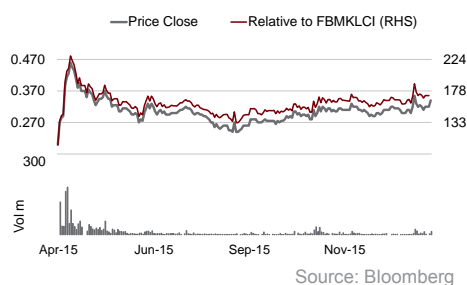


Company Note | Alpha series
I Malaysia
ADD

Current price:	RM0.34
Target price:	RM0.65
Previous target:	N/A
Up/downside:	91.2%
Reuters:	BIOA.KL
Bloomberg:	BIOA MK
Market cap:	US\$38.19m
	RM164.0m
Average daily turnover:	US\$0.36m
	RM1.61m
Current shares o/s	482.3m
Free float:	48.0%

Key changes in this note
► N/A


Price performance	1M	3M	12M
Absolute (%)	9.7	21.4	
Relative (%)	11.9	25.6	

Analyst(s)

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Bioalpha Holdings

Roaring mushrooms

- BioA is an integrated herbal supplements producer. Its strengths lie in its in-house liquid fermentation process, has just started to market the tiger milk mushroom.
- The JV with MyAngkasa holds great potential, with plans to open new retail and pharmacy outlets nationwide.
- Indirect China and Middle East play. China could be one of the largest revenue contributors this year. Targets to start selling to the Middle East market by mid-2016.
- We initiate with an Add recommendation. Our target price is based on a 20% premium to target market P/E valuation, also in-line with our consumer sector P/E.

Integrated herbal supplements producer

Bioalpha Holdings (BioA) is an integrated herbal supplements producer. About 60% of group revenue is from house brands and its best sellers include cordyceps sinensis, tongkat ali and collagen beauty products.

In-house liquid fermentation process

Wild mushrooms usually take about one year to grow, but BioA's liquid fermentation process for its medicinal mushrooms cuts this down to only five days. In 2014, the company started marketing medical mushroom lignosus rhinoceros, better known as the tiger milk mushroom.

Own organic herbal farm

BioA has 1,300 acres of land in Pasir Raja, Terengganu and Desaru, Johor for planting organic herbs. Planting has already started and has already started harvesting from both its farms. So far, 220 acres of land have been planted. The group's pretax profit margins should rise as it starts sourcing more of its herbs, which form the raw materials in its production process, from its own farms.

JV with MyAngkasa has great potential

We believe BioA's JV with MyAngkasa (Malaysia's largest co-op organisation) to set up retail and pharmacy outlets is long-term positive for the company, as this would provide BioA with the outlets and network to sell more of its house brands. MyAngkasa has 12,000 co-operatives and 8m members. This JV should kick off in a big way in 2016. We have not assumed any potential earnings from this project.

Indirect China play

China could be one of BioA's largest markets in 2016. Chinese consumers have only started buying BioA products from 2Q15 onwards, and sales momentum from this market continues to grow. In 9M15, China contributed just below 30% of BioA's sales.

Initiate with an Add recommendation

We initiate coverage with an Add recommendation. Our target price of RM0.65 is based on a 2017 19.8x P/E, which is a 20% premium to our target market P/E. The market premium is justified by the strong earnings growth outlook over the next few years. Our consumer sector (excluding BioA) is currently trading at a 2017 18.6x P/E. Potential catalysts for the stock include stronger-than-expected sales from China and further corporate developments from the MyAngkasa JV. BioA is a shariah compliant stock.

Financial Summary	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Revenue (RMm)	24.60	27.10	28.00	46.88	61.44
Operating EBITDA (RMm)	7.80	5.40	9.50	17.25	21.80
Net Profit (RMm)	6.30	6.30	6.00	12.38	16.18
Core EPS (RM)	0.013	0.013	0.012	0.025	0.032
Core EPS Growth	0.0%	(0.0%)	(4.8%)	99.1%	30.7%
FD Core P/E (x)	25.01	26.03	27.33	13.49	10.51
DPS (RM)	-	0.000	0.004	0.008	0.010
Dividend Yield	0.00%	0.12%	1.18%	2.35%	2.94%
EV/EBITDA (x)	20.20	29.27	15.53	9.26	7.30
P/FCFE (x)	NA	NA	NA	NA	21.45
Net Gearing	(13.2%)	(10.9%)	(20.9%)	(11.8%)	(11.1%)
P/BV (x)	3.38	3.02	2.09	1.95	1.73
ROE		12.3%	9.0%	15.0%	17.5%
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)					

SOURCE: COMPANY DATA, CIMB FORECASTS

Roaring mushrooms

Investment thesis

Integrated herbal supplements producer ➤

Bioalpha Holdings (BioAa) is an integrated herbal supplements producer. About 60% group revenue is currently from house brands with another 30% from original design manufacturers (ODM).

Tiger milk mushroom: the next product to watch out for ➤

The company has six medical mushrooms ready for commercial production. Its current top seller, *cordyceps sinensis* (CYS), a medical mushroom, has been marketed since 2008, and currently contributes 30-35% of group revenue. In 2015, BioA started promoting its second medical mushroom, the tiger milk mushroom (TMM), traditionally used to cure respiratory problems. TMM has high levels of betaglucan, which helps to boost the body's immune system. Former Prime Minister Tun Dr. Mahathir once said his chronic cough was cured by TMM.

Figure 1: Claimed medical benefits from consuming medical mushrooms

Product	Claimed benefits
Cordyceps sinensis	Cholesterol reduction, stimulates immune system and faster recovery from bronchitis and respiratory diseases
Tiger milk mushroom	High levels of betaglucan, boost body's immune system & prevent spread of cancer cells. Traditionally used to help improve respiratory problems
Maitake mushroom	May help attack cancer cells, reduce effects of chemotherapy, reduce insulin resistance, boost immune system, lower blood pressure and cholesterol
shiitake mushroom	Lentinan, a potent antifungal protein found to have cancer-preventing properties. Protective abilities on the liver and suppress inflammation
Cordyceps militaris	Used to support the immune system, act as an anti-viral agent, help control blood sugar and protect liver and kidney health
Lingzhi	Chinese calls it "mushroom of immortality". anti-cancer, hypoglycemic, lower blood pressure and immuno-modulating effects

SOURCES: CIMB, INTERNET

Liquid fermentation process is a strength ➤

Wild mushrooms usually take about one year to mature. BioA's in-house liquid fermentation process plant reduces this growth process to just five days. The company has another four mushrooms ready for commercialisation this year. There are the maitake mushroom, shiitake mushroom, lingzhi and *cordyceps militaris*.

Planting its own herbs ➤

With support from the Federal, Terengganu and Johor state governments, the company was allocated 1,300 acres in Peninsula Malaysia to plant organic herbs. The company currently has two farms and is already harvesting from both. Herbs like turmeric, ginger, misai kucing, kacip fatimah, hempedu bumi, roselle, tongkat ali, pecah beling and dukung anak have been successfully planted. The company plans to use most of the herbs for its own in-house production, while the balance will be sold to external parties. Group profit margin should expand as the company sources more of its raw materials from its own herbal farms.

