

2QFY12 RESULTS
1 February 2012

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

Key Stock Statistics	17m May11	FY12F	FY13F
EPS (sen)	(5.8)	(1.6)	(0.9)
P/E on EPS (x)	nm	nm	nm
Dividend/Share (sen)	0.0	0.0	0.0
NTA/Share (RM)	0.11	0.09	0.08
Book Value/Share (RM)	0.09	0.08	0.08
Issued Capital (m shares)	601.8	601.8	601.8
52-weeks Share Price Range (RM)		0.30-0.62	

Per Share Data	Dec-09	17m May11	FY12F	FY13F
Year-end 31 May				
Book Value (RM)	0.17	0.11	0.09	0.08
Cash Flow (sen)	2.4	1.6	1.6	3.8
Earnings (sen)	(1.4)	(5.8)	(1.6)	(0.9)
Dividend (sen)	0.3	0.0	0.0	0.0
Payout Ratio (%)	(15.5)	0.0	0.0	0.0
PER (x)	nm	nm	nm	nm
P/Cash Flow (x)	2.2	3.5	3.3	1.4
P/Book Value (x)	1.9	3.0	3.5	3.9
Dividend Yield (%)	0.9	0.0	0.0	0.0
ROE (%)	(8.3)	(52.9)	(17.7)	(11.2)
Net Gearing (%)	41.7	72.4	77.8	53.2

P&L Analysis (RMm)	Dec-09	17m May11	FY12F	FY13F
Year-end 31 May				
Revenue	48.5	80.4	61.6	70.2
Operating Profit	(9.8)	(34.0)	(6.2)	(2.3)
Depreciation	(7.6)	(11.7)	(12.6)	(13.5)
Net Interest	(1.7)	(3.1)	(3.8)	(3.4)
Pre-tax profit	(8.7)	(35.1)	(10.0)	(5.7)
Eff. Tax Rate (%)	0.0	0.2	0.0	0.0
Net Profit	(8.5)	(34.9)	(9.9)	(5.7)
Op. Margin (%)	(18.0)	(43.7)	(16.3)	(8.2)
Pre-tax margin (%)	(18.0)	(43.7)	(16.3)	(8.2)
Net margin (%)	(17.5)	(43.5)	(16.1)	(8.0)

1. 2QFY12 Results Highlight

Year-ended 31 May	2Q12 RMm	1H12 RMm
Revenue	14.5	27.7
Operating Profit	(0.4)	(0.2)
Finance costs	(0.8)	(1.5)
Pre-tax Profit/(Loss)	(3.1)	(5.4)
Net Profit/(Loss)	(3.0)	(5.4)
Operating Margin (%)	(2.9)	(0.6)
Pre-tax Margin (%)	(21.3)	(19.6)
Net-Margin (%)	(21.0)	(19.4)

Note: Comparative figures are not available due to a change in TMC's accounting year-end from 31 Dec to 31 May.

- TMC Life's (TMC) 2QFY12 results came in below our expectations with deeper than expected losses as a result of expenses incurred in conjunction with the group's rights issue exercise, as well as higher financing costs in relation to a term loan drawdown.
- 2QFY12 revenue was up 5.8% to RM14.5m compared to 1QFY12 owing to higher patient loads at the hospital. Loss before tax for the quarter was however deeper compared to 1QFY12 due to additional expenses incurred for the rights issue as well as higher financing cost.
- We have lowered our forecasts to factor in higher projected financing costs. We are not projecting a turnaround at TMC until FY2014F-2015F due largely to high depreciation and finance costs. 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) Economic uncertainties due to inflationary pressures and global economic shocks, 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.

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.

The total proceeds of RM60.2m from the rights issue will be utilised for the repayment of borrowings (RM39m), capital expenditure (RM10m), working capital (RM10m) and 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.

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 new management team 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 group has also been putting in place measures to boost the group's revenue base via the addition of specialist doctors, 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.

However, given relatively high depreciation and financing charges, our projections assume continued start-up losses at the hospital services division for at least the first five years of operations which according to management, is not uncommon for new hospital start-ups. 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)

This report has been prepared by Netresearch-Asia Sdn Bhd for purposes of CMDF-Bursa Research Scheme (“CBRS”) III, administered by Bursa Malaysia Berhad (“Administrator”) and has been compensated to undertake the scheme. Netresearch-Asia Sdn Bhd has produced this report independent of any influence from the Administrator or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia’s website at:

http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/eResearch.jsp

The information and opinion in this document has been obtained from various sources believed to be reliable. This publication is for information purpose only, and must not be relied upon as authoritative or taken in substitution for the exercise of judgment. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. Opinions expressed in this publication are subject to change without notice and any recommendation herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. No representation, express or implied, is made with respect to the accuracy, completeness or reliability of the information or opinions in this publication. Accordingly, neither we nor any of our affiliates nor persons related to us accept any liability whatsoever for any direct, indirect or consequential losses (including loss and profit) or damages that may arise from the use of information or opinions in this publication.

Netresearch-Asia Sdn Bhd and its related companies, their associates, directors, connected parties and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may materially be interested in any such securities. Netresearch-Asia Sdn Bhd and its related companies may from time to time perform advisory, investment, communications or other services for, or solicit such advisory, investment, communications or other services from any entity mentioned in this report. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.