

Company Note

I Malaysia

ADD (no change)

Consensus ratings*: Buy 1 Hold 0 Sell 0

Current price: RM0.38
 Target price: RM0.65
 Previous target: RM0.65
 Up/downside: 71.1%
 CIMB / Consensus: 0.0%

Reuters: BIOA.KL
 Bloomberg: BIOA MK
 Market cap: US\$47.52m
 RM190.0m

Average daily turnover: US\$0.50m
 RM2.00m

Current shares o/s: 500.0m
 Free float: 57.3%

* Source: Bloomberg

Key changes in this note

None.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|------|------|
| Absolute (%) | 0 | -7.3 | 22.6 |
| Relative (%) | -1.2 | -3.5 | 27.3 |

| Major shareholders | % held |
|--------------------|--------|
| William Hon | 16.3 |
| MTDC | 16.1 |
| PNB | 10.3 |

Analyst(s)



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Bioalpha Holdings

Future growth from Indonesia and China

- The company is banking on Indonesia and China to drive top-line growth over the next two years, says MD in an interview with the daily *StarBiz*.
- New plant in Riau, Indonesia should shorten product approvals from three years to only six months in this country.
- Indonesia currently largest market, contributing close to half of group revenue.
- Remains an Add, one of our top smallcap consumer stocks.

Interview with daily *StarBiz*

In an interview with the daily *StarBiz* on Monday, Bioalpha Holdings' (BIOH) Managing Director William Hon stated that the company is banking on Indonesia and China export markets to boost top-line growth over the next two years. The company is turning its repackaging facility in the Riau province into a full-fledged manufacturing plant.

Shortened approval process

The new plant in Indonesia in Riau, ready this August, not only solves product registration issues in Indonesia, but should also enable the group to repackage its semi-finished products in a 4,000sf repackaging facility. It should only take six months to get approvals compared up to 2-3 years previously. BioA currently distributes only 10 products in Indonesia and management aims to double that to 20 by early 2017.

China, another growth market

BIOH only started began selling to China only in 2QFY15, and in FY15, China already made up 28% of group revenue. The company has five original design manufacturers in Beijing and its focus will be Muslim-populated areas such as Lanzhou, Xi'an, Xinjiang and Qinghai. The company has identified four distributors in these provinces.

Proposed 1:3 bonus issue

The company recently proposed a 1:3 bonus issue, which would boost its issued share base from 500m to 666.7m shares. While the company's fundamentals remain unchanged, the bonus issue should help boost the stock's trading liquidity and make the stock more affordable to investors, in our view. The company has already submitted an application to Bursa Malaysia to list its bonus shares.

Remains an Add

Stock valuation remains attractive, in our view, at a 2017F P/E below 12x. 2017/18 earnings could grow faster-than expected as the company launches new products in Indonesia next year. We maintain our EPS forecasts and TP, based on an unchanged 2017F P/E of 20x, a 20% discount to the consumer sector target of 25x, the discount reflects its small-cap status. Potential re-rating catalysts include stronger-than-expected sales from Indonesia and the proposed 1:3 bonus issue. Risks include continued weak domestic sales.

