

**1QFY13 RESULTS**

6 November 2012

<b>Name of PLC:</b> TMC Life Sciences Berhad		<b>Target Price:</b>	RM0.42
<b>Business Summary :</b> Fertility treatment services, specialist medical centre			
<b>Major Shareholders :</b>			
Berjaya Group (Tan Sri Vincent Tan)			30.9%
Gilberta Investments Ltd (Peter Lim)			32.6%
<b>PLC Website :</b> <a href="http://www.tmclife.com">www.tmclife.com</a>		<b>Recommendation:</b>	BUY
<b>IR Contacts :</b> Ms Yap Eng Gee, CFO		<b>Market Capitalisation:</b>	RM264.78m
		<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			
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Key Stock Statistics	FY12	FY13F	FY14F
EPS (sen)	(0.8)	1.0	0.8
P/E on EPS (x)	(41.3)	33.7	43.1
Dividend/Share (sen)	0.0	0.0	0.0
NTA/Share (RM)	0.15	0.16	0.17
Book Value/Share (RM)	0.15	0.16	0.17
Issued Capital (m shares)	802.4	802.4	802.4
52-weeks Share Price Range (RM)			0.27-0.515

Per Share Data	17m11	FY12	FY13F	FY14F
Year-end 31 May				
Book Value (RM)	0.11	0.15	0.16	0.17
Cash Flow (sen)	1.5	4.6	2.1	1.6
Earnings (sen)	(5.8)	(0.8)	1.0	0.8
Dividend (sen)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
PER (x)	(5.8)	(41.3)	33.7	43.1
P/Cash Flow (x)	3.7	0.9	2.0	2.6
P/Book Value (x)	3.1	2.3	2.1	2.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	(53.0)	(5.5)	6.3	4.7
Net Gearing (%)	73.2	n.c.	n.c.	n.c.

P&L Analysis (RMm)	17m11	FY12	FY13F	FY14F
Year-end 31 May				
Revenue	78.6	62.0	70.6	78.2
Operating Profit	(34.0)	(4.8)	5.5	9.8
Depreciation	(11.7)	(11.1)	(11.6)	(12.0)
Net Interest	(3.1)	(1.8)	(1.6)	(1.5)
Pre-tax profit	(35.6)	(6.0)	10.6	8.3
Effective Tax Rate (%)	1.3	0.0	25.0	25.0
Net Profit	(35.0)	(6.5)	8.0	6.2
Operating Margin (%)	(45.3)	(9.7)	15.0	10.6
Pre-tax margin (%)	(45.3)	(9.7)	15.0	10.6
Net margin (%)	(44.5)	(10.5)	11.3	8.0

**1. 1QFY13 Results Highlight**

Year-ended 31 May	1Q13 RMm	1Q12 RMm	Chg %
Revenue	16.4	12.5	31.3
Operating Profit	2.1	0.7	>100
Finance costs	(0.1)	(0.7)	(80.9)
Pre-tax Profit/(Loss)	0.1	(1.8)	nm
Loss fr. discontinued ops	(0.5)	(0.5)	5.6
Gain fr disposal of subsid.	3.2	-	nm
Net Profit/(Loss)	2.8	(2.3)	nm
Operating Margin (%)	12.6	5.2	
Pre-tax Margin (%)	0.9	(14.7)	
Net-Margin (%)	17.0	(18.7)	

- TMC Life's (TMC) 1QFY13 results were better than expected due mainly to higher-than-expected hospital occupancy rates and a RM3.2m gain on disposal of Stemtech, which was completed on 29 Aug 2012.
- The group is in the midst of finalising the disposal of TMC Penang and is expected to recognise a further gain on disposal of an estimated RM4m in 2QFY13. The disposal of TMC Penang should be completed in Dec 2012.
- The disposal of Stemtech and TMC Penang is in line with the group's plan to sell off non-core and low-yielding assets in order to focus on its core IVF fertility treatments, as well as laser surgery and gastroenterology.
- 1QFY13 revenue and operating profit improved by 31% YoY and >100% YoY respectively, boosted by higher patient load at the hospital, increased licenced bed capacity and the addition of specialist disciplines offered.
- The group's balance sheet remained strong as at the end of 1QFY13, with an estimated net cash position of RM8.7m, reflecting efforts to pare down borrowings over the last 12 months.

- We are maintaining our **BUY** call on TMC with a higher price target of RM0.42 per share, assuming 20x PER on estimated fertility contributions (TMC does not provide segmental breakdown of revenue and profits), plus our estimated book value for the hospital and the group's estimated net cash position.
- The 20x PER assumed for the fertility operations is at a 30% discount to local and regional peers such as Bangkok Dusit and Bumrungrad in Thailand, IHH Healthcare and KPJ domestically, Apollo and Fortis in Indonesia, and Raffles in Singapore, due to TMC's relatively smaller size and profitability.

