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3QFY12 RESULTS — **19 April 2012**

Name of PLC: *TMC Life Sciences Berhad*		***Target Price:***	*RM0.37*
Business Summary : *Fertility treatment services, specialist medical centre*			
Major Shareholders :	*Berjaya Group (Tan Sri Vincent Tan)* *Gilberta Investments Ltd (Peter Lim)*		*31.5%* *32.6%*
PLC Website : *www.tmclife.com*		***Recommendation:***	*Buy*
IR Contacts : *Ms Yap Eng Gee, CFO*		***Market Capitalisation:***	*RM248.74m*
		Current Price :	*RM0.31*
		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)	(1.0)	(0.5)
P/E on EPS (x)	nm	nm	nm
Dividend/Share (sen)	0.0	0.0	0.0
NTA/Share (RM)	0.11	0.10	0.09
Book Value/Share (RM)	0.11	0.10	0.09
Issued Capital (m shares)	601.8	802.4	802.4
52-weeks Share Price Range (RM)			0.30-0.54

Per Share Data	**Dec-09**	**17m May11**	**FY12F**	**FY13F**
Year-end 31 May				
Book Value (RM)	0.17	0.11	0.10	0.09
Cash Flow (sen)	2.4	1.6	0.2	1.2
Earnings (sen)	(1.4)	(5.8)	(1.0)	(0.5)
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)	2.1	3.3	23.0	3.3
P/Book Value (x)	1.8	2.8	3.2	3.3
Dividend Yield (%)	1.0	0.0	0.0	0.0
ROE (%)	(8.3)	(52.9)	(10.3)	(5.1)
Net Gearing (%)	41.7	72.4	13.0	4.4

P&L (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)	(2.0)
Depreciation	(7.6)	(11.7)	(12.2)	(12.6)
Net Interest	(1.7)	(3.1)	(1.9)	(1.9)
Pre-tax profit	(8.7)	(35.1)	(8.1)	(3.9)
Eff. Tax Rate (%)	0.0	0.2	0.0	0.0
Net Profit	(8.5)	(34.9)	(8.0)	(3.8)
Op. Margin (%)	(18.0)	(43.7)	(13.2)	(5.5)
Pre-tax margin (%)	(18.0)	(43.7)	(13.2)	(5.5)
Net margin (%)	(17.5)	(43.5)	(13.0)	(5.4)

1. 3Q/9MFY12 Results Highlight

Year-ended 31 May	**3QFY12 RMm**	**9MFY12 RMm**
Revenue	15.2	42.9
Operating Profit	1.0	0.8
Finance costs	(0.4)	(1.9)
Pre-tax Profit/(Loss)	(1.2)	(6.6)
Net Profit/(Loss)	(1.2)	(6.6)
Operating Margin (%)	6.8	2.0
Pre-tax Margin (%)	(7.7)	(15.3)
Net-Margin (%)	(8.1)	(15.4)

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) 3QFY12 results came in within our expectations.
- 3QFY12 revenue increased by 4.8% QoQ reflecting stronger fertility contributions from the promotion of "dragon baby" packages. Pre-tax loss of RM1.2m in 3QFY12 was 60% lower QoQ on improved revenue and lower finance costs post repayment of RM39m worth of borrowings with part of the rights proceeds.
- Although we are not projecting a turnaround at TMC until FY2014F-2015F due largely to high depreciation costs at the new hospital, the worst appears to be over for the group based on the QoQ increase in revenue over the last two quarters, and an improved balance sheet position resulting in lower finance costs in 3QFY12.
- We value TMC at RM0.37 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. Share price downside appears limited at current levels. Upgrade to **BUY**.

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.

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.

4. Earnings Outlook

With new major shareholders and top management in place since 2H 2010, TMC is expected to turn around over the next few years, 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.

The recent promotion of "dragon baby" packages at local fertility clinics was successful in generating higher QoQ revenue for 3QFY12. The repayment of RM39m worth of borrowings using part of the recent rights issue proceeds has also significantly reduced finance costs for the group.

With the successful fertility operations intact, management has been 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

Although we are not projecting a turnaround at TMC until FY2014F-2015F due largely to high depreciation costs at the new hospital, the worst appears to be over for the group based on the QoQ increase in revenue over the last two quarters, and an improved balance sheet position resulting in lower finance costs in 3QFY12.

We value TMC at RM0.37 per share, based on an RNAV method in the absence of meaningful profits at this point. 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. Share price downside appears limited at current levels. Upgrade to **BUY**.

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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