

**1QFY12 RESULTS**
**19 October 2011**

<b>Name of PLC:</b> TMC Life Sciences Berhad		<b>Target Price:</b>	RM0.36
<b>Business Summary :</b> Fertility treatment services, specialist medical centre			
<b>Major Shareholders :</b>			
Berjaya Group (Tan Sri Vincent Tan)			31.5%
Gilberta Investments Ltd (Peter Lim)			32.6%
<b>PLC Website :</b> <a href="http://www.tmlife.com">www.tmlife.com</a>		<b>Recommendation:</b>	Hold
<b>IR Contacts :</b> Francis Lim, CEO; Yap Eng Gee, CFO		<b>Market Capitalisation:</b>	RM195.6m
		<b>Current Price :</b>	RM0.33
		<b>Market / Sector:</b>	Trading/Services
		<b>Stock Code:</b>	0101
<b>Analyst :</b> Corinna Cheah / Lim Boon Ngee Tel : +603 2163 3200; Email : <a href="mailto:corinnacheah@nra.com.my">corinnacheah@nra.com.my</a> / <a href="mailto:bnlim@nra.com.my">bnlim@nra.com.my</a>			

Key Stock Statistics	17m May11	FY12F	FY13F
EPS (sen)	-5.7	-0.9	-0.5
P/E on EPS (x)	nm	nm	nm
Dividend/Share (sen)	0.0	0.0	0.0
NTA/Share (RM)	0.12	0.11	0.10
Book Value/Share (RM)	0.11	0.10	0.10
Issued Capital (m shares)	601.8	601.8	601.8
52-weeks Share Price Range (RM)		0.305-0.615	

Per Share Data	Dec-09	17mMay11	FY12F	FY13F
Year-end 31 May				
Book Value (RM)	0.17	0.12	0.11	0.10
Cash Flow (sen)	3.5	1.9	1.6	3.6
Earnings (sen)	(1.6)	(5.7)	(0.9)	(0.5)
Dividend (sen)	0.3	0.0	0.0	0.0
Payout Ratio (%) (13.3)		0.0	0.0	0.0
PER (x)	nm	nm	nm	nm
P/Cash Flow (x)	1.5	2.8	3.4	1.5
P/Book Value (x)	1.9	2.8	3.1	3.2
Dividend Yield (%)	0.9	0.0	0.0	0.0
ROE (%)	(9.6)	(49.5)	(8.9)	(4.5)
Net Gearing (%)	43.1	70.8	73.4	52.7

P&L Analysis (RMm)	Dec-09	17mMay11	FY12F	FY13F
Year-end 31 May				
Revenue	48.5	80.4	62.6	70.7
Operating Profit	(8.6)	(32.7)	(4.0)	(1.1)
Depreciation	(7.4)	(8.4)	(9.0)	(9.7)
Net Interest	(1.7)	(2.6)	(2.7)	(2.6)
Pre-tax profit	(10.1)	(34.5)	(5.8)	(2.8)
Eff. Tax Rate (%)	0.0	0.2	0.0	0.0
Net Profit	(9.9)	(34.3)	(5.7)	(2.7)
Op. Margin (%)	(20.9)	(42.9)	(9.2)	(4.0)
PBT margin (%)	(20.9)	(42.9)	(9.2)	(4.0)
Net margin (%)	(20.4)	(42.6)	(9.1)	(3.9)

**1. 1QFY12 Results Highlight**

Year-ended 31 May	1Q12 RMm	1Q11* RMm
Revenue	13.7	-
Operating Profit	0.2	-
Finance costs	(0.7)	-
Pre-tax Profit/(Loss)	(2.3)	-
Net Profit/(Loss)	(2.3)	-
Operating Margin (%)	1.8	-
Pre-tax Margin (%)	(17.0)	-
Net-Margin (%)	(17.0)	-

\* 1Q11 figures are not available due to a change in the company's accounting year-end from 31 Dec to 31 May

- TMC Life's (TMC) 1QFY12 results came in below our expectations with deeper than expected losses.
- 1QFY12 revenue was slightly lower compared to recent quarters due to the departure of some consultants and low admissions during Ramadan and the Chinese "Hungry Ghost" festival in August. New consultants have since joined the group though there would be some lead time for the new consultants build up patient loads.
- TMC remained profitable at the operating level but high depreciation and financing costs resulted in losses at the pre-tax and net levels.
- We have cut our forecasts and are now projecting small losses for FY12F and FY13F versus our earlier expectation of marginal losses in FY12F and a turnaround in FY13F. Based on our revised estimates, the group is only expected to turnaround in FY14F. We would however be monitoring the numbers closely should the new hospital perform better than expected.
- We value TMC at RM0.36 per share, based on an RNAV method in the absence of meaningful profits. In arriving at our RNAV estimate, we assumed a 15x PER on the profitable fertility operations (at a discount to local and regional healthcare providers), added our estimated book value for the hospital and deducted the group's estimated net debt position. **HOLD** maintained.

## 2. Key Investment Risks

Key investment risks for the stock include:

- a) Slower economic growth due to inflationary pressures and global uncertainties, which would affect existing and potential patients' spending power on the group's fertility treatment services and private healthcare services;
- b) Migration of key specialist doctors and medical support staff;
- c) Rising cost of training and retaining key medical support staff;
- d) Intense competition from other local and regional healthcare providers.

## 3. Recent Developments

On 18 Sep 2008, TMC entered into an MOU with Berjaya Corporation Berhad and Viet Ha Corporation to establish a formal relationship in order to jointly carry out activities relating to the design, construction, furnishing, equipping and operating of a hospital in or near Hanoi, Vietnam. On 19 Sep 2011 the parties to the MOU mutually agreed to extend the duration of the MOU for a further period of 12 months from 17 Sep 2011 until 17 Sep 2012.

## 4. Earnings Outlook

With the change in major shareholders and top management in 2H 2010, the plan is to turn the group around after two consecutive years of losses on the back of spiralling operating expenses.

The current management team under CEO, Francis Lim, has so far been successful in cleaning up the group's balance sheet with substantial write-offs and provisions (taken in 4Q10), and putting in place stricter cost controls.

Apart from cutting operating expenses, the management team has also been putting in place measures to boost the group's revenue base via the addition of new hospital beds and stepping up marketing efforts both locally and around the region, tapping into the Indonesian, Cambodian, Indian, and Indo-China markets.

With the successful fertility operations intact, management is stepping up efforts to grow the non-fertility businesses in areas such as its heart centre, renal work, orthopaedic, ENT and general surgery.

Given relatively high depreciation and financing charges, our projections assume continued start-up losses at hospital services in FY12F and FY13F, which we expect to be matched by contributions from the profitable fertility operations by FY14F. We would however be monitoring the group's performance closely should the new hospital perform better than expected.

## 5. Valuation & Recommendation

We value TMC at RM0.36 per share, based on an RNAV method in the absence of meaningful profits. In arriving at our RNAV estimate, we assumed a 15x PER on the profitable fertility operations (at a discount to local and regional healthcare providers), added our estimated book value for the hospital and deducted the group's estimated net debt position. Our **HOLD** recommendation is maintained.

## Disclosures/Disclaimer

Investment ratings:

Buy (generally >10% upside over the next 12 months)

Hold (generally negative 10% downside to positive 10% upside over the next 12 months)

Sell (generally >10% downside over the next 12 months)

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