Inet research

4QFY09 Result Update

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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*

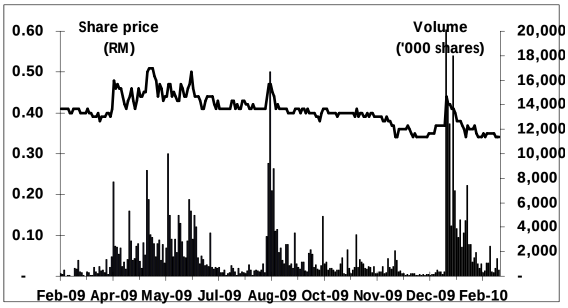
Key Stock Statistics	**FY09**	**FY10F**	**FY11F**
EPS (sen)	-1.4	0.9	2.3
P/E on EPS (x)	-24.2	39.2	14.7
Dividend/Share (sen)	0.3	0.3	0.3
NTA/Share (RM)	0.15	0.15	0.17
Book Value/Share (RM)	0.17	0.18	0.20
Issued Capital (m shares)	601.8	601.8	601.8
52-weeks Share Price Range (RM)			0.30-0.55

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

Per Share Data	**FY08**	**FY09**	**FY10F**	**FY11F**
Year-end 31 Dec				
Book Value (RM)	0.19	0.17	0.18	0.20
Cash Flow (sen)	(2.2)	3.1	3.4	5.5
Earnings (sen)	0.6	(1.4)	0.9	2.3
Dividend (sen)	0.3	0.3	0.3	0.3
Payout Ratio (%)	34.2	(15.6)	25.3	9.4
PER (x)	53.1	(24.2)	39.2	14.7
P/Cash Flow (x)	(2.6)	1.8	1.7	1.0
P/Book Value (x)	1.8	1.7	1.7	1.5
Dividend Yield (%)	0.9	0.9	0.9	0.9
ROE (%)	3.4	(7.1)	4.2	10.2
Net Gearing (%)	7.8	39.3	46.7	39.0

P&L Analysis (RMm)	**FY08**	**FY09**	**FY10F**	**FY11F**
Year-end 31 Dec				
Revenue	38.9	48.5	66.5	80.8
Operating Profit	4.4	(6.5)	9.2	18.9
Depreciation	(1.5)	(7.4)	(8.9)	(10.7)
Net Interest	(0.4)	(1.7)	(2.1)	(1.9)
Pre-tax profit	4.4	(8.7)	6.6	16.5
Effective Tax Rate (%)	15.2	0.3	10.0	10.0
Net Profit	3.9	(8.5)	5.2	14.0
Operating Margin (%)	11.3	(17.9)	10.0	20.4
Pre-tax margin (%)	11.3	(17.9)	10.0	20.4
Net margin (%)	9.9	(17.4)	7.8	17.3

Share Price Chart



1. 4QFY09 Results Highlights:

Year-ended 31 Dec	**4Q09 RMm**	**4Q08 RMm**	**Chg %**
Revenue	14.3	13.4	6.7
Operating Profit	0.2	0.6	(59.1)
Finance costs	(0.6)	(0.5)	12.9
Pre-tax Profit/(Loss)	(1.7)	(0.3)	>100
Net Profit/(Loss)	(1.7)	(0.2)	>100
Operating Margin (%)	1.7	4.5	
Pre-tax Margin (%)	(12.2)	(2.4)	
Net-Margin (%)	(12.1)	(1.2)	

- TMC's 4Q09 results came in within our expectations. 4Q09 revenue was up marginally by 6.7% yoy, largely reflecting new revenue streams from its Penang medical centre and the opening of its flagship hospital in Dec 2008. The group 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, 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 in 2011. With start-up costs at the new hospital overshadowing the fertility contributions at least for this year, based on our estimates, we are retaining our **SELL** recommendation on the stock. We will however continue to monitor progress at the group, particularly for indications of an earlier-than-expected turnaround at the new hospital.

2. FY09 Results Review:

Year-ended 31 Dec	2009 RMm	2008 RMm	Chg %
Revenue	48.5	39.0	24.4
Operating Profit	(8.7)	4.0	nm
Finance costs	(1.8)	(0.5)	>100
Pre-tax Profit/(Loss)	(8.7)	4.0	nm
Net Profit/(Loss)	(8.5)	3.6	nm
Operating Margin (%)	(17.9)	10.4	
Pre-tax Margin (%)	(17.9)	10.4	
Net-Margin (%)	(17.5)	9.1	

Revenue & Earnings

- 2009 revenue grew by 24.4% yoy reflecting new revenue streams from Tropicana Medical Centre (Penang) from Sep 2008, the opening of the new tertiary hospital in Dec 2008, as well as sales from the group's wellness program.
- At the pre-tax and net earnings levels, TMC continued to incur losses during the year, 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 Dec 2009 with an estimated net debt position of RM40.7m, with net gearing of 39.3%.

Dividends

- The Board recommended a final single-tier dividend of 3% per RM0.10 share for 2009.

Earnings Outlook

- The Board of Directors, in the group's results announcement, indicated that it is optimistic of prospects in 2010 as the new hospital is now ready to delivery its multi-disciplinary medical services to the local regional communities.
- We believe 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 2010, we are projecting smaller losses at the new hospital as occupancy rate increases. We are also expecting higher contributions from the fertility operations, in line with the 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

- With start-up costs at the new hospital overshadowing the fertility contributions at least for this year, based on our estimates, we are retaining our **SELL** recommendation on the stock. We will however continue to monitor progress at the group, particularly for indications of an earlier-than-expected turnaround at the new hospital.

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)