1QFY09 Result Update

Lim Boon Ngee
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TMC Life Sciences Berhad		***Price:***	*RM0.45*
		Market Capitalisation:	*RM270.8m*
		Board:	*Mesdaq*
		Sector:	*Trading/Services*
		Index Component:	*N/A*
Stock Code:	*0101*	***Recommendation:***	*SELL*

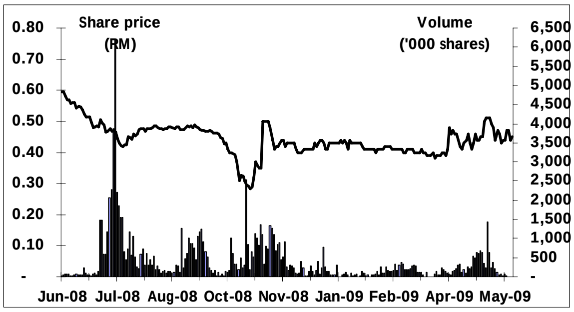
Key Stock Statistics	**FY08**	**FY09F**	**FY10F**
EPS (sen)	0.6	0.6	1.2
P/E on EPS (x)	63.2	64.8	34.3
Dividend/Share (sen)	0.3	0.3	0.3
NTA/Share (RM)	0.19	0.20	0.21
Book Value/Share (RM)	0.19	0.20	0.21
Issued Capital (m shares)	601.8	601.8	601.8
52-weeks Share Price Range (RM)			0.38-2.03

Major Shareholders:	**%**
Dr Colin Lee Soon Soo (MD)	24.10
Berjaya Group	27.41
Skim Amanah Saham Bumiputera	5.23

Per Share Data	**FY07**	**FY08**	**FY09F**	**FY10F**
Year-end 31 Dec				
Book Value (RM)	0.13	0.19	0.20	0.21
Cash Flow (sen)	2.4	(2.1)	2.2	3.3
Earnings (sen)	1.6	0.6	0.6	1.2
Dividend (sen)	0.2	0.3	0.3	0.3
Payout Ratio (%)	10.7	34.2	35.0	18.5
PER (x)	25.8	63.2	64.8	34.3
P/Cash Flow (x)	2.9	(3.2)	3.0	2.0
P/Book Value (x)	3.2	2.1	2.0	1.9
Dividend Yield (%)	0.3	0.7	0.7	0.7
ROE (%)	12.5	3.4	3.1	5.7
Net Gearing (%)	n.c.	8.6	15.9	15.6

P&L Analysis (RMm)	**FY07**	**FY08**	**FY09F**	**FY10F**
Year-end 31 Dec				
Revenue	31.4	38.9	43.2	50.9
Operating Profit	12.9	4.4	4.4	9.0
Depreciation	(1.8)	(2.1)	(6.3)	(7.6)
Net Interest	0.2	(0.4)	(0.8)	(0.8)
Pre-tax profit	13.1	4.4	4.0	8.6
Effective Tax Rate (%)	28.6	15.2	15.2	15.2
Net Profit	9.4	3.9	3.8	7.1
Operating Margin (%)	41.7	11.3	9.2	16.9
Pre-tax margin (%)	41.7	11.3	9.2	16.9
Net margin (%)	30.1	9.9	8.7	14.0

Share Price Chart



1. 1QFY09 Results Highlights:

Year-ended 31 Dec	**1Q09 RMm**	**1Q08 RMm**	**Chg %**
Revenue	10.2	8.2	24.5
Operating Profit	(0.7)	2.9	nm
Finance costs	(0.4)	-	-
Pre-tax Profit	(2.8)	2.6	nm
Net Profit	(2.8)	2.0	nm
Operating Margin (%)	(7.1)	35.8	
Pre-tax Margin (%)	(27.9)	31.3	
Net-Margin (%)	(27.0)	24.7	

- TMC Life (TMC) 1Q09 results showed the first quarterly loss registered by the group, with start-up losses at the new hospital overshadowing contributions from the fertility and wellness operations. TMC does not provide segmental breakdown for its results but we suspect the core fertility operations were also affected by a slowdown in consumer spending.
- 1Q09 revenues posted a 24.5% yoy increase due to new revenue streams from Tropicana Medical Centre (Penang) from Sep 2008 and the opening of the group's tertiary hospital in Dec 2008. Nevertheless, a doubling of operating expenses and start-up costs at the new hospital resulted in losses incurred in 1Q09.
- Our forecasts already assume start-up losses at the new hospital and lower contributions from the fertility operations.
- We are retaining our **SELL** recommendation on TMC given the stock's stretched PE ratings and the group's unexciting earnings prospects in the near term. Nevertheless, we will continue to monitor progress at the group before reviewing our forecasts and recommendation.

2. Earnings Outlook:

- Longer-term outlook for the group's core fertility-related services remains bright, with the group's leadership in fertility treatments and high success rates being key factors in attracting patients. TMC has been able to maintain consistently high pregnancy rates, averaging at 51.5% from 2001-2008.
- For 2009, turnover is expected to show some growth due to maiden revenue contributions from the new medical centre but sharply higher operating expenses and start-up costs are expected to drag TMC's profits lower compared to 2008, based on our estimates. Aside from start-up losses at the new Tropicana Medical Centre, we have also assumed lower contributions from the core fertility treatment operations given the economic slowdown and more cautious consumer spending patterns.
- The Tropicana Medical Centre opened to the public on 7 Dec 2008 and is expected to take several months to resolve initial teething issues whilst public awareness programmes including public forums and open days at the new facility would take time to kick in, in our view.
- We also expect the economic downturn to impact on patient traffic at Tropicana Medical Centre and at the other five fertility treatment centres nationwide this year. The group recorded a total 35,600 patient-visits in 2008, up 13.4% yoy from 31,400 visits in 2007.
- Despite our projection of lower patient visits, fixed costs are expected to remain relatively high at the new medical centre, on items such as human resources, equipment & furniture, hospital supplies and depreciation, hence our projection of start-up losses at Tropicana Medical Centre.
- Investment risks for the stock include a prolonged slowdown in the economy which would affect patient traffic at the medical centre and other fertility treatment centres, as well as sales of the group's wellness programmes and stem cell collection and storage services. A long-drawn economic downturn may also result in patients trading down to more affordable public healthcare at the expense of private hospitals in general. We understand that fertility treatments at government hospitals cost less than half of those offered at private facilities although success rates are believed to be very much lower.
- Corporate governance – the Board indicated in the group's 2007 annual report that it strives to ensure that the group complies with the Principles and Best Practices of the Malaysian Code on Corporate Governance.
- Corporate social responsibility (CSR) – the group indicated in its 2007 annual report that it sponsored fertility treatment services for infertile couples under the Tunku Azizah Fertility Foundation and co-organised a charity dinner for the foundation. The group also participated in a fund raising project to help preserve indigenous craft and improve living standards of underprivileged communities in Malaysia.

Balance Sheet

- TMC ended Mar 2009 with an estimated net debt level of RM16.4m, up from RM8.7m as at the end of Dec 2008. Net gearing however remained comfortable at 15% as at the end of Mar 2009.

Dividends

- The Board did not declare any dividends for 1Q09.

3. Recommendation

- We are retaining our **SELL** recommendation on the stock given stretched PE ratings and unexciting earnings prospects over the near term. Nevertheless, we will continue to monitor progress at the group before reviewing our forecasts and recommendation.

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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