Figure 2: Land available for planting organic herbs

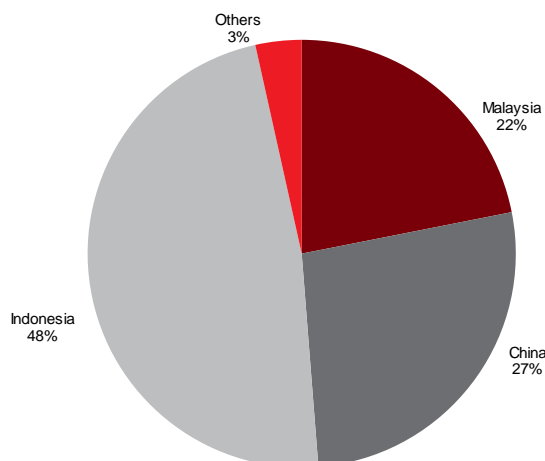
Location	Acres
Pasir Raja land, Terengganu	123 (Phase 1)
Pasir Raja land, Terengganu	880 (Phase 2)
Kota Tinggi, Johor	295
Total (acres)	1,298.0

SOURCES: CIMB, COMPANY

Indirect China play? »

Chinese customers have only started buying from BioA in 2Q15 and as of 9M15, China already contributed 27% of group revenue. Popular products among customers from China include tongkat ali herbs and TMM. We believe China could be one of the largest revenue contributors to BioA this year.

Figure 3: BioA's 9M15 revenue breakdown



SOURCES: CIMB, COMPANY REPORTS

Middle East: a new market for 2016? »

Towards the end of 2014, BioA entered in an MOU with UAE's Fathima Group (FG) for the latter to be a distributor in the gulf state. FG has one of the largest supermarket and hypermarket chains in the UAE. We understand FG will be selling BioA's house brands and popular products such as tongkat ali coffee/tea and the kacip fatimah coffee/tea. We expect the company to start the distribution of its house brand products in the UAE starting this year, and believe the Middle East would be a huge market for BioA in 2-3 years' time.

Expanding its pharmacy chain »

The company currently has one retail pharmacy outlet, "LifeSprings" at Solaris Mont Kiara, Kuala Lumpur. In Jan-2016, the company finalized the purchase of the Mediconstant Pharmacy Group which has 12 pharmacies in the Klang Valley. With the pharmacies under its umbrella, it would be easier for the company to market, distribute and sell its own house products. BioA is also in a 70:30 JV with MyAngkasa, the National Co-operative Organisation of Malaysia, to establish a chain of retail outlets nationwide. MyAngkasa currently has around 12,000 co-operatives and 8m members nationwide.

Riding the e-commerce trend »

Riding on the global e-commerce trend, the company targets to launch its own e-commerce portal in 1Q16. We are positive on this development as it would enable domestic and overseas customers to purchase its products via the Internet. We have not assumed any earnings from this e-commerce segment but in the next 2-3 years, this division could easily contribute 10%, if not more, of its house brand products' revenue.

A government NKEA project

In 2011, BioA entered into a National Key Economic Area (NKEA) agreement with the government to undertake pre-clinical and clinical research on two herbal supplements for diabetes and hormone replacement therapy. A RM20m grant was offered by the government. Results from animal trials have been successful and human trials will start this year.

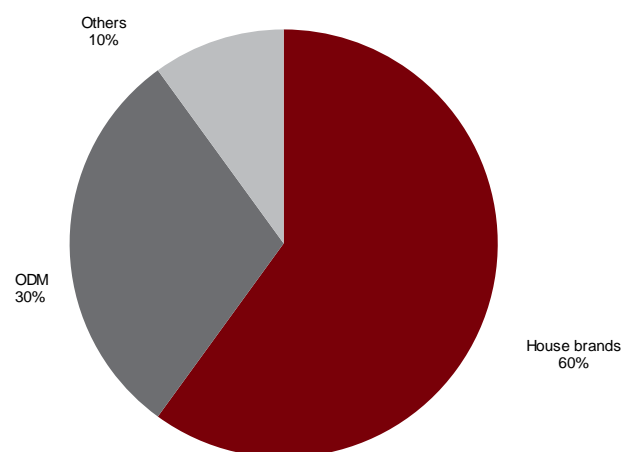
If all trials are successful, BioA will be able to register its herbal supplement with the National Pharmaceutical Control Bureau (NPCB) as a botanical drug. We have not assumed any potential earnings from this project.

BioA's core business

Integrated player in this market ➤

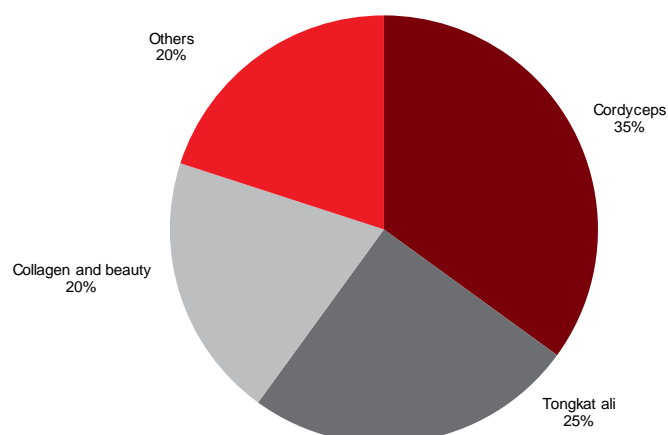
BioA produces and sells semi-finished and finished health supplement products for ODM and its own house brands. The products sold to both domestic and export markets are formulated ingredients, processed herbs and functional food (herbal and non-herbal). BioA's house brands include Nushine, Apotec, Alphanex and Bioapotec, while ODM sales are its own formulated ingredients. The products manufactured include 9 semi-finish formulated ingredients, 75 finished functional food products, and 48 finished herbal and non-herbal supplement products. House brands currently contribute 60% of the group's revenue and *cordyceps* and *tongkat ali* are the best sellers.

