

TMC Life Sciences Berhad	Price:	RM1.57	
	Market Capitalisation:	RM290.7m	
	Board:	Mesdaq	
	Sector:	Trading/Services	
Stock Code:	0101	Recommendation:	SELL

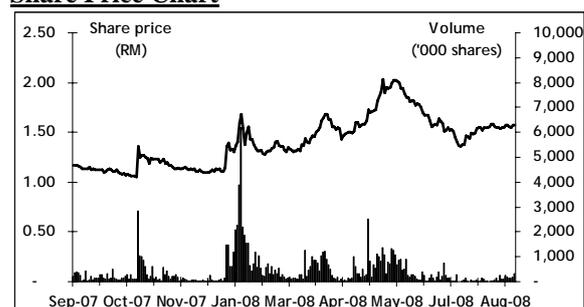
Key Stock Statistics	FY07	FY08F	FY09F
EPS (sen)	5.0	3.8	6.3
P/E on EPS (x)	31.2	41.3	25.1
Dividend/Share (sen)	0.8	0.8	0.8
NTA/Share (RM)	0.41	0.45	0.49
Book Value/Share (RM)	0.41	0.45	0.49
Issued Capital (m shares)	185.2	185.2	185.2
52-weeks Share Price Range (RM)	1.04-2.03		

Major Shareholders:	%
Dr Colin Lee Soon Soo (MD)	24.10
Berjaya Group	26.50
Skim Amanah Saham Bumiputera	5.23

Per Share Data	FY06	FY07	FY08F	FY09F
Year-end 31 Dec				
Book Value (RM)	0.29	0.41	0.45	0.49
Cash Flow (sen)	(3.2)	7.7	4.5	7.4
Earnings (sen)	5.3	5.0	3.8	6.3
Dividend (sen)	1.0	0.8	0.8	0.8
Payout Ratio (%)	13.8	10.9	14.4	8.7
PER (x)	29.6	31.2	41.3	25.1
P/Cash Flow (x)	(29.1)	11.1	18.9	11.5
P/Book Value (x)	5.4	3.9	3.5	3.2
Dividend Yield (%)	0.3	0.2	0.5	0.5
ROE (%)	18.2	12.4	8.4	12.7
Net Gearing (%)	n.c.	n.c.	21.5	41.4

P&L Analysis (RMm) FY06	FY07	FY08F	FY09F	
Year-end 31 Dec				
Revenue	25.1	31.4	54.3	85.7
Operating Profit	12.6	13.2	9.3	16.1
Depreciation	1.1	1.8	3.8	3.8
Net Interest	0.5	0.3	(0.6)	(1.2)
Pre-tax profit	12.6	13.2	9.3	16.1
Effective Tax Rate (%)	29.1	29.9	25.0	25.0
Net Profit	8.9	9.3	7.0	11.6
Operating Margin (%)	50.1	41.9	17.1	18.8
Pre-tax margin (%)	50.1	41.9	17.1	18.8
Net margin (%)	35.6	29.6	13.0	13.5

Share Price Chart



1. 2QFY08 Results Highlights:

Year-ended 31 Dec	2Q08 RMm	2Q07 RMm	Chg %
Revenue	8.5	7.8	9.0
Operating Profit	1.9	3.9	(51.3)
Interest income/(expense)	0.1	0.1	28.3
Pre-tax Profit	1.4	3.5	(61.7)
Net Profit	1.2	2.6	(53.5)
Operating Margin (%)	22.4	50.1	
Pre-tax Margin (%)	16.0	45.5	
Net-Margin (%)	14.3	33.5	

- TMC Life (TMC)'s 2Q08 results came in below our expectations due to higher than expected operating expenses incurred for the expansion in human resources at its upcoming flagship hospital, Tropicana Medical Centre. Marketing costs were also higher at the stem cell storage business as well as the prepaid subscription-based healthcare wellness programme.
- 2Q08 revenue grew by 9% yoy, reflecting organic growth at the group's five fertility treatment branches around the country, and the inclusion of the stem cell storage business from Sep 2007. Higher operating expenses however, resulted in sharply lower profits on a yoy basis.
- On our lowered earnings estimates, TMC is no longer trading at attractive valuations. We are downgrading our recommendation to **SELL** with a price target of RM1.30/share, based on a FY09F PER of 20x, which is at a premium to the market after taking into account above-average prospective earnings growth with the inclusion of three new business units in 2009.

