

4QFY12 RESULTS

27 July 2012

Name of PLC: TMC Life Sciences Berhad		Target Price:	RM0.38
Business Summary : Fertility treatment services, specialist medical centre			
Major Shareholders :			
Berjaya Group (Tan Sri Vincent Tan)			30.49%
Gilberta Investments Ltd (Peter Lim)			32.6%
PLC Website : www.tmclife.com		Recommendation:	BUY
IR Contacts : Ms Yap Eng Gee, CFO		Market Capitalisation:	RM260.77m
		Current Price :	RM0.325
		Market / Sector:	Trading/Services
		Stock Code:	0101
Analyst : Corinna Cheah / Lim Boon Ngee			
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Key Stock Statistics	FY12	FY13F	FY14F
EPS (sen)	(0.8)	(0.3)	0.1
P/E on EPS (x)	nm	nm	273.6
Dividend/Share (sen)	0.0	0.0	0.0
NTA/Share (RM)	0.15	0.15	0.15
Book Value/Share (RM)	0.15	0.15	0.15
Issued Capital (m shares)	802.4	802.4	802.4
52-weeks Share Price Range (RM)			0.27-0.515

Per Share Data	17m11	FY12	FY13F	FY14F
Year-end 31 May				
Book Value (RM)	0.11	0.15	0.15	0.15
Cash Flow (sen)	1.5	4.6	0.5	0.7
Earnings (sen)	(5.8)	(0.8)	(0.3)	0.1
Dividend (sen)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
PER (x)	(5.6)	(40.0)	(102.3)	272.5
P/Cash Flow (x)	3.6	0.9	8.4	5.5
P/Book Value (x)	3.0	2.2	2.2	2.2
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	(53.0)	(5.5)	(2.2)	0.8
Net Gearing (%)	73.2	n.c.	n.c.	n.c.

P&L Analysis (RMm)	17m11	FY12	FY13F	FY14F
Year-end 31 May				
Revenue	78.6	62.0	70.6	80.1
Operating Profit	(34.0)	(4.8)	(1.4)	2.3
Depreciation	(11.7)	(11.1)	(11.6)	(12.0)
Net Interest	(3.1)	(1.8)	(1.8)	(1.7)
Pre-tax profit	(35.6)	(6.0)	(2.6)	1.2
Effective Tax Rate (%)	1.3	0.0	0.0	25.0
Net Profit	(35.0)	(6.5)	(2.5)	1.0
Operating Margin (%)	(45.3)	(9.7)	(3.7)	1.5
Pre-tax margin (%)	(45.3)	(9.7)	(3.7)	1.5
Net margin (%)	(44.5)	(10.5)	(3.6)	1.2

1. 4QFY12 Results Highlight

Year-ended 31 May	4Q12 RMm	4Q11 RMm	Chg %
Revenue	19.1	16.6	15.4
Operating Profit	4.1	0.7	>100
Finance costs	(0.1)	(0.7)	(81.9)
Pre-tax Profit/(Loss)	0.6	(3.0)	nm
Net Profit/(Loss)	0.1	(2.3)	nm
Operating Margin (%)	21.4	4.0	
Pre-tax Margin (%)	3.2	(18.1)	
Net-Margin (%)	0.6	(14.1)	

Year-ended 31 May	2012 RMm	17m2011 RMm
Revenue	62.0	78.6
Operating Profit	4.9	3.5
Finance costs	(2.0)	(3.8)
Pre-tax Profit/(Loss)	(6.0)	(35.6)
Net Profit/(Loss)	(6.5)	(35.0)
Operating Margin (%)	8.0	4.5
Pre-tax Margin (%)	(9.6)	(45.2)
Net-Margin (%)	(10.5)	(44.5)

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

- TMC Life's (TMC) 4QFY12 revenue was as expected but bottom line was ahead of our projections due to lower-than-expected operating expenses and finance costs. The better-than-expected cost management in 4QFY12 is a positive turning point for the group in our view.
- 4QFY12 revenue improved by 15.4% YoY boosted by higher patient load at the hospital as well as increased number of IVF patients trying for lunar year "dragon babies".
- We value TMC at RM0.38 per share, based on an RNAV method in the absence of meaningful profits at the moment. In arriving at our RNAV estimate, we assumed a 15x PER on the profitable fertility operations, added our estimated book value for the hospital and the group's estimated net cash position. **BUY** maintained.

2. Business Description

TMC Life Sciences Berhad (TMC) is an investment holding company. The group, through its subsidiary, operates Tropicana Medical Centre, Kota Damansara (TMCKD), which is its flagship multidisciplinary tertiary 180-bedded medical centre. Tropicana Medical Centre, Penang (TMC Penang) provides a complete chain of medical services for fertility, women and children health. TMC Fertility Centre offers a multifaceted and range of fertility treatment.

3. 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 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.

4. 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.

5. Earnings Outlook

Since the entry of new major shareholders and top management from 2H 2010, TMC has seen some positive changes including better cost management as well as repayment of borrowings, leading to lower operating expenses and financing costs. Recent quarterly results have also shown QoQ improvements in revenue, which suggests effective marketing efforts both locally and around the region.

We are projecting a turnaround in earnings for the group in FY2014F, largely supported by smaller projected losses at hospital services, continued improvements at the fertility division and lower financing costs.

Efforts to boost the group's revenue base include the addition of specialist doctors, new hospital beds and stepping up marketing efforts both locally and regionally, tapping into the Indonesian, Cambodian, Indian, and Indo-China markets.

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

With the successful fertility operations intact, management has also been stepping up efforts to grow the non-fertility businesses in areas such as its heart centre, renal work, orthopaedic, ENT and general surgery.

6. Valuation & Recommendation

Although the worst appears to be over in terms of escalating operating costs from the new hospital, we will continue to monitor TMC’s operating performance in the coming quarters to gauge sustainability of cost management improvements on the group’s bottom line.

We value TMC at RM0.38 per share, based on an RNAV method in the absence of meaningful profits at the moment. In arriving at our RNAV estimate, we assumed a 15x PER on the profitable fertility operations, added our estimated book value for the hospital and the group’s estimated net cash position. **BUY** 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)

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