Figure 4: BioA's segmental sales breakdown (%)



SOURCES: CIMB, COMPANY REPORTS

Figure 5: BioA's 2015 estimated product sales breakdown (%)



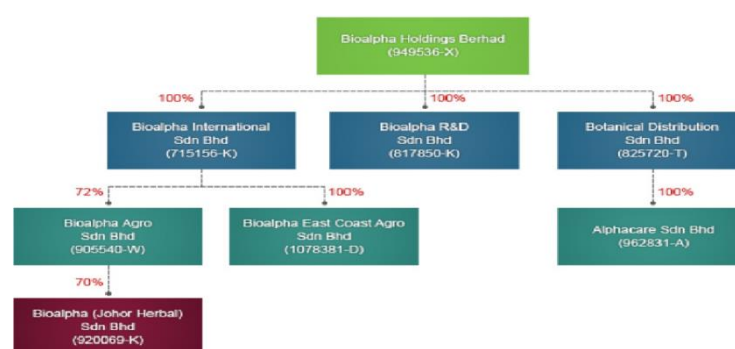
SOURCES: CIMB, COMPANY

ACE market listing in 2015 ➤

BioA was listed on the ACE market in Apr 2015 and is a shariah-compliant stock. At the IPO, 100m new public shares were issued at RM0.20 to raise RM20m for the company. The total issued share capital post-listing was 483.2m shares. There are currently three major shareholders in the company and, in total, they have a circa 52% stake in the company. The three major shareholders are:

- William Hon, founder and Managing Director of BioA. He currently owns a 17.9% stake in the company.
- Khazanah Nasional's venture capital division, Malaysian Technology Department Corporation (MTDC). MTDC became a major shareholder in 2008, after injecting capital into BioA. MTDC currently owns a 17.6% stake.
- Permodalan Nasional Bhd (PNB), which is BioA's bumiputera partner. PNB became a shareholder in 2013 and currently owns 16.7% of the company.

Figure 6: BioA corporate structure



SOURCES: CIMB, COMPANY

How it all started for BioA ➤

In 2005, BioA, founded by MD William Hon, started selling health supplements under the house brand "Bexlim". Products at that time were manufactured by a third party. In 2007, BioA set up its first manufacturing plant in Semenyih and in the following year, the company secured its first ODM and OEM customer. MTDC emerged as a major shareholder in 2008, and in 2009, BioA received a grant from the government to build its liquid fermentation facility. Four years later, the company set up its second factory, in Bangi. PNB also emerged as a major shareholder in 2013.

Figure 7: Key milestone for BioA since 2005

2005	Started selling health supplements under "Bexlim" house brand
2007	Set up manufacturing plant in Semenyih Penetrated into the Indonesia market
2008	Secured first OEM and ODM customers MTDC became substantial shareholder Expanded plant from two to five packaging forms Started R&D on medicinal mushrooms, particularly <i>C.sinensis</i> Awarded Bio Nexus status by MBC, 10 year tax free status
2009	Grant from MBC to set up commercial liquid fermentation facility
2010	JV to farm herbal plants in Desaru land
2011	NKEA agreement with govt. as anchor company to undertake high value herbal products Continued R&D on more medicinal mushrooms Commenced operations of liquid fermentation facility
2012	Penetrated into the Australia market Trademark "Bioapotec" house brand
2013	Expanded capacity with new plant in Bangi Got R&D on the extraction of polysaccharide cabohydrate from <i>L.rhinoceros</i> PNB its new substantial shareholder Started commercialisation of 13 new <i>C.sinensis</i> product formulations
2014	Bangi plant certified GMP compliant by MOH Appointed anchor company by ECERDC to develop Pasir Raja land Launched first pharmacy outlet "Life Springs" in Solaris Mont Kiara
2015	Listed in ACE Market

SOURCES: CIMB, COMPANY

In-house liquid fermentation process ➤

Both BioA's factories, located in Semenyih and Bangi, are equipped to handle the entire product development process which includes product formulation, sourcing for active ingredients, and product packaging (tablet, bottle, capsule, teabag and sachet form). Its plants are currently operating at an average 50% capacity so it would be easy for BioA to ramp-up production if product demand is strong.

For semi-finished products, BioA either sells processed herbs or formulated ingredients through its liquid fermentation process. The company does its own formulation, which it sells to third parties. At the processing herb plant, BioA cleans, dries and packs herbal plants. For formulated ingredients involving medicinal mushrooms, the company goes through a liquid fermentation and free drying process to produce medicinal mushroom extract in powder form. Formulated ingredients sold include mycelium powder, tongkat ali extract, misai kucing extract and roselle extract.

Liquid fermentation process is BioA's strength ➤

Wild mushrooms usually take around one year to grow, while solid fermentation takes 40 days. BioA's liquid fermentation process for its medicinal mushrooms cuts this process down to only five days, and the fermentation process also ensures consistent quality, with the supply of toxin-free medical mushroom powder. The company's R&D team focuses on the isolation of the mushroom strain and the development of the liquid fermentation technology. The strain can be fermented to produce the required active compound and this can produce mycelium powder in large quantities.

Since 2008, the company has been working on six medical mushrooms. Two are currently under commercial production, *cordyceps sinensis* (CYS), which is usually found in the Tibetan region, and *lignosus rhinoceros*, better known as tiger milk mushroom (TMM). This mushroom is native to tropical forests in the ASEAN region.

Legend has it this mushroom grows on the spot where tiger milk falls to the ground when a mother is feeding her cubs, thus the name “tiger milk mushroom”. Consistent supply of TMM has always been a problem but scientists have recently found a way to commercially produce this mushroom.

Figure 8: Claimed benefits of selected medicinal mushrooms and tropical herbs

Product	Claimed benefits
Cordyceps sinensis	Cholesterol reduction, stimulates immune system and faster recovery from bronchitis and respiratory diseases
Tiger milk mushroom	High levels of betaglucan, boost body's immune system & prevent spread of cancer cells. Traditionally used to help improve respiratory problems
Maitake mushroom	May help attack cancer cells, reduce effects of chemotherapy, reduce insulin resistance, boost immune system, lower blood pressure and cholesterol
shiitake mushroom	Lentinan, a potent antifungal protein found to have cancer-preventing properties. Protective abilities on the liver and suppress inflammation
Cordyceps militaris	Used to support the immune system, act as an anti-viral agent, help control blood sugar and protect liver and kidney health
Lingzhi	Chinese calls it "mushroom of immortality". anti-cancer, hypoglycemic, lower blood pressure and immuno-modulating effects
Tongkat Ali	Aphrodisiac and improve immune system
Kacip Fatimah	Induction and facilitation of labour and prevention of bone-related concerns
Misai Kuching	Treat diabetes, hypertension, hepatitis, rheumatism, edema and urinary tract illnesses
Hempedu Bumi	Blood pressure regulation, diabetes, cancer, flu and anti-inflammatory properties
Roselle	Anti-oxidant properties, anti-bacterial, anti-fungal and treatment of kidney stones
Ginger	Relieve indigestion and stomach ache

SOURCES: CIMB, INTERNET

While commercial production for CYS started in 2008, BioA only started commercialisation of the TMM in 2014. We understand TMM has high levels of betaglucan, which research has found to boost the body's immune system and prevent the spread of cancer cells. This mushroom is also used to help cough and asthma problems. BioA will be focusing more on marketing TMM in 2016. Other popular retail products under its umbrella include collagen, coffees and teas.