2. 1HFY08 Results Review:

Year-ended 31 Dec	1HFY08 RMm	1HFY07 RMm	Chg %
Revenue	16.7	14.8	13.0
Operating Profit	4.8	7.6	(36.7)
Interest income/(expense)	0.1	0.1	(30.3)
Pre-tax Profit	3.9	6.9	(43.4)
Net Profit	3.2	5.1	(36.8)
Operating Margin (%)	29.0	51.8	
Pre-tax Margin (%)	23.5	46.9	
Net-Margin (%)	19.4	34.7	

Revenue & Earnings

- 1H08 revenue increased by 13% yoy, a reflection of higher patient visits and contribution from the stem cell storage business, which commenced operations from Sep 2007.
- Relative to revenue, profit at the pre-tax and net levels fell by 43% and 37% yoy respectively, due to higher costs associated with the expansion in human resources in preparation for the new flagship hospital, Tropicana Medical Centre, as well as higher marketing and related expenditure for the prepaid subscription-based healthcare wellness programme.
- These expenditures are fully charged out when incurred but the recognition of related revenue is deferred pending the hospital's opening, expected to be later this year.

Balance Sheet

- TMC ended Jun 2008 with an estimated net debt position of RM8.7m (net gearing of 11%), up from a net debt position of RM2.4m (net gearing of 3%) as at the end of 2007.

Dividends

- No dividends were declared in 1H08.

Earnings Outlook

- 2008 will be a year of consolidation for the group, due to pre-operating expenses incurred for the upcoming Tropicana Medical Centre, which is slated for opening in late-2008.
- In 2009, revenue and net profits are expected to post a 58% and 65% year-on-year growth respectively, with contributions from three new businesses in hospital services, stem cells storage and wellness programmes.
- The 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 to its five centres in Malaysia.
- Longer-term prospects within South East Asia are also positive, as social trends such as an increasingly career-focused outlook and delayed marriages increase the inherent biological factors that cause infertility.
- In addition to the positive industry outlook, TMC group's growth prospects are supported by the addition of three new business operations:
 - The expected opening of Tropicana Medical Centre in late 2008, which will have 52 specialist clinics and 179 in-patient and daycare beds. The new hospital is expected to run at optimum capacity with 70-80 doctors and 300 support staff, which it aims to achieve by early 2010. As at the end of Aug 2008, TMC has issued letters of offer to 41 doctors while 113 support staff are currently employed in preparation for the hospital's launch.
 - The Tropicana Medical Centre will also facilitate the group's entry into the wellness business. In Jul 2007, TMC had entered into a contract with Tropicana Wellness Sdn Bhd (formerly known as GE Wellness Sdn Bhd) to promote a subscription-based healthcare programme called Tropicana Wellness. Tropicana Wellness is targeting sales of RM42m over the five-year period via its offering a variety of health screening services such diabetes, full blood count, liver function,

cancer screening, cardiovascular heart disease screening, stress tests, and infectious diseases. With the restructuring of this business in Jul 2008, management is optimistic of positive contributions from this programme in 2H08.

- The stem cell processing and banking, clinical applications and related R&D business commenced operations in Sep 2007. StemTech International caters to in-house demand for cord blood and peripheral blood stem cell banking, research, application and therapy from the group's fertility centres and the upcoming Tropicana Medical Centre. TMC plans to enter into Indonesia through PT StemTech Indonesia, a joint-venture with Indonesia-based PT Lucasta Murni Cemerlang. StemTech is not expected to make any significant contribution in the immediate future.
- The acquisition of Penang-based Srigim Medical Centre is expected to complete by Sep 2008. Srigim provides women and children healthcare services. Srigim comes with a profit guarantee of RM700,000 in the first year of operations.
- TMC's proposed renounceable rights issue of 185.2m new shares on the basis of one (1) rights share for every one (1) existing share held at an indicative issue price of RM0.20 per rights share, bonus issue of 231.45m new shares on the basis of five (5) bonus shares for every four (4) rights shares subscribed, and transfer of listing of and quotation for its enlarged issued and paid-up share capital from the MESDAQ market to the Main Board of Bursa are expected to complete by end-2008.

3. Recommendation

- On our lowered earnings estimates, TMC is no longer trading at attractive valuations.
- We are downgrading our recommendation to **SELL** with a price target of RM1.30/share, based on a FY09F PER of 20x, which is at a premium to the market after taking into account above-average prospective revenue and earnings growth with the inclusion of three new business units.

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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