3QFY09 Result Update

Lim Boon Ngee
30 November 2009

TMC Life Sciences Berhad

Stock Code:	*0101*
Price:	*RM0.34*
Market Capitalisation:	*RM204.6m*
Board:	*Main Market*
Sector:	*Trading/Services*
Index Component:	*N/A*
Recommendation:	*SELL*

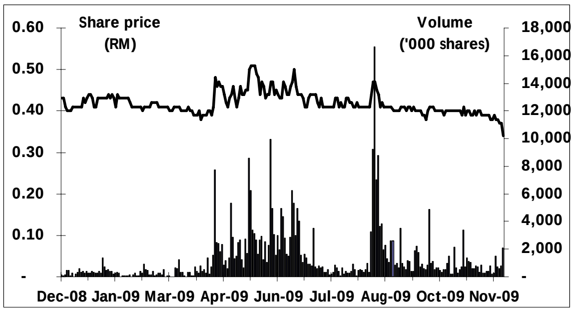
Key Stock Statistics	**FY08**	**FY09F**	**FY10F**
EPS (sen)	0.6	-1.3	1.1
P/E on EPS (x)	53.1	nm	31.9
Dividend/Share (sen)	0.3	0.3	0.3
NTA/Share (RM)	0.19	0.17	0.18
Book Value/Share (RM)	0.19	0.17	0.18
Issued Capital (m shares)	601.8	601.8	601.8
52-weeks Share Price Range (RM)			0.34-0.54

Major Shareholders:	**%**
Dr Colin Lee Soon Soo (MD)	24.79
Berjaya Group	32.02
Skim Amanah Saham Bumiputera	5.27

Per Share Data	**FY07**	**FY08**	**FY09F**	**FY10F**
Year-end 31 Dec				
Book Value (RM)	0.13	0.19	0.17	0.18
Cash Flow (sen)	2.4	(2.1)	1.1	4.2
Earnings (sen)	1.6	0.6	(1.3)	1.1
Dividend (sen)	0.2	0.3	0.3	0.3
Payout Ratio (%)	10.7	34.2	(16.5)	20.6
PER (x)	21.7	53.1	nm	31.9
P/Cash Flow (x)	2.4	(2.7)	5.0	1.4
P/Book Value (x)	2.7	1.8	1.9	1.9
Dividend Yield (%)	0.3	0.9	0.9	0.9
ROE (%)	12.5	3.4	(7.6)	5.8
Net Gearing (%)	n.c.	7.8	33.0	35.3

P&L Analysis (RMm)	**FY07**	**FY08**	**FY09F**	**FY10F**
Year-end 31 Dec				
Revenue	31.4	38.9	48.2	66.1
Operating Profit	12.9	4.4	(6.5)	9.2
Depreciation	(1.8)	(2.1)	(10.4)	(12.5)
Net Interest	0.2	(0.4)	(1.4)	(1.6)
Pre-tax profit	13.1	4.4	(7.5)	8.0
Effective Tax Rate (%)	28.6	15.2	(1.0)	10.0
Net Profit	9.4	3.9	(8.0)	6.4
Operating Margin (%)	41.7	11.3	(15.6)	12.1
Pre-tax margin (%)	41.7	11.3	(15.6)	12.1
Net margin (%)	30.1	9.9	(16.6)	9.7

Share Price Chart



1. 3QFY09 Results Highlights:

Year-ended 31 Dec	**3Q09 RMm**	**3Q08 RMm**	**Chg %**
Revenue	12.3	9.0	36.7
Operating Profit	0.6	0.5	13.3
Finance costs	(0.5)	(0.0)	>100
Pre-tax Profit/(Loss)	(2.0)	0.5	nm
Net Profit/(Loss)	(1.9)	0.5	nm
Operating Margin (%)	4.7	5.7	
Pre-tax Margin (%)	(16.1)	5.0	
Net-Margin (%)	(15.5)	5.7	

- TMC's 3Q09 results came in within our expectations. The group registered stronger 3Q09 revenue on new revenue streams from its Penang medical centre and the opening of its flagship hospital in Dec 2008, but remained loss-making due to high operating expenses, depreciation and finance costs at the new hospital.
- TMC does not provide a segmental breakdown of its results but we estimate that the core fertility operations remained relatively resilient in 3Q09, given more efficient and effective new technology and facilities at the new hospital.
- We expect start-up losses at the new hospital to narrow over the next few quarters, with a breakeven scenario towards 2H 2010. With start-up costs at the new hospital overshadowing the fertility contributions at least for another two quarters, based on our estimates, we are retaining our **SELL** recommendation on the stock given unexciting near-term earnings prospects. Nevertheless, we will continue to monitor progress at the group, particularly for a turnaround at the new flagship hospital.

2. 9MFY09 Results Review:

Year-ended 31 Dec	9M09 RMm	9M08 RMm	Chg %
Revenue	34.2	25.6	33.6
Operating Profit	0.1	5.4	(97.6)
Finance costs	(1.2)	(0.0)	>100
Pre-tax Profit/(Loss)	(7.0)	4.4	nm
Net Profit/(Loss)	(6.8)	3.7	nm
Operating Margin (%)	0.4	20.9	
Pre-tax Margin (%)	(20.4)	17.0	
Net-Margin (%)	(19.7)	14.6	

Revenue & Earnings

- 9M09 revenue grew by 33.6% 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 group's wellness program.
- At the pre-tax and net earnings levels, TMC continued to incur losses during 9M09, on 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. These start-up costs more than offset contributions from its core fertility operations.

Balance Sheet

- TMC ended Sep 2009 with an estimated net debt position of RM38.9m. Net gearing was at 36.9%.

Dividends

- The Board did not declare any dividends for 9M09.

Earnings Outlook

- Longer-term outlook for the group's core fertility-related services remains bright, given 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 the rest of 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. The group is however expected to remain loss-making in 4Q09 and for the full year as we expect start-up losses at the new hospital to overshadow sustained fertility earnings. The Tropicana Medical Centre opened on 7 Dec 2008.
- In 2010, we expect the new hospital to breakeven towards the later part of the year, as occupancy rate at the new hospital increases. We are also projecting higher contributions from the fertility operations, in line with the expected recovery in the economy.
- Investment risks for the stock include a slower than expected recovery 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.
- 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

- The stock is trading at its 12-month low but we are retaining our **SELL** recommendation on the stock given stretched PE ratings and unexciting earnings prospects over the near term. We will continue to monitor progress at the group, particularly for a turnaround at the new flagship hospital, before reviewing our forecasts and recommendation.