## 2. **Business Description**

TMC Life Sciences Berhad (TMC) is an investment holding company. The group, through its subsidiary, operates Tropicana Medical Centre, Kota Damansara (TMCKD), which is its flagship multidisciplinary tertiary 180-bedded medical centre. Tropicana Medical Centre provides a complete chain of medical services for fertility, women and children health. TMC Fertility Centre offers a multifaceted and range of fertility treatment.

## 3. **Key Investment Risks**

Key investment risks for the stock include:

- a) Economic uncertainties due to inflationary pressures and global economic shocks, which would affect existing and potential patients' spending power on the group's 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.

## 4. **Recent Developments**

On 22 Dec 2011, TMC completed the following:

- a) renounceable rights issue of 200.6m new ordinary shares of RM0.10 each in TMC together with 401.2m free new detachable warrants at an issue price of RM0.30 per rights share on the basis of one rights share together with two free warrants for every three existing ordinary shares of RM0.10 each; and
- b) increase in authorised share capital from RM100m comprising 1tn shares to RM200m comprising 2tn shares.

Of the total rights proceeds of RM60.2m, RM39m has been utilised for repayment of borrowings, RM10m has been earmarked for capital expenditure, another RM10m for working capital and the remaining funds for related expenses.

On 16 Jan 2012, TMC announced the resignation of CEO, Mr Francis Lim Poon Thoo. On the same date, TMC announced the appointment of Singaporean, Dr Wong Chiang Yin as Group CEO in addition to his role as Executive Director.

On 8 Aug 2012, the group and its wholly-owned subsidiary, TMC Women's Specialist Holdings Sdn. Bhd. (TWSH) entered into an agreement with Carl Corryntan Holdings Sdn. Bhd. (Purchaser) to dispose of its entire equity interest, comprising 100 ordinary shares of RM1 each in Tropicana Medical Centre (Penang) Sdn. Bhd. (TMCP), for a cash consideration of RM2.6m. On the same date, TMC announced that TMC Properties Sdn. Bhd. (TMC Prop), a wholly-owned subsidiary, entered into an agreement with the Purchaser to dispose a piece of freehold land in Penang together with a four-storey building together with all the fixtures, fittings, furniture, plant and equipment and machinery (excluding TMCP's assets) for a cash consideration of RM11m. The disposal of TMCP and property are expected to be completed by 4Q2012.

On 16 Aug 2012, TMC entered into an agreement with Cryocord Holdings Sdn. Bhd. (Cryocord), a company incorporated in Malaysia, to dispose of the entire share capital of 1m ordinary shares of RM1 each in Stemtech International Sdn. Bhd. (Stemtech), a wholly-owned subsidiary, for a total consideration of RM800,000. The disposal of Stemtech was completed on 29 Aug 2012.

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 14 Sep 2012 the parties to the MOU mutually agreed to extend the duration of the MOU for a further period of 12 months from 18 Sep 2012 until 17 Sep 2013.

## 5. Earnings Outlook

Since the entry of new major shareholders and top management from 2H 2010, TMC has seen some positive changes including better cost management, repayment of borrowings, as well as disposal of non-core and low-yielding assets, leading to a leaner group focusing on its core IVF fertility treatment and hospital operations.

Recent quarterly results have shown QoQ improvements in revenue and the group turning around with small operating profits since 4QFY12, reflecting effective marketing efforts to bring in patients from the domestic and regional markets, and cost-cutting measures to stem further losses.

We are projecting a turnaround in earnings for the group in FY2013F, largely supported by smaller projected losses at hospital services, continued improvements at the profitable fertility division, lower financing costs, and the recognition of gains on disposal of Stemtech and TMC Penang.

We expect TMC to remain profitable at the group level in FY2014F, albeit at a smaller quantum due to the absence of one-off gains on disposals. Contributions from the successful fertility operations are expected to more than offset smaller projected losses at the hospital services division.

The group currently has 139 licenced beds at the hospital which specialises in fertility treatments and healthcare, specifically laser surgery and gastroenterology.

## 6. Valuation & Recommendation

The worst appears to be over in terms of escalating operating costs from the new hospital. The group's balance sheet remained strong as at the end of 1QFY13, with an estimated net cash position of RM8.7m, reflecting efforts to pare down borrowings over the last 12 months.

We are maintaining our **BUY** call on TMC with a higher price target of RM0.42 per share, assuming 20x PER on estimated fertility contributions (TMC does not provide segmental breakdown of revenue and profits), plus our estimated book value for the hospital and the group's estimated net cash position.

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## 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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