in product registration and had not been able to register certain products in certain jurisdictions. Should Hyphens not be granted product registration or renewal in respect to any product, Hyphens would not be able to market and sell the relevant product in the relevant jurisdiction.

3) Principal & Customer Concentration Risks. Hyphens relies on products from a small pool of principals to generate a large proportion of the group's revenue – 33.4% of FY17 revenue was derived from the top 3 principal products by revenue. Similarly, a sizeable portion of Hyphens' revenue is generated by a few customers – 40.2% of FY17 revenue came from the top 3 customers in its Specialty and Proprietary segments. This exposes the group to substantial revenue loss, should business relationships cease.

4) Foreign Exchange Fluctuation Risks. Revenue from operations in Malaysia, Indonesia and the Philippines is denominated in the respective local currencies. While revenue from operations in Vietnam is denominated in EUR or USD. Hyphens' purchases are primarily sourced from Europe and the United States and denominated in EUR or USD. Hyphens' labor costs and other operating expenses are generally denominated in the respective local currencies of the place of operations. As a result, any significant depreciation of VND, IDR, MYR or PHP against SGD or any significant appreciation of USD or EUR against SGD or VND could cause Hyphens to incur foreign exchange losses.

FX Sensitivity Analysis On PBT

10% strengthening	2018 S$'000
SGD/USD	(75)
SGD/EUR	(647)
SGD/VND	229
SGD/OTHERS	(168)

Source: Annual Report

Share Price Catalysts

(1) Adoption of a share buyback mandate. While Hyphens does not currently have a share buyback mandate due to its short listing history, management has indicated its willingness to adopt one in the near future. We view this as a potential catalyst given Hyphens' attractive valuation (EV/EBITDA of 4.4x at a 53% discount to peer average of 9.4x and 23% below IPO price) and high net cash position. We believe that the share buybacks would be net present value positive as well as drive EPS growth.

(2) Attractive acquisition target. As Hyphens continues to develop its proprietary brands and distribution network, it increasingly becomes an attractive acquisition target for firms looking to gain exposure into the fast-growing pharmaceutical and consumer health space in the ASEAN region. Past exits of comparable pharmaceutical firms exited at a median 14.2x EV/EBITDA. On the other hand, Hyphens is currently trading at a significantly lower EV/EBITDA of 4.4x. Hence, there is considerable upside potential driven by a multiple expansion in the event of a takeover offer.

(3) Potential acquisitions. With S$15.6m of gross proceeds raised from the IPO, S$7m was allocated to "business expansion, including potential acquisitions, joint ventures, product development and research and development collaborations". However, we note that this amount has yet to be utilized at all. Management opined that while current valuations are not cheap, they are constantly on the lookout for any synergistic acquisitions. Any of such acquisitions could provide some uplift to the counter.

Supporting Data

Income statement (S$m)	Dec-17	Dec-18	Dec-19E	Dec-20E	Dec-21E
Revenue	113	121	127	131	136
Gross profit	37	41	39	41	43
EBITDA	9	9	9	9	9
Operating profit	8	9	7	7	7
Net interest	0	0	0	0	0
Exceptional items	-1	-2	0	0	0
Pre-tax profit	7	7	7	7	7
Taxation	-1	-2	-1	-1	-1
Net Profit	6	5	5	5	6

Cash flow (S$m)	Dec-17	Dec-18	Dec-19E	Dec-20E	Dec-21E
Cash flow from operations	5	8	10	7	7
Capex	-0.1	-3.3	-0.4	-0.5	-0.4
Cash flow from investing activities	0	-3	-1	-1	-1
Cash flow from financing activities	-5	6	-5	-5	-5
Cash at beginning of period	13	12	25	26	27
Net change in cash	0	10	4	2	2
Ending balance cash	12	22	29	27	29

Balance sheet (S$m)	Dec-17	Dec-18	Dec-19E	Dec-20E	Dec-21E
Total cash and equivalents	12	22	26	27	29
Plant and equipment	1	3	3	2	1
Intangible assets	9	8	8	7	7
Total investments	0	0	0	0	0
Total other assets	38	41	47	47	47
Total assets	60	75	83	84	85
Short-term debt	2	3	1	1	1
Total long-term debt	2	0	2	2	1
Total liabilities	41	36	40	39	38
Shareholders' equity	19	39	43	45	46
Minority interests	0	0	0	0	0
Total equity	19	39	43	45	46
Total liabilities & equity	60	75	83	84	85

Financial summary	Dec-17	Dec-18	Dec-19E	Dec-20E	Dec-21E
EPS (SG cents)	2.5	2.0	1.8	1.8	1.9
DPS (S$)	0.00	0.01	0.01	0.01	0.01
BVPS (S$)	0.06	0.13	0.14	0.15	0.15
ROE (%)	32.3%	13.8%	12.6%	12.3%	12.3%
ROA (%)	12.3%	9.9%	6.8%	6.7%	6.8%

Source: Annual Report, Team Estimates

Precedent Transaction Analysis

Date	Target	Transaction Value	Acquirer	EV/EBITDA
1-Jul-19	Ildong Pharmaceutical Co L	43	Ildong Holdings Co Ltd	10.6x
28-Feb-19	Dhg Pharmaceutical Jsc	106	Taisho Pharmaceutical Co	18.5x
24-Oct-18	Wooridul Pharmaceutical L	18	Investor Group	14.1x
28-Mar-18	Shire PLC	76,886	Takeda Pharmaceutical Co	14.8x
6-Nov-17	Traphaco JSC	65	Undisclosed Acquiror	16.7x
15-Nov-16	Mekophar Chemical Pharm	8	Nipro Pharma Corp	5.3x
24-Aug-16	St Pharm Co Ltd	158	Dong-A Socio Holdings Co	11.6x
2-Jul-15	SSY Group Ltd	64	SSY Group Ltd	16.6x
3-Jun-15	Ildong Pharmaceuticals Co	126	Investor Group	14.3x
13-Apr-15	Mekophar Chemical Pharm	7	Nipro Pharma Vietnam Co I	4.3x
Median				**14.2x**
Mean				**12.7x**
Min				**4.3x**
Max				**18.5x**

Source: S&P Capital IQ