| Financial Summary | Dec-14A | Dec-15A | Dec-16F | Dec-17F | Dec-18F |
|--------------------------------|---------|---------|---------|---------|---------|
| Revenue (RMm) | 27.10 | 29.70 | 45.68 | 65.31 | 88.59 |
| Operating EBITDA (RMm) | 5.40 | 10.30 | 17.25 | 21.80 | 25.75 |
| Net Profit (RMm) | 6.30 | 6.80 | 12.38 | 16.18 | 19.85 |
| Core EPS (RM) | 0.013 | 0.014 | 0.025 | 0.032 | 0.040 |
| Core EPS Growth | (0.0%) | 4.1% | 82.1% | 30.7% | 22.7% |
| FD Core P/E (x) | 29.09 | 27.94 | 15.34 | 11.74 | 9.57 |
| DPS (RM) | 0.000 | 0.004 | 0.001 | 0.001 | 0.001 |
| Dividend Yield | 0.11% | 1.05% | 0.21% | 0.26% | 0.32% |
| EV/EBITDA (x) | 32.85 | 16.83 | 10.12 | 7.96 | 6.68 |
| P/FCFE (x) | NA | NA | 240.2 | 30.9 | 30.8 |
| Net Gearing | (10.9%) | (20.9%) | (16.3%) | (15.5%) | (15.1%) |
| P/BV (x) | 3.38 | 2.43 | 2.05 | 1.83 | 1.61 |
| ROE | 12.3% | 10.3% | 14.5% | 16.4% | 17.9% |
| % Change In Core EPS Estimates | | | 0% | 0% | |
| CIMB/consensus EPS (x) | | | 0.99 | 1.01 | 0.99 |

SOURCE: COMPANY DATA, CIMB FORECASTS

Interview with the StarBiz »

In an interview with the daily *StarBiz*, Bioalpha Holdings' (BIOH) Managing Director William Hon indicated the company is banking on Indonesia and China export markets to boost top-line growth over the next two years. The company produces halal-certified herbal and non-herbal based health supplement products. Popular products sold include cordyceps sinensis, tiger milk mushroom, tongkat ali and collagen products.

Indonesia, its main market »

BioH expects sales from Indonesia to grow by 50% over the next two years, which we believe is achievable. Indonesia sales made up more than 48%, or RM14m, of the Group's FY15 turnover. The company is turning its repackaging facility in Riau province to a full-fledged manufacturing plant. Hon said the new plant in Indonesia in Riau not only solves product registration issues in Indonesia, but should also enable the group to repackage its semi-finished products in a 4,000sf repackaging facility, ready this August.

New product launches by end-2016 »

One of BIOH's key benefits of having its own factory in Indonesia is that the new product registration process for its products would only take six months to complete compared with up to 2-3 years previously. BioA currently distributes only 10 products in Indonesia, and management aims to double that to 20 products by early-2017.

China, its second-largest export market »

The company only started to sell to China in 2QFY15, and in FY15 China made up 28%, or RM8.3m, of the group's revenue. Hon said demand from China was a result of advertising and promotional activities that started in 2014. BIOH has five original design manufacturers in Beijing, and the focus will be the Muslim-populated areas such as Lanzhou, Xi'an, Xinjiang and Qinghai.

The company has identified four distributors in these provinces, he said, adding that BIOH already has presence in the southern and central part of China. We estimate there are around 100m Muslims in China, an indication of the huge potential size of the China market for BIOH.

Owns organic farm »

Hon also shared that BIOH has its own organic herbal farms in Desaru in Johor and Pasir Raja in Trengganu, and more than 20 types of herbs are being harvested at its 300-acre land in Desaru, Kota Tinggi. The other is a 1,000-acre farm in Pasir Raja, of which 123 acres are harvested, while the remaining 877 acres are currently being cleared. Hon said the company expected to produce about 400 metric tonnes of herbal medicines by 2020.

Franchising its pharmacies »

On the local front, Hon revealed that it was on the lookout to expand its retail chain of pharmacies via merger and acquisitions, with the idea of franchising them in the near term. Bioalpha now owns 13 retail pharmacies under the "Constant" brand, in the Klang Valley. BIOH does not intend to own the pharmacies but to franchise all the outlets eventually. The main purpose of opening new pharmacies is to help BIOH sell its house products.

We understand from our earlier discussions with management, that over the next few months the company plans to open up a few new outlets in Kelantan. In addition, management is looking to franchise some of its existing Constant pharmacies in the Klang Valley.

Recent developments ►

BIOH recently proposed a 1:3 bonus issue, which would boost its issued share base from 500m to 666.7m shares. While the company's fundamentals remain unchanged, the bonus issue should help boost the stock's trading liquidity and make the stock more affordable to investors. The company has already submitted an application to Bursa Malaysia to list its bonus shares.