Figure 9: BioA's retail products

Coffee	Beauty
Kacip Fatimah Coffee	Collagen 5500
Tongkat Ali Coffee	Nushine Nanollagen
Ling Zhi Coffee	Nushine Anti-Aging
Cordyceps Sinensis Coffee	Pearl Collagen
Tea	Health supplements
Kacip Fatimah Tea	Nutri Mushy Soup
Tongkat Ali Tea	Apple Cider & Honey
Dragon Fruit Tea	BG Oats
Rooibos Tea	Bio Ligno
Hempedu Bumi Tea	B-Ligno Complex
Misai Kucing Tea	B-Spirulina
Roselle TEA	Chlorophyll
Teh tarik	
Kacip Fatimah The Tarik	
Tongkat Ali Tea Tarik	

SOURCES: CIMB, COMPANY REPORTS

Managing its own herbal harm ➤

With support from the Federal, Johor and Terengganu government, BioA has around 1,300 acres of land in Kota Tinggi, Johor and Pasir Raja, Terengganu to plant organic herbs. In 2014, the company was appointed as an anchor company by the East Coast Economic Region Development Council (ECERDC) to develop and manage the Pasir Raja land. Phase 1 planting has already started at both its Pasir Raja farm (123 acres) and Kota Tinggi farm (100 acres). Herbs like turmeric, ginger, misai kuching, kacip fatimah, hempedu bumi, roselle, tongkat ali, pecah beling and dukung anak have been successfully planted in the farms.

Figure 10: BioA's herbal farms

Location	Acres
Pasir Raja land, Terengganu	123 (Phase 1)
Pasir Raja land, Terengganu	880 (Phase 2)
Kota Tinggi, Johor	100 (Phase 1)
Kota Tinggi, Johor	195 (Phase 2)
Total (acres)	1,298

SOURCES: CIMB, COMPANY REPORTS

Expanding its pharmacy network ➤

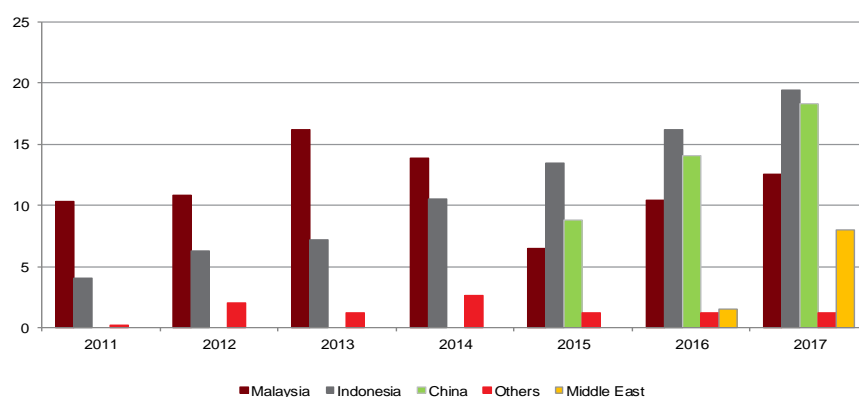
The company currently has one retail pharmacy outlet, "LifeSprings" at Solaris Mont Kiara, Kuala Lumpur. This month, the company finalised the purchase of the Mediconstant Pharmacy Group for RM5m via the issue of 18.9m new BioA shares. The Mediconstant Group has 12 pharmacies in the Klang Valley. Revenue in 2014 was around RM17m or an average of RM1.5m per pharmacy outlet.

In 2015, BioA set up a 70:30 joint venture with MyAngkasa, the National Co-operative Organisation of Malaysia, to establish a chain of retail outlets nationwide. MyAngkasa currently has around 12,000 co-operatives nationwide and 8m members. This joint venture should kick off in a big way in 2016. We have not assumed any potential earnings from this JV, but both developments should be positive for the future sales of BioA's house brand products.

Where are its customers from? ➤

Before 2015, the domestic market was BioA's largest market and Indonesia was the second largest. However, after the Apr 2015 GST implementation, domestic sales took a dip. Fortunately, Chinese customers started buying from BioA from 2Q15 onwards, and based on the current sales momentum, BioA's largest markets should be China and Indonesia in 2016. Domestic sales should recover in 2016 as customers get used to GST. In addition, domestic house brand sales should also pick up as the company starts selling more of its own products through the group's own pharmacy outlets.

We have also assumed maiden revenue contributions from the Middle East in 2016. In end-2014, BioA signed a MOU with UAE's Fathima Group of Companies (FG) for the latter to distribute its house brands. FG has one of the largest chains of retail outlets in the UAE and also has a presence in five other counties in the Middle East. We expect sales to FG to start in mid-2016.

Figure 11: BioA's estimated revenue breakdown by country (RMm)

SOURCES: CIMB

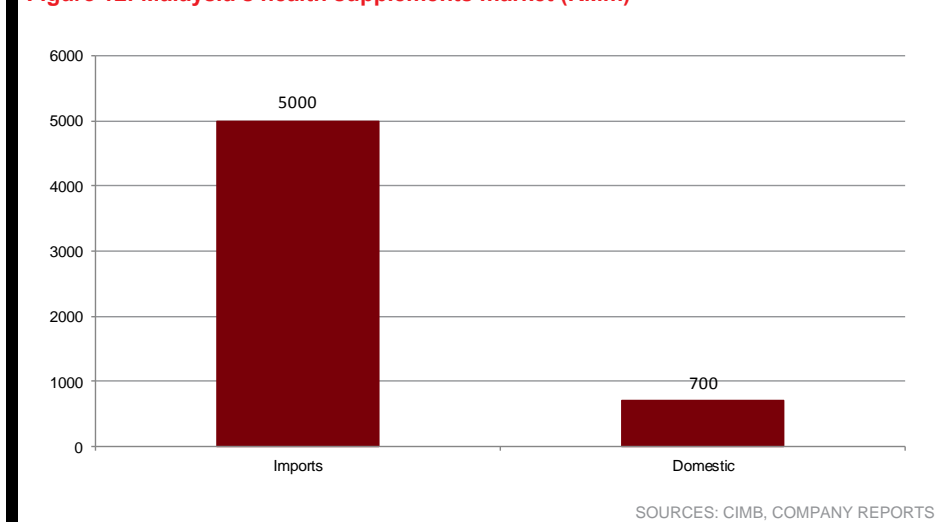
A government NKEA project

In 2011, BioA entered into a National Key Economic Area (NKEA) agreement with the government to undertake pre-clinical and clinical research on two herbal supplements for diabetes and hormone replacement therapy. A RM20m grant was offered by the government. The results with animal trials have been successful and human trials will start this year. If all trials are successful, BioA will be able to register its herbal supplement with the National Pharmaceutical Control Bureau (NPCB) as a botanical drug. We have not assumed any potential earnings from this project.

The health supplement manufacturing industry in Malaysia ▶

The health supplement market is mainly dominated by imports. In 2013, imports of health supplements was close to RM5bn. This is considerably more than the sales of the domestic health manufacturing industry of only around RM700m but is not a surprise as the domestic market is relatively young and is still at the growth stage. Today, there are more than 130 domestic health supplements producers in the country and BioA's domestic market share is about 3-4%. According to an independent study done by Smith Zander, other players in this market include players such as Gano Excel Industries S/B, DXN Pharmaceutical S/B, Herbal Science S/B and Ecolite Biotech manufacturing S/B.

