4QFY08 Result Update

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TMC Life Sciences Berhad		***Price:***	*RM0.405*
		Market Capitalisation:	*RM243.7m*
		Board:	*Mesdaq*
		Sector:	*Trading/Services*
		Index Component:	*N/A*
Stock Code:	*0101*	***Recommendation:***	*SELL*

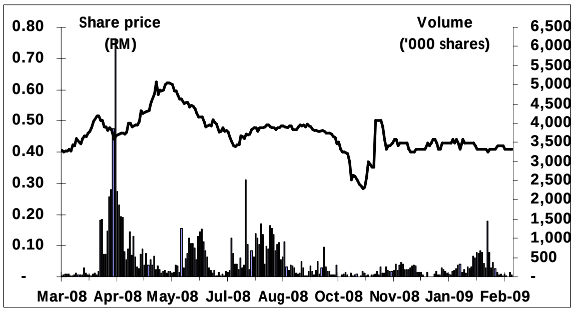
Key Stock Statistics	**FY08**	**FY09F**	**FY08F**
EPS (sen)	0.6	0.6	1.2
P/E on EPS (x)	63.2	64.8	34.3
Dividend/Share (sen)	0.3	0.3	0.3
NTA/Share (RM)	0.19	0.20	0.21
Book Value/Share (RM)	0.19	0.20	0.21
Issued Capital (m shares)	601.8	601.8	601.8
52-weeks Share Price Range (RM)			0.38-2.03

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)	2.2	3.3
Earnings (sen)	1.6	0.6	0.6	1.2
Dividend (sen)	0.2	0.3	0.3	0.3
Payout Ratio (%)	10.7	34.2	35.0	18.5
PER (x)	25.8	63.2	64.8	34.3
P/Cash Flow (x)	2.9	(3.2)	3.0	2.0
P/Book Value (x)	3.2	2.1	2.0	1.9
Dividend Yield (%)	0.3	0.7	0.7	0.7
ROE (%)	12.5	3.4	3.1	5.7
Net Gearing (%)	n.c.	8.6	15.9	15.6

P&L Analysis (RMm)	**FY07**	**FY08**	**FY09F**	**FY10F**
Year-end 31 Dec				
Revenue	31.4	38.9	43.2	50.9
Operating Profit	12.9	4.4	4.4	9.0
Depreciation	(1.8)	(2.1)	(6.3)	(7.6)
Net Interest	0.2	(0.4)	(0.8)	(0.8)
Pre-tax profit	13.1	4.4	4.0	8.6
Effective Tax Rate (%)	28.6	15.2	15.2	15.2
Net Profit	9.4	3.9	3.8	7.1
Operating Margin (%)	41.7	11.3	9.2	16.9
Pre-tax margin (%)	41.7	11.3	9.2	16.9
Net margin (%)	30.1	9.9	8.7	14.0

Share Price Chart



1. 4QFY08 Results Highlights:

Year-ended 31 Dec	**4Q08 RMm**	**4Q07 RMm**	**Chg %**
Revenue	13.2	8.6	53.4
Operating Profit	1.2	2.7	(56.8)
Finance costs	(0.5)	-	nm
Pre-tax Profit	0.0	2.7	(98.9)
Net Profit	0.1	1.6	(91.9)
Operating Margin (%)	8.9	31.4	
Pre-tax Margin (%)	0.2	31.3	
Net-Margin (%)	1.0	18.0	

- TMC Life (TMC)'s 4Q08 revenue was within our expectations but pre-tax and net profits came in below our projections due to higher than expected operating expenses.
- 4Q08 revenues posted a strong 53.4% yoy increase on stronger sales at the group's fertility treatment branches but sharply higher operating expenses and start-up costs at the group's new hospital wiped out profits during the quarter.
- Our 2009 forecasts assume lower contributions from the core fertility treatment operations and continued start-up losses at Tropicana Medical Centre given the bleak economic outlook and cautious consumer spending patterns.
- We are retaining our **SELL** recommendation on TMC given the stock's stretched PE ratings and unexciting earnings prospects over the near term.

2. FY08 Results Review:

Year-ended 31 Dec	2008 RMm	2007 RMm	Chg %
Revenue	38.9	31.4	23.7
Operating Profit	6.5	14.2	(54.0)
Finance costs	(0.5)	-	nm
Pre-tax Profit	4.4	13.0	(66.1)
Net Profit	3.9	9.3	(58.6)
Operating Margin (%)	16.8	45.2	
Pre-tax Margin (%)	11.3	41.3	
Net-Margin (%)	10.0	29.7	

Revenue & Earnings

- 2008 revenue increased by 23.7% yoy, driven by stronger sales at the group's six fertility treatment branches as well as increased sales of the prepaid subscription-based wellness programmes.
- Profit at the operating, pre-tax and net levels however, declined sharply yoy due to the impact of higher operating costs incurred for the recruitment of staff for the group's new hospital, Tropicana Medical Centre in Kota Damansara which opened in Dec 2008.

Balance Sheet

- TMC ended Dec 2008 with an estimated net debt position of RM9.0m (net gearing of 7.9%), a reversal from a net cash position of RM8.4m as at the end of Dec 2007, due largely to the drawdown of bank borrowings to fund construction at Tropicana Medical Centre, which is expected to cost a total of RM52m based on the group's circular to shareholders dated 6 Jun 2008.

Dividends

- The Board recommended a single-tier interim dividend of 3% per RM0.10 share for the year, to be paid on 27 Mar 2009.

Earnings Outlook

- Our 2009 forecasts assume lower contributions from the core fertility treatment operations and continued start-up losses at Tropicana Medical Centre given the bleak economic outlook and cautious consumer spending patterns.
- We believe that the economic downturn is likely to affect consumers' spending decisions on big-ticket products and services which would affect sales and earnings at the fertility treatment branches, in our view. We are also projecting relatively high fixed costs at the new hospital, on items such as human resources, equipment & furniture, hospital supplies and depreciation, whilst patient walk-though traffic is unlikely to reach breakeven level in the initial years, based on our estimates.
- Tropicana Medical Centre commenced operations at the end of 2008 with 52 specialist clinics and 179 in-patient and daycare beds. The new hospital is expected to run at optimum capacity with 70-80 doctors and 300 support staff, which it aims to achieve by early 2010. As at the end of Aug 2008, TMC had issued letters of offer to 41 doctors while 113 support staffs were employed in preparation for the hospital's launch.
- 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.
- Investment risks for the stock include a prolonged slowdown in the economy which would affect consumer sentiment and spending decisions on the group's core fertility treatments and patient traffic at the Tropicana Medical Centre. The economic downturn may also result in patients trading down to more affordable public healthcare at the expense of private hospitals in general.
- Corporate governance – the Board indicated in the group's 2007 annual report that it strives to ensure that the group complies with the Principles and Best Practices of the Malaysian Code on Corporate Governance and that the group is compliance with the best practices with the exception of the composition of the Audit Committee. The Board highlighted that the necessary arrangements have

been made to ensure that the Audit Committee will be made up of all non executive directors before the deadline set by Bursa of 31 Jan 2009.

- Corporate social responsibility (CSR) – there was no mention of any CSR activities undertaken by the group in its 2007 annual report.

3. Recommendation

- We are retaining our **SELL** recommendation on the stock given stretched PE ratings and unexciting earnings prospects over the near term.

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)