Current shareholders ►

BIOH's major shareholders are currently 1) its founder and Managing Director, William Hon (17.0%), 2) Malaysia Technology Development Corp (MTDC) 16.1% and 3) Perbadanan Nasional Bhd (PNS-10.3%). As at end Mar, institutional shareholders include RHB Capital Fund, Norges Bank, JPMorgan Malaysia Fund and Pheim (EPF).

Valuation and recommendation

Remains an Add ►

BIOH remains an Add. Stock valuation remains attractive, in our view at a 2017F P/E of under 12x. We believe 2017/18 EPS could grow faster than expected as the company launches new products in the Indonesia markets next year. China is also a growth market, as management focuses marketing efforts on other parts of China, where Chinese Muslims reside.

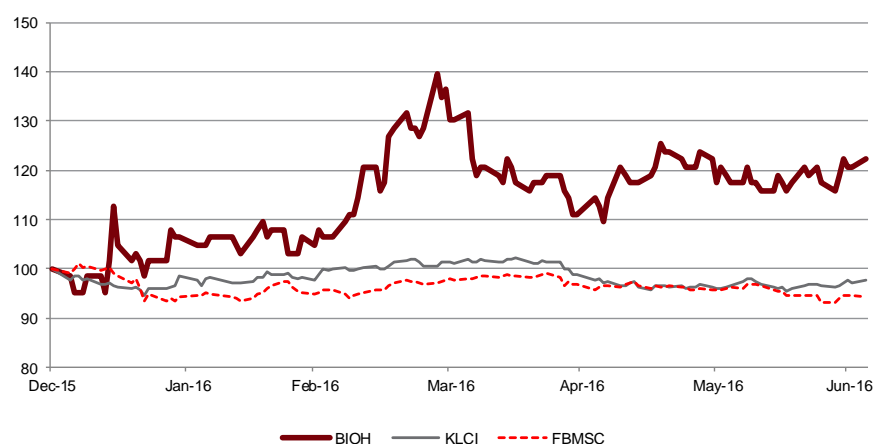
Target price unchanged ►

We maintain our EPS forecasts and target price, based on an unchanged 2017F P/E of 20x, which is at a 20% discount to the consumer sector target P/E of 25x, the discount to reflect its small-cap status. Potential re-rating catalysts include stronger-than-expected sales from Indonesia and the proposed 1:3 bonus issue. Risks include continued weak domestic sales. BIOH remains one of our top small-cap consumer stocks.

Outperforming both KLCI and FBMSC YTD ►

Since the start of the year, BIOH is up more than 20%, outperforming both the KLCI and the FBM SmallCap Index. We believe the stock's outperformance is due to its strong earnings growth outlook over the next few years. Forex risk is currently minimal, as all sales are down in Ringgit terms.

Figure 1: YTD BIOH, KLCI and FBM SmallCap Index performance



SOURCES: CIMB, BLOOMBERG

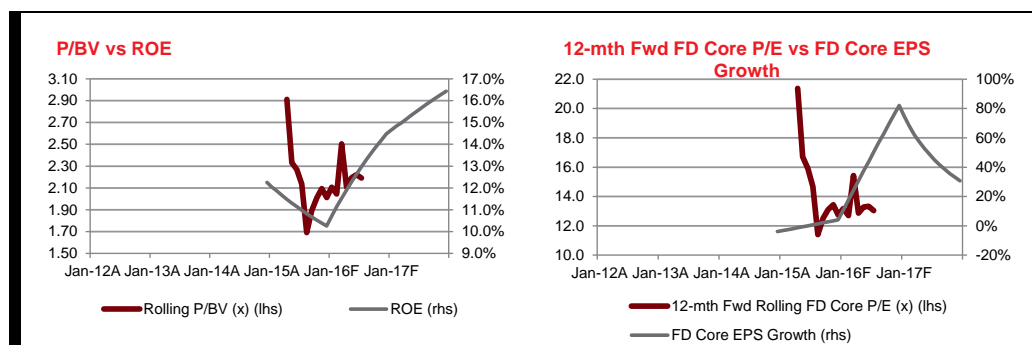
Stock remains in medium term uptrend ►

BIOH's weekly chart shows the stock has recently managed to overcome its immediate-term resistance trendline, which is a positive sign. The weekly RSI also broke out of its resistance trendline, which is usually medium-term positive.