Figure 12: Malaysia's health supplements market (RMm)



Among the listed companies on Bursa Malaysia, the closest comparison to BioA is Hovid (HOV MK, Hold) and Y.S.P Southeast Asia (YSP MK, Non Rated). While BioA's good manufacturing process (GMP) is focused on herbs and medical mushrooms, Hovid produces mainly generic drugs, while YSP manufactures a wide range of pharmaceutical, over-the-counter (OTC), veterinary and aquatic products. Although BioA's revenue is less than one fifth of Hovid's and YSP's, its net profit margin is double that of the two companies. Pharmacy wise, there is currently one listed pharmacy group, Caring Pharmacy Group (CARING MK, Non Rated). Caring's average revenue per outlet is RM3m, which is higher than Mediconstant's pharmacy average RM1.5m sales/outlet. This is not a surprise as Caring's strength is having outlets at high traffic growth areas.

Figure 13: Listed pharmaceutical and pharmacies on Bursa Malaysia

Companies	BioA	Hovid	YSP	Caring
Bloomberg code	BIOA MK	HOV MK	YSP MK	CARING MK
Share price	0.32	0.46	2.65	1.94
Issued shares (m)	463.4	801.1	134.6	217.7
Market Cap (RMm)	148.3	368.5	356.7	422.3
Financial Year-End	Dec-2014	Jun-2015	Dec-2014	May-2015
Revenue (RMm)	27.1	188.4	202.2	367
Net profit (RMm)	6.4	20.9	16.5	12.9
Net profit margin (%)	23.6%	11.1%	8.2%	3.5%
EPS(sen)	1.4	2.6	12.3	5.9
PER (x)	23.2	17.6	21.6	32.7

SOURCES: CIMB, COMPANY REPORTS

BioA SWOT analysis ►

The government's support for development of herbal supplements in the country is a major positive for the company. In fact, the MTDC was the company's venture capital partner in 2008 when BioA needed more funds to move up the value-chain. In addition, over the past few years, the government has also provided land for herb farming. The company has in total 1,300 acres of land in Malaysia for organic herbal farming. In addition, the government has also allocated a RM20m grant to BioA for R&D on two herbs for diabetes and hormone replacement therapy. Human test trials start in 2016 and if all goes well, the herbs could be sold as drugs over the next few years.

While domestic revenue was down in 2015 as sales were affected by the GST, this was compensated by China sales from 2Q16 onwards. In addition, the company is expected to start selling its products to the Middle East, likely from mid-2016 onwards. One of the major weaknesses of the industry is the lack of proper R&D commitment. Trials can take years and could cost a lot of money. Fortunately, BioA has the government's support. In 2010, the government's Agriculture National Key Economic Area (NKEA) identified high-value herbal products as one of the key entry point projects (EPP). Downstream initiatives are currently undertaken by eight companies nationwide, of which BioA is one.

Figure 14: BioA's SWOT analysis

Strengths	Opportunities
Integrated herbs producer and distributor	Gaining world wide popularity of tropical herbs as an alternative to Western medicine
Liquid fermentation process ensure consistent supply	Ongoing medical trials for two herbs for diabetes and hormone replacement, drug soon?
Support from the government	Able to sell herbs from own planted farms
Tax-free until 2018	Financial support from the government
6 medical mushrooms ready for commercial production	To sell in Middle East market
Experienced management and R&D staff	Just started selling to China consumers in 2015
Net cash balance sheet	Tiger milk mushroom should be a best seller as more understand its benefits
Listing will raise company's profile	
Weaknesses	Threats
Still new, needs to spend more A&P to build brand	Western medicine raise question on herb benefits, due to lack of R&D in herbs
Operations small, no strong economies of scale yet	Other competitors in the region
Herbs not backed by enough R&D	No proper standards imposed for sale of herbs in the region\
Only owns one pharmacy now, to open more outlets	
Domestic demand affected by GST	

SOURCES: CIMB

Risks

R&D failure risk ➤

The company's R&D on new products could turn out unsuccessful and this could hurt its profitability. However, management has always been conservative on its R&D spending and so far, results have been positive. The company currently has six medical mushrooms ready for commercial production.

Harvest risk ➤

Disease outbreaks or damage from pests could affect herb farming output. BioA would need to source its herbal supplies externally, leading to higher raw material costs.

Product defect ➤

Any product recall could hurt sales and the company's reputation. Product recall could be due to contamination or tampering of its products. Management has always stressed about product quality and safety has been GMP compliant since 2008.

Intellectual property risks ➤

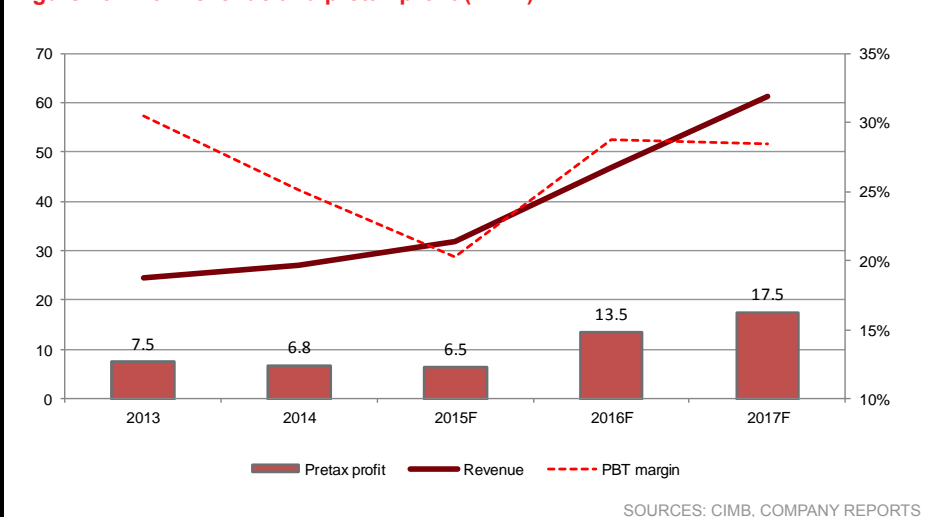
Competitors could copy the company's successful liquid fermentation processing. As such, BioA has applied for intellectual property rights for the liquid fermentation plant and processes.

Financials

2015 a year of consolidation ➤

2015 was a year of consolidation for the company. 12M2015's net profit should be slightly lower than that for 2014. This is mainly due to the company recognising RM2.3m in IPO listing expenses in 2015. If we strip out the listing expenses, 2015's pretax profit should be around 28% higher yoy.

