| | | | |
|---|---|---|---|
| Headline | Patent Cliff to benefit Hovid | | |
| MediaTitle | The Edge | | |
| Date | 23 Sep 2013 | Color | Full Color |
| Section | Corporate | Circulation | 25,041 |
| Page No | 30,31 | Readership | 75,123 |
| Language | English | ArticleSize | 578 cm² |
| Journalist | MADIHA FUAD | AdValue | RM 9,952 |
| Frequency | Weekly | PR Value | RM 29,856 |

# 'Patent Cliff' to benefit Hovid

BY **MADIHA FUAD**

With the global pharmaceutical industry facing the "Patent Cliff", Hovid Bhd is in the happy position of benefiting from the changes that follow, says its chairman and managing director David Ho.

"The Patent Cliff refers to the expiration of numerous patented products over the next five years, where patented medicine that currently generates more than US$133 billion in revenue a year will face competition from generic medicine producers," Ho tells *The Edge* in an email.

He believes the growth opportunities for generic medicine producers like his company are significant as there will be a rush by them to enjoy the high margins associated with new generic products.

"Hovid plans to commence the construction of a new plant early next year to expand its tablet and capsule production capacity and its R&D facility," he says, adding that this will allow the company to target the development and production of new off-patent drugs for supply to Malaysia and its export markets.

Hovid has a production facility in Chemor, Perak, and an R&D facility in Penang.

Ho notes that with more countries trimming their healthcare budgets, health authorities are switching from the more expensive patented medicines to the cheaper generic equivalents.

This has created much potential for Hovid, given that its principal business is the manufacture, distribution and export of pharmaceutical products.

"We are confident that Hovid is equipped with the talent and knowledge to take advantage of these changes," says Ho, adding that the new tablet and capsule plant is expected to be completed within 18 months, thus increasing the group's capacity in 2015.

The new plant will comply with the pharmaceutical production standards of Australia, Europe and the US Food and Drug Administration and sharpen Hovid's competitive edge in Malaysia and its export markets.

Ho reasons this will enable Hovid to target the markets of these developed nations, which will in turn fuel its growth.

"Hovid's proven experience and capability in developing new off-patent drugs will allow it to take advantage of the various incentives offered by the government," he says, adding that the company has developed 400 products and obtained numerous patents globally thus far.

However, Hovid is undervalued, impacted by the challenges faced by its former subsidiary Carotech Bhd.

Between 2008 and 2011, Hovid was dragged down by problems associated with Carotech. It has since written off its investment in Carotech and came out of PN17 status in January 2012.

"After Hovid's listing in 2005, its pharmaceutical business was overshadowed by Carotech's results. Carotech has a different business focus," explains Ho.

He adds that Carotech was the result of the initiatives of Hovid's R&D team, which led to a patent on the innovative extraction of carotene and tocotrienol from CPO.

"Unfortunately, Carotech, which was undergoing a substantial expansion, got caught in the global financial turbulence of 2009 and faced difficulty in meeting its debt obligations."

In FY2009 ended June 30, the group posted a net loss of RM6.8 million on revenue of RM248.6 million.

The group continued to be loss-making in the following two years before turning in a profit of RM15 million in FY2012.

Carotech was a subsidiary of Hovid until Aug 31, 2010, and became an associate company from September 2010 to December 2011. Then, it became a simple investment in Hovid's books.

Ho says that to unlock the value of the growing and profitable pharmaceutical business for Hovid's shareholders, it was necessary to remove Carotech from the group.

In the demerger, Hovid made provisions for the impairment of its investment cost and all amounts due from Carotech.

"Now, Hovid's future will no longer be affected by events at Carotech," says Ho.

Hovid has since improved its financial position. As at June 30, 2013, it had shareholders' funds of RM151.9 million compared with RM106.8 million a year ago.

As at June 30, its gearing ratio was 0.08 times compared with 0.4 times a year ago, net profit for FY2013 was RM20.7 million while return on equity was 13.6%.

"Moving forward, we are working on raising investors' awareness of Hovid so that they have a better understanding of the pharmaceutical business and Hovid's strength in it in Malaysia and globally," Ho says, adding that he hopes the stock's value will be better reflected by the market.

"Hopefully, the market will realign the value of Hovid's shares, which are under-appreciated."

Ho is Hovid's largest shareholder with a 41.08% stake, followed by Lembaga Tabung

| Headline | Patent Cliff to benefit Hovid | | |
|---|---|---|---|
| MediaTitle | The Edge | | |
| Date | 23 Sep 2013 | Color | Full Color |
| Section | Corporate | Circulation | 25,041 |
| Page No | 30,31 | Readership | 75,123 |
| Language | English | ArticleSize | 578 cm² |
| Journalist | MADIHA FUAD | AdValue | RM 9,952 |
| Frequency | Weekly | PR Value | RM 29,856 |

Haji with 5.79%.

Having traded above 40 sen in 2007, Hovid's shares have been hovering around 25 sen since Carotech dragged down its financial performance in 2009. Last Thursday, the counter closed at 29 sen.

With Malaysia's pharmaceutical industry growing between 8% and 10% a year, product growth and expansion are a must for Hovid, especially since demand for generic medicines in foreign countries is expected to rise at 12% to 15%.

"Hovid's branded products account for more than 95% of its revenue and are distributed in more than 50 countries," Ho says, adding that this has resulted in higher volume and demand.

Hovid's main export markets are Hong Kong and the Philippines, where it has subsidiaries distributing its products to doctors, pharmacies and hospitals. The others are Singapore, Cambodia, Myanmar, Nigeria and Ghana, where distributors solely or substantially distribute Hovid's branded products.

In FY2013, the company obtained 75 marketing authorisations abroad, including in the Philippines, Cambodia, Singapore, Myanmar, Kenya, Ethiopia, Uganda, Sri Lanka, Haiti and the Maldives.

PublicInvest Research is of the view that Hovid's future will be driven by its export markets, the growth of which is expected to be in the high teens to 20%. It also notes that the company has more than 200 product registrations pending approval in Asia and Africa.

"Moving forward, Hovid plans to expand its Chemor manufacturing facility to increase its production capacity by 30% to cater for increased export sales. Currently, export sales account for 60% to 70% of the group's total revenue," the research house says in a recent note, giving the stock a fair value of 29 sen.

According to Ho, Hovid has one of the largest and most established R&D teams in Malaysia, making the R&D of new products and technologies a pillar of its growth.

"Our R&D activities are not just focused on developing off-patent drugs for a wide array of therapeutic groups to broaden our product lines, but also dedicated to the development of drug delivery technologies, including modified-release dosage forms and oral systems to enhance the bio-availability of nutraceutical and dietary supplements."

Hovid is also expanding its current R&D facility to expedite the development of new generic off-patent products and bioequivalence trials.

"We are in the midst of expanding our R&D facility in Penang and construction work should start in the middle of next year. Upon the conclusion of the expansion, we will be able to enlarge our team and expedite the development of new products and bioequivalence studies," Ho comments. E

"Hovid's proven experience and capability in developing new off-patent drugs will allow it to take advantage of the various incentives offered by the government — Ho

| | | | |
|---|---|---|---|
| Headline | Patent Cliff to benefit Hovid | | |
| MediaTitle | The Edge | | |
| Date | 23 Sep 2013 | Color | Full Color |
| Section | Corporate | Circulation | 25,041 |
| Page No | 30,31 | Readership | 75,123 |
| Language | English | ArticleSize | 578 cm² |
| Journalist | MADIHA FUAD | AdValue | RM 9,952 |
| Frequency | Weekly | PR Value | RM 29,856 |