Figure 2: BIOH's weekly price chart (RM0.38)



BY THE NUMBERS



Profit & Loss

| (RMm) | Dec-14A | Dec-15A | Dec-16F | Dec-17F | Dec-18F |
|---|--------------|--------------|--------------|--------------|--------------|
| Total Net Revenues | 27.10 | 29.70 | 45.68 | 65.31 | 88.59 |
| Gross Profit | 13.20 | 16.34 | 26.49 | 39.18 | 54.93 |
| Operating EBITDA | 5.40 | 10.30 | 17.25 | 21.80 | 25.75 |
| Depreciation And Amortisation | (3.40) | (3.80) | (4.30) | (4.80) | (5.00) |
| Operating EBIT | 2.00 | 6.50 | 12.95 | 17.00 | 20.75 |
| Financial Income/(Expense) | 4.80 | 0.80 | 0.50 | 0.50 | 0.50 |
| Pretax Income/(Loss) from Assoc. | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Non-Operating Income/(Expense) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Profit Before Tax (pre-EI) | 6.80 | 7.30 | 13.45 | 17.50 | 21.25 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 6.80 | 7.30 | 13.45 | 17.50 | 21.25 |
| Taxation | (0.50) | (0.80) | (1.07) | (1.32) | (1.40) |
| Exceptional Income - post-tax | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Profit After Tax | 6.30 | 6.50 | 12.38 | 16.18 | 19.85 |
| Minority Interests | | 0.30 | | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 6.30 | 6.80 | 12.38 | 16.18 | 19.85 |
| Recurring Net Profit | 6.30 | 6.80 | 12.38 | 16.18 | 19.85 |
| Fully Diluted Recurring Net Profit | 6.30 | 6.80 | 12.38 | 16.18 | 19.85 |

Cash Flow

| (RMm) | Dec-14A | Dec-15A | Dec-16F | Dec-17F | Dec-18F |
|----------------------------------|---------------|----------------|---------------|---------------|---------------|
| EBITDA | 5.40 | 10.30 | 17.25 | 21.80 | 25.75 |
| Cash Flow from Inv. & Assoc. | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Change In Working Capital | (0.20) | (0.47) | (8.39) | (7.33) | (11.18) |
| (Incr)/Decr in Total Provisions | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Non-Cash (Income)/Expense | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Operating Cashflow | (4.80) | (2.00) | (1.00) | (1.00) | (1.00) |
| Net Interest (Paid)/Received | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Tax Paid | (0.20) | (0.80) | (1.07) | (1.32) | (1.40) |
| Cashflow From Operations | 0.20 | 7.04 | 6.79 | 12.15 | 12.17 |
| Capex | (7.50) | (9.50) | (5.00) | (5.00) | (5.00) |
| Disposals Of FAs/subsidiaries | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Acq. Of Subsidiaries/investments | 0.00 | (1.00) | (1.00) | (1.00) | (1.00) |
| Other Investing Cashflow | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cash Flow From Investing | (7.50) | (10.50) | (6.00) | (6.00) | (6.00) |
| Debt Raised/(repaid) | 4.20 | 0.00 | 0.00 | 0.00 | 0.00 |
| Proceeds From Issue Of Shares | 0.00 | 17.80 | 5.80 | 0.00 | 0.00 |
| Shares Repurchased | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Dividends Paid | (0.20) | (2.04) | (3.71) | (4.85) | (5.96) |
| Preferred Dividends | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Financing Cashflow | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cash Flow From Financing | 4.00 | 15.76 | 2.09 | (4.85) | (5.96) |
| Total Cash Generated | (3.30) | 12.30 | 2.88 | 1.29 | 0.22 |
| Free Cashflow To Equity | (3.10) | (3.47) | 0.79 | 6.15 | 6.17 |
| Free Cashflow To Firm | (7.30) | (3.47) | 0.79 | 6.15 | 6.17 |