Figure 15: BioA revenue and pretax profit (RMm)



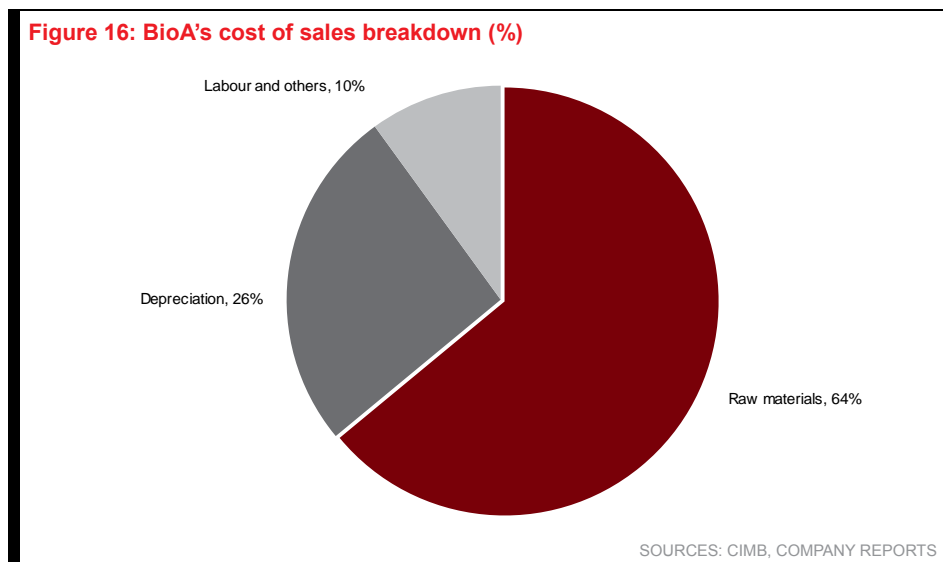
Pretax profit margin around 30% ➤

2015's pretax profit margin is estimated to be only around 20% but should rise to 27% if we strip out the RM2.3m in IPO expenses recognised in 2015. Economies of scale should lead to higher profit margins in 2016/17 but we expect pretax margin at only around 27-28%. This is mainly due to expected lower pretax profit margin contributions from the pharmacy business (pretax margin expected to be only around 10%).

Growing economies of scale ➤

We estimate raw materials as BioA's largest cost of sales component, making up about 70% of total expenses in 2015. However, raw material costs should gradually fall over the next few years as the company utilises more of the herbs planted at its own farms. Herbs like hempedu bumi can be harvested within 7-8 months, but others like tongkat ali take 6-7 years to mature.

Figure 16: BioA's cost of sales breakdown (%)

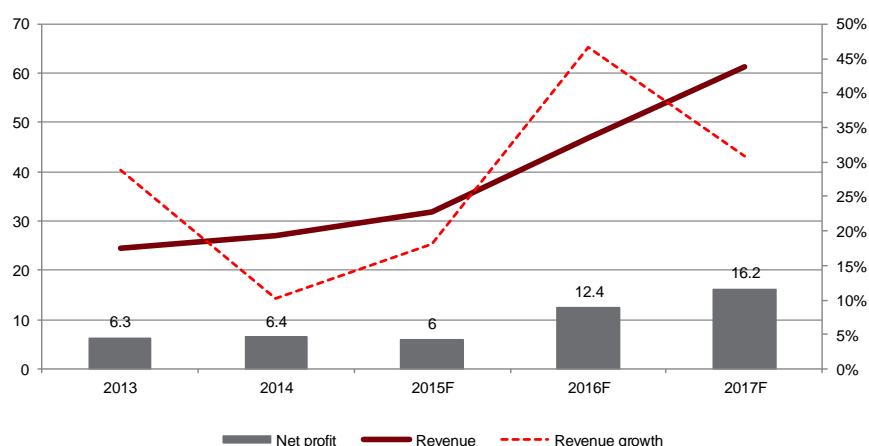


Sales are only in Ringgit ➤

BioA does not benefit from the strong US\$ as most of its sales are denominated in ringgit. The current weak ringgit actually works in the company's favour as its products are seen to be more competitive than those of its peers in the region.

Tax-free earnings ➤

In 2008, BioA secured the BioNexus status from the government's Malaysian Biotechnology Corporation that is granted to companies that undertake value-added biotechnology activities. The company is tax-free for ten years, up to 2018. Its tax rate for the 10 years following 2018 will be at 20%. However, the pharmacy business pays the usual corporate tax rate. We have not assumed the company will activate the pioneer status which was secured for its two herbal farms. Earnings from its two herbal farms will be tax-free over the 10 years, likely starting from 2018 onwards.

Figure 17: BioA's revenue and net profit (RMm)

SOURCES: CIMB, COMPANY REPORTS

Target 65% annual net profit growth the next two years

Driven by a strong top line growth and greater economies of scale, we expect net profit to grow 65% over the next two years. Excluding 2015's RM2.3m IPO expenses, net profit growth over the next two years should be around 40% per annum, which are still strong growth numbers. What could surprise earnings on the upside over the next two years are stronger-than-expected China sales, more pharmacies to be opened or an unexpected blockbuster product. Its new tiger milk mushroom could be a major hit as management plans to focus more of its A&P activities around this product in 2016.

Net cash balance sheet, 30% dividend payout ratio ➤

As at end-3Q15, BioA's balance sheet was RM15m in net cash or 3 sen net cash per share. The company should remain in a net cash position over the next few years as operational cash flows should be more than sufficient to finance future capex plans. With its healthy balance sheet, the company set up a dividend policy at its IPO, which is to pay out at least 30% of its net profit in dividends every year.

4Q the seasonally-strongest quarter ➤

For BioA, 4Q is seasonally the strongest quarter for the company. 4Q14's pretax profit contributed around 40% of the company's 12M2014 pretax profit. We believe the strong 4Q profits are attributable to customers buying its products as year-end and festive season gifts.

Valuation and recommendation

Below the radar but not for long ➤

We will be the first research house to have active coverage of BioA. The stock is currently not under the radar for most investors, which is not a surprise as 9M15 net profit was unimpressive at only RM3m compared to RM3.8m in 9M14. However, 9M15's net profit included RM2.3m in IPO listing expenses. Ex-IPO expenses, 9M15 net profit should be RM5.3m, 40% higher yoy. Another factor to consider is that 4Q is the seasonally-strongest quarter for the company, contributing as much as 40%-50% of group earnings. 4Q15's results will only be announced in late-Feb 2016.

Here comes the tiger ➤

Over the past few years, the CYS mushroom has been the best seller for the company, contributing more than 30% of the group's revenue. Sales were both to ODM and house brands. In 2016, BioA has five new medical mushrooms ready for commercialisation. The company only started to aggressively market the TMM in 2014, and we believe this new medical mushroom would be another blockbuster, very much like CYS has been.

65% earnings growth, indirect China play? ➤

We expect BioA's net profit to grow 65% annually over the next two years. Earnings growth could be even higher if China turns in stronger-than-expected sales or one of its items becomes an unexpected blockbuster product. China customers started buying BioA products in 2Q15 and we believe in 2016, these customers could be one of the company's largest revenue contributors. BioA is also a potential Middle East play as export orders to this region should start by mid-2016.

