Inet research

2QFY09 Result Update

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TMC Life Sciences Berhad

Price:	*RM0.40*
Market Capitalisation:	*RM240.71m*
Board:	*Mesdaq*
Sector:	*Trading/Services*
Index Component:	*N/A*
Stock Code:	*0101*
Recommendation:	*SELL*

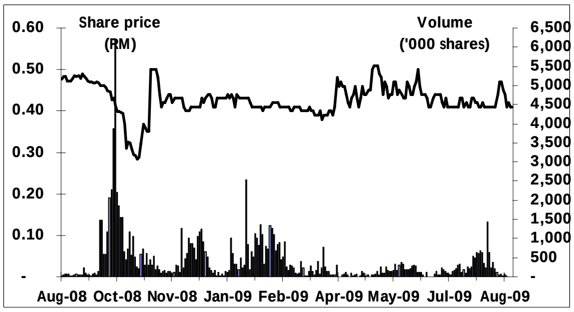
Key Stock Statistics	**FY08**	**FY09F**	**FY10F**
EPS (sen)	0.6	-1.1	0.7
P/E on EPS (x)	62.5	nm	59.2
Dividend/Share (sen)	0.3	0.3	0.3
NTA/Share (RM)	0.19	0.20	0.21
Book Value/Share (RM)	0.19	0.20	0.21
Issued Capital (m shares)	601.8	601.8	601.8
52-weeks Share Price Range (RM)			0.38-1.59

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)	1.1	3.6
Earnings (sen)	1.6	0.6	(1.1)	0.7
Dividend (sen)	0.2	0.3	0.3	0.3
Payout Ratio (%)	10.7	34.2	(19.6)	32.4
PER (x)	25.5	62.5	nm	59.2
P/Cash Flow (x)	2.8	(3.2)	5.9	1.9
P/Book Value (x)	3.2	2.1	2.0	1.9
Dividend Yield (%)	0.3	0.8	0.8	0.8
ROE (%)	12.5	3.4	(5.5)	3.2
Net Gearing (%)	n.c.	7.8	28.3	33.8

P&L Analysis (RMm)	**FY07**	**FY08**	**FY09F**	**FY10F**
Year-end 31 Dec				
Revenue	31.4	38.9	48.2	61.3
Operating Profit	12.9	4.4	(6.5)	5.6
Depreciation	(1.8)	(2.1)	(10.4)	(12.5)
Net Interest	0.2	(0.4)	(1.4)	(1.7)
Pre-tax profit	13.1	4.4	(7.5)	4.2
Effective Tax Rate (%)	28.6	15.2	15.2	15.2
Net Profit	9.4	3.9	(6.7)	4.1
Operating Margin (%)	41.7	11.3	(15.6)	6.9
Pre-tax margin (%)	41.7	11.3	(15.6)	6.9
Net margin (%)	30.1	9.9	(14.0)	6.6

Share Price Chart



1. 2QFY09 Results Highlights:

Year-ended 31 Dec	**2Q09 RMm**	**2Q08 RMm**	**Chg %**
Revenue	11.8	8.5	39.1
Operating Profit	0.3	1.9	(85.6)
Finance costs	(0.3)	-	nm
Pre-tax Profit	(2.2)	1.4	nm
Net Profit	(2.1)	1.2	nm
Operating Margin (%)	2.3	22.5	
Pre-tax Margin (%)	(18.4)	16.0	
Net-Margin (%)	(17.7)	14.3	

- TMC Life (TMC)'s 2Q09 results came in below our expectations. Despite our earlier assumption of more aggressive depreciation and finance charges for the new hospital, TMC's 2Q09 results showed higher than expected charges for these two items, whilst operating expenses remained high. We estimate that the core fertility operations remained relatively resilient given more efficient new technology and facilities at the new hospital (TMC does not provide segmental breakdown for its results).
- On a yoy basis, 2Q09 revenues improved by 39.1% due to new revenue streams from TMC (Penang) from Sep 2008 and the opening of the new hospital in Dec 2008. The improvement in revenue was however more than offset by sharply higher operating expenses, depreciation charges and financing costs during the quarter.
- We are retaining our **SELL** recommendation given stretched PE ratings and the group's unexciting earnings prospects in the near term. Nevertheless, we will continue to monitor progress at the group, particularly for a turnaround at the new flagship hospital.

2. 1HFY09 Results Review:

Year-ended 31 Dec	1H09 RMm	1H08 RMm	Chg %
Revenue	22.0	16.7	31.9
Operating Profit	(0.4)	4.8	nm
Finance costs	(0.8)	-	nm
Pre-tax Profit	(5.0)	3.9	nm
Net Profit	(4.8)	3.2	nm
Operating Margin (%)	(2.0)	29.0	
Pre-tax Margin (%)	(22.8)	23.5	
Net-Margin (%)	(22.0)	19.4	

Revenue & Earnings

- 1H09 revenue grew by 31.9% yoy reflecting new revenue streams from Tropicana Medical Centre (Penang) from Sep 2008, the opening of the new tertiary hospital in Dec 2008 and sales from the wellness program.
- At the pre-tax and net earnings levels, TMC went into losses during 1H09 versus 1H08 due to high start-up costs at the new hospital including costs incurred for the expansion in human resources, as well as higher depreciation and financing costs.

Balance Sheet

- TMC ended Jun 2009 with an estimated net debt position of RM28.9m, up from a net debt position of RM16.4m as at the end of Mar 2009. Net gearing as at the end of Jun 2009 was at 26.9%.

Dividends

- The Board did not declare any dividends for 1H09.

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, we are projecting turnover growth from the addition of new revenue streams from the new hospital, as well as the wellness and stem cell operations. We are however projecting losses for the full year as we expect start-up losses at the new TMC hospital to overshadow sustained earnings at the core fertility operations. The Tropicana Medical Centre opened to the public on 7 Dec 2008.
- Investment risks for the stock include a prolonged slowdown in the economy which may 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 2008 annual report that it remains committed towards maintaining the highest standards of corporate governance in line with the Principles and Best Practices of the Malaysian Code on Corporate Governance.
- Corporate social responsibility (CSR) – the group indicated in its 2008 annual report that one of its regular CSR initiatives include its long-standing collaboration with the Tunku Azizah Fertility Foundation (TAFF) in providing fertility treatment services to infertile couples.

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, particularly for a turnaround at the new flagship hospital, 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)