BY THE NUMBERS

Balance Sheet

| (RMm) | Dec-14A | Dec-15A | Dec-16F | Dec-17F | Dec-18F |
|--------------------------------------|-------------|-------------|-------------|--------------|--------------|
| Total Cash And Equivalents | 9.8 | 21.1 | 20.7 | 26.6 | 25.5 |
| Total Debtors | 12.8 | 14.9 | 22.8 | 32.7 | 44.3 |
| Inventories | 4.1 | 3.6 | 4.8 | 3.3 | 4.0 |
| Total Other Current Assets | 7.4 | 7.4 | 7.4 | 7.4 | 7.4 |
| Total Current Assets | 34.1 | 47.0 | 55.7 | 70.0 | 81.2 |
| Fixed Assets | 24.3 | 30.0 | 30.7 | 30.9 | 30.9 |
| Total Investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Intangible Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Other Non-Current Assets | 8.1 | 15.2 | 20.1 | 24.5 | 28.7 |
| Total Non-current Assets | 32.4 | 45.2 | 50.8 | 55.4 | 59.6 |
| Short-term Debt | 1.2 | 1.0 | 1.0 | 4.9 | 1.0 |
| Current Portion of Long-Term Debt | 0.4 | 1.5 | 2.3 | 3.3 | 4.4 |
| Total Creditors | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Current Liabilities | 6.1 | 6.1 | 6.1 | 6.1 | 6.1 |
| Total Current Liabilities | 7.7 | 8.6 | 9.4 | 14.3 | 11.5 |
| Total Long-term Debt | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| Hybrid Debt - Debt Component | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Other Non-Current Liabilities | 2.2 | 3.2 | 2.4 | 5.0 | 9.3 |
| Total Non-current Liabilities | 4.5 | 5.5 | 4.7 | 7.3 | 11.6 |
| Total Provisions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Liabilities | 12.2 | 14.1 | 14.1 | 21.6 | 23.1 |
| Shareholders' Equity | 54.3 | 78.3 | 92.8 | 104.1 | 118.0 |
| Minority Interests | 0.0 | (0.3) | (0.3) | (0.3) | (0.3) |
| Total Equity | 54.3 | 78.0 | 92.5 | 103.8 | 117.7 |

Key Ratios

| | Dec-14A | Dec-15A | Dec-16F | Dec-17F | Dec-18F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | 10.2% | 9.6% | 53.8% | 43.0% | 35.7% |
| Operating EBITDA Growth | (30.8%) | 90.7% | 67.5% | 26.4% | 18.1% |
| Operating EBITDA Margin | 19.9% | 34.7% | 37.8% | 33.4% | 29.1% |
| Net Cash Per Share (RM) | 0.012 | 0.033 | 0.030 | 0.032 | 0.036 |
| BVPS (RM) | 0.11 | 0.16 | 0.19 | 0.21 | 0.24 |
| Gross Interest Cover | N/A | N/A | N/A | N/A | N/A |
| Effective Tax Rate | 7.4% | 11.0% | 7.9% | 7.5% | 6.6% |
| Net Dividend Payout Ratio | 3.2% | 30.0% | 30.0% | 30.0% | 30.0% |
| Accounts Receivables Days | 173.7 | 169.9 | 151.0 | 155.1 | 158.5 |
| Inventory Days | 93.2 | 105.1 | 80.1 | 56.6 | 39.6 |
| Accounts Payables Days | - | - | - | - | - |
| ROIC (%) | 4.5% | 12.8% | 19.9% | 21.3% | 22.4% |
| ROCE (%) | 12.2% | 10.4% | 14.9% | 16.5% | 17.7% |
| Return On Average Assets | 2.4% | 7.2% | 12.0% | 13.5% | 14.5% |