MyAngkasa JV could provide positive surprise ➤

The company's JV with MyAngkasa could surprise on the upside in 2016. The JV plans to establish a chain of retail outlets and pharmacies in the country and MyAngkasa is huge, with 12,000 co-ops and 8m members (more than 25% of the country's population). The opening of new retail and pharmacy outlets will be positive for BioA as this would help the company sell and distribute its house brand products nationwide. We have not assumed any potential earnings from this JV.

Initiate with an Add call ➤

We are initiating coverage on BioA with an Add recommendation. Our target price is RM0.65, based on a 2017 19.2x P/E, which is at a 20% premium to our target market P/E. The market premium is justified by the strong earnings growth outlook over the next few years. Our consumer sector, excluding BioA, is also trading at a 2017 18.6x P/E. Potential catalysts for the stock include stronger-than-expected sales from China, and further developments from the MyAngkasa JV.

Figure 18: Sector Comparisons

Company	Bloomberg Ticker	Recom	Price	Target Price	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
			(local curr)	(local curr)		CY2016	CY2017		CY2016	CY2017	CY2016	CY2017	CY2016	CY2017	CY2016	CY2017
Bioalpha Holdings	BIOA MK	ADD	0.35	0.63	34	13.0	10.0	39.0%	1.7	1.4	15.0%	17.5%	7.5	5.6	2.7%	3.3%
Berjaya Food Berhad	BFD MK	ADD	2.18	3.27	187	15.7	12.1	26.3%	1.9	1.8	12.6%	15.1%	5.8	4.7	3.8%	4.9%
Kawan Food	KFB MK	ADD	3.51	4.48	169	19.0	16.2	29.4%	3.2	2.8	20.2%	18.6%	9.3	7.9	1.4%	1.9%
Nestle (Malaysia)	NESZ MK	HOLD	73.42	74.94	3,917	28.3	27.0	4.7%	21.5	21.2	76.7%	79.0%	18.2	17.5	3.5%	3.6%
QL Resources	QLG MK	ADD	4.39	5.26	1,247	22.2	19.2	7.5%	3.2	2.8	15.4%	15.6%	13.0	11.6	1.3%	1.5%
Sector average ex-Bio						21.3	18.6	17.0%	7.4	7.2	0.3	32.1%	11.6	10.4	2.5%	3.0%

SOURCES: CIMB, COMPANY REPORTS

Technical charts

Bullish reverse head and shoulder? ►

BioA's daily shows potential bullish "reverse head and shoulder" formation with the neckline at RM0.34. If we are right, the target of the "reverse head and shoulder pattern" is at RM0.45. Rising daily trading volume over the past few weeks is positive for the stock.

Figure 19: BioA's daily price chart (RM0.34)

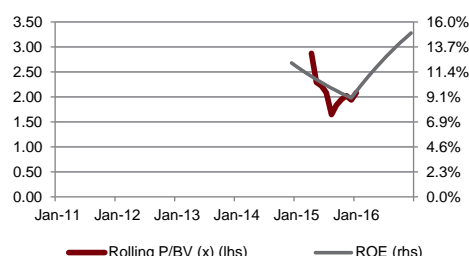


BY THE NUMBERS

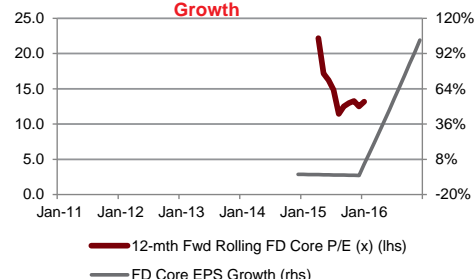
Share price info

Share px perf. (%)	1M	3M	12M
Relative	11.9	25.6	
Absolute	9.7	21.4	
Major shareholders			% held
William Hon			17.9
MTDC			17.6
PNB			16.7

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profits include RM2.3m IPO-expenses

Profit & Loss

(RMm)	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Total Net Revenues	24.60	27.10	28.00	46.88	61.44
Gross Profit	12.80	13.20	15.40	27.19	36.87
Operating EBITDA	7.80	5.40	9.50	17.25	21.80
Depreciation And Amortisation	(2.50)	(3.40)	(3.80)	(4.30)	(4.80)
Operating EBIT	5.30	2.00	5.70	12.95	17.00
Financial Income/(Expense)	2.20	4.80	0.80	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)	7.50	6.80	6.50	13.45	17.50
Exceptional Items					
Pre-tax Profit	7.50	6.80	6.50	13.45	17.50
Taxation	(1.20)	(0.50)	(0.50)	(1.07)	(1.32)
Exceptional Income - post-tax	0.00	0.00	0.00	0.00	0.00
Profit After Tax	6.30	6.30	6.00	12.38	16.18
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6.30	6.30	6.00	12.38	16.18
Recurring Net Profit	6.30	6.30	6.00	12.38	16.18
Fully Diluted Recurring Net Profit	6.30	6.30	6.00	12.38	16.18

Equity funds from IPO

Cash Flow

(RMm)	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
EBITDA	7.80	5.40	9.50	17.25	21.80
Cash Flow from Inv. & Assoc.	0.00	0.00	0.00	0.00	0.00
Change In Working Capital	(4.20)	(0.20)	0.30	(9.20)	(5.55)
(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	0.50	(4.80)	(2.00)	(1.00)	(1.00)
Net Interest (Paid)/Received	0.00	0.00	0.00	0.00	0.00
Tax Paid	(0.30)	(0.20)	(0.50)	(1.07)	(1.32)
Cashflow From Operations	3.80	0.20	7.30	5.99	13.93
Capex	(9.40)	(7.50)	(9.50)	(5.00)	(5.00)
Disposals Of FAs/subsidiaries	0.00	0.00	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	0.00	0.00	(1.00)	(1.00)	(1.00)
Other Investing Cashflow	0.00	0.00	0.00	0.00	0.00
Cash Flow From Investing	(9.40)	(7.50)	(10.50)	(6.00)	(6.00)
Debt Raised/(repaid)	1.40	4.20	0.00	0.00	0.00
Proceeds From Issue Of Shares	17.00	0.00	17.80	0.00	0.00
Shares Repurchased	0.00	0.00	0.00	0.00	0.00
Dividends Paid	0.00	(0.20)	(1.80)	(3.71)	(4.85)
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	18.40	4.00	16.00	(3.71)	(4.85)
Total Cash Generated	12.80	(3.30)	12.80	(3.73)	3.07
Free Cashflow To Equity	(4.20)	(3.10)	(3.20)	(0.01)	7.93
Free Cashflow To Firm	(5.60)	(7.30)	(3.20)	(0.01)	7.93

BY THE NUMBERS

Balance Sheet

Net cash balance sheet

(RMm)	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Total Cash And Equivalents	10.90	9.80	21.10	15.90	21.20
Total Debtors	13.00	12.80	14.00	23.44	30.72
Inventories	3.00	4.10	3.60	4.30	3.30
Total Other Current Assets	10.10	7.40	7.40	7.40	7.40
Total Current Assets	37.00	34.10	46.10	51.04	62.62
Fixed Assets	17.40	24.30	30.00	30.70	30.90
Total Investments	0.00	0.00	0.00	0.00	0.00
Intangible Assets	0.00	0.00	0.00	0.00	0.00
Total Other Non-Current Assets	5.50	8.10	15.20	19.10	23.30
Total Non-current Assets	22.90	32.40	45.20	49.80	54.20
Short-term Debt	0.80	1.20	1.00	1.00	4.90
Current Portion of Long-Term Debt	1.20	0.40	1.40	2.34	3.07
Total Creditors	0.00	0.00	0.00	0.00	0.00
Other Current Liabilities	4.80	6.10	6.10	6.10	6.10
Total Current Liabilities	6.80	7.70	8.50	9.44	14.07
Total Long-term Debt	2.50	2.30	2.30	2.30	2.30
Hybrid Debt - Debt Component	0.00	0.00	0.00	0.00	0.00
Total Other Non-Current Liabilities	2.10	2.20	2.20	2.20	2.20
Total Non-current Liabilities	4.60	4.50	4.50	4.50	4.50
Total Provisions	0.00	0.00	0.00	0.00	0.00
Total Liabilities	11.40	12.20	13.00	13.94	18.57
Shareholders' Equity	48.50	54.30	78.30	87.00	98.30
Minority Interests	0.00	0.00	0.00	0.00	0.00
Total Equity	48.50	54.30	78.30	87.00	98.30

Key Ratios

Growth from China and pharmacy business

	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Revenue Growth	0.0%	10.2%	3.3%	67.4%	31.1%
Operating EBITDA Growth	0.0%	(30.8%)	75.9%	81.6%	26.4%
Operating EBITDA Margin	31.7%	19.9%	33.9%	36.8%	35.5%
Net Cash Per Share (RM)	0.013	0.012	0.034	0.021	0.022
BVPS (RM)	0.10	0.11	0.16	0.17	0.20
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	16.0%	7.4%	7.7%	7.9%	7.5%
Net Dividend Payout Ratio	NA	3.2%	30.0%	30.0%	30.0%
Accounts Receivables Days	192.9	173.7	174.7	146.2	160.9
Inventory Days	92.8	93.2	111.5	73.4	56.4
Accounts Payables Days	-	-	-	-	-
ROIC (%)	12.0%	4.5%	11.3%	20.2%	21.6%
ROCE (%)	N/A	12.2%	9.2%	15.3%	17.4%
Return On Average Assets	N/A	2.4%	6.6%	12.4%	14.4%

Key Drivers

From pharmacy business

	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , main prod./serv.)	9.0%	10.2%	10.0%	40.0%	23.0%
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%	0.0%	875.0%	54.0%
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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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2015		
1536 companies under coverage for quarter ended on 31 December 2015		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.8%	9.3%
Hold	31.5%	4.0%
Reduce	8.5%	0.7%

Spitzer Chart for stock being researched (2 year data)

Bioalpha Holdings (BIOA MK)

— Price Close



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.

AAV – Very Good, 3B, ADVANC – Excellent, 3A, AEONTS – Good, 1, AMATA – Very Good, 2, ANAN – Very Good, 3A, AOT – Very Good, 2, AP – Good, 3A, ASK – Very Good, 3B, ASP – Very Good, 4, BANPU – Very Good, 4, BAY – Very Good, 4, BBL – Very Good, 4, BCH – not available, no progress, BCP – Excellent, 5, BDMS – Very Good, 3B, BEAUTY – Good, 2, BEC – Good, 3B, BECL – Very Good, 3B, BH – Good, 2, BIGC – Excellent, 3A, BJC – Good, 1, BLA – Very Good, 4, BMCL – Very Good, 1, BTS – Excellent, 3A, CBG – Good, 1, CCET – not available, 1, CENTEL – Very Good, 3A, CHG – Good, 3B, CK – Excellent, 3B, COL – Very Good, 3A, CPALL – Good, 3A, CPF – Very Good, 3A, CPN – Excellent, 5, DELTA – Very Good, 3A, DEMCO – Very Good, 3A, DTAC – Excellent, 3A, EA – not available, 3A, ECL – Good, 4, EGCO – Excellent, 4, EPG – not available, 3B, GFPT – Very Good, 3A, GLOBAL – Very Good, 2, GLOW – Good, 3A, GRAMMY – Excellent, 3B, GUNKUL – Very Good, 1, HANA – Excellent, 4, HEMRAJ – Very Good, 2, HMPRO – Excellent, 3A, ICHI – Very Good, 3A, INTUCH – Excellent, 4, ITD – Good, 1, IVL – Excellent, 4, JAS – not available, 3A, JASIF – not available, no progress, JUBILE – Good, 3A, KAMART – not available, no progress, KBANK – Excellent, 4, KCE – Excellent, 4, KGI – Good, 4, KKP – Excellent, 4, KSL – Very Good, 2, KTB – Excellent, 4, KTC – Very Good, 3A, LH – Very Good, 3B, LPN – Excellent, 3A, M – Good, 2, MAJOR – Good, 1, MAKRO – Good, 3A, MBKET – Good, 2, MC – Very Good, 3A, MCOT – Excellent, 3A, MEGA – Very Good, 2, MINT – Excellent, 3A, MTLN – Good, 2, NYT – Good, no progress, OISHI – Very Good, 3B, PLANB – Good, 3B, PS – Excellent, 3A, PSL – Excellent, 4, PTT – Excellent, 5, PTTEP – Excellent, 4, PTTGC – Excellent, 5, QH – Very Good, 2, RATCH – Excellent, 3A, ROBINS – Excellent, 3A, RS – Very Good, 1, SMART – Excellent, 3B, SAPPE – Good, 3B, SAT – Excellent, 5, SAWAD – Good, 1, SC – Excellent, 3B, SCB – Excellent, 4, SCBLIF – not available, no progress, SCC – Excellent, 5, SCCC – Good, 3A, SIM – Excellent, 3B, SIRI – Good, 1, SPALI – Excellent, 3A, STA – Very Good, 1, STEC – Very Good, 3B, SVI – Very Good, 3A, TASCO – Very Good, 3A, TCAP – Very Good, 4, THAI – Very Good, 3A, THANI – Very Good, 5, THCOM – Excellent, 4, THRE – Very Good, 3A, THREL – Very Good, 3A, TICON – Very Good, 3A, TISCO – Excellent, 4, TK – Very Good, 3B, TMB – Excellent, 4, TPCB – Good, 3B, TOP – Excellent, 5, TRUE – Very Good, 2, TTW – Very Good, 2, TU – Very Good, 3A, VGI – Excellent, 3A, WORK – not available, no progress.

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Level 2: Declared

Level 3: Established (3A: Established by Declaration of Intent, 3B: Established by Internal Commitment and Policy)

Level 4: Certified

Level 5: Extended.

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Definition:

Add The stock's total return is expected to exceed 10% over the next 12 months.

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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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Definition:

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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.

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