Key Drivers

| | Dec-14A | Dec-15A | Dec-16F | Dec-17F | Dec-18F |
|--|---------|---------|---------|---------|---------|
| ASP (% chg, main prod./serv.) | N/A | N/A | N/A | N/A | N/A |
| Unit sales grth (% , main prod./serv.) | 10.2% | 10.0% | 40.0% | 23.0% | 18.0% |
| Util. rate (% , main prod./serv.) | N/A | N/A | N/A | N/A | N/A |
| ASP (% chg, 2ndary prod./serv.) | N/A | N/A | N/A | N/A | N/A |
| Unit sales grth (% , 2ndary prod./serv.) | 0.0% | 0.0% | 875.0% | 54.0% | 25.0% |
| Util. rate (% , 2ndary prod./serv.) | N/A | N/A | N/A | N/A | N/A |
| Outlets #/POS (main prod./serv.) | N/A | N/A | N/A | N/A | N/A |
| Outlets #/POS (2ndary prod./serv.) | N/A | N/A | N/A | N/A | N/A |
| A&P As % Of Sales | N/A | N/A | N/A | N/A | N/A |

SOURCE: CIMB RESEARCH, COMPANY DATA

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| Score Range: | 90 - 100 | 80 - 89 | 70 - 79 | Below 70 or | No Survey Result |
|--------------|-----------|-----------|---------|-------------|------------------|
| Description: | Excellent | Very Good | Good | N/A | |

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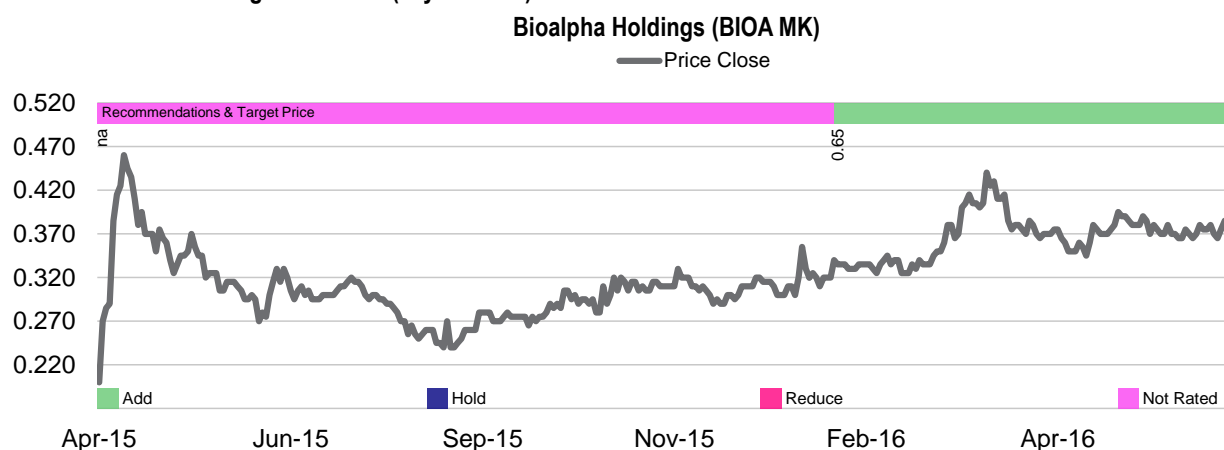
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| Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2016 | | |
|---|-------------------------|--------------------------------|
| 1539 companies under coverage for quarter ended on 31 March 2016 | | |
| | Rating Distribution (%) | Investment Banking clients (%) |
| Add | 59.2% | 6.9% |
| Hold | 30.9% | 3.1% |
| Reduce | 8.7% | 0.5% |

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2015, Anti-Corruption Progress Indicator 2015.

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Level 4: Certified

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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.

Country Ratings

Definition:

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

Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.