

TMC Life Sciences Berhad	<i>Price:</i>	RM0.41	
	<i>Market Capitalisation:</i>	RM246.73m	
	<i>Board:</i>	Mesdaq	
	<i>Sector:</i>	Trading/Services	
<i>Stock Code:</i>	0101	<i>Recommendation:</i>	SELL

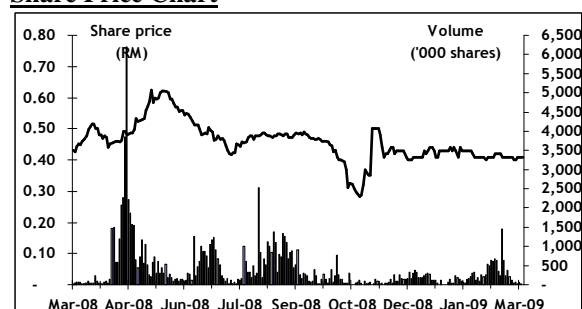
Key Stock Statistics	FY08	FY09F	FY08F
EPS (sen)	0.6	0.6	1.2
P/E on EPS (x)	64.0	65.6	34.7
Dividend/Share (sen)	0.3	0.3	0.3
NTA/Share (RM)	0.19	0.20	0.21
Book Value/Share (RM)	0.19	0.20	0.21
Issued Capital (m shares)	601.8	601.8	601.8
52-weeks Share Price Range (RM)	0.38-2.03		

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)	26.2	64.0	65.6	34.7
P/Cash Flow (x)	2.9	(3.2)	3.0	2.1
P/Book Value (x)	3.3	2.2	2.0	2.0
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. Recent Developments:

- TMC Life Sciences (TMC) recently organised a tour of the group's new Tropicana Medical Centre and held an investors' briefing for the 2008 financial results.
- The new medical centre opened its doors on 7 Dec 2008 and has so far attracted 30 doctors (of which 15 are full-time), around 120 nurses, and is equipped with 50 beds (30 day beds and another 20 auxiliary). The centre, in its current form, is capable of housing up to 55 doctors and has the capacity for 179 beds.
- Current occupancy rate for the existing 50 beds is estimated at 50-60% with the centre treating an average of 100 cases per month in Jan and Feb 2009. Outpatient traffic is estimated at around 1,000 per month, primarily for fertility treatments.
- We are projecting start-up losses at the new medical centre and lower contributions from the core fertility operations due to the economic slowdown and expected pull-back in consumer spending.
- We maintain our **SELL** recommendation on the stock given the group's unexciting earnings prospects in the near term.

2. Earnings Outlook:

- For 2009, although we are projecting higher turnover on account of maiden revenue contributions from the new medical centre, TMC is expected to post lower profits at the pre-tax and net levels based on our estimates. We have assumed start-up losses at the new Tropicana Medical Centre and lower contributions from the core fertility treatment operations given the bleak economic outlook and cautious consumer spending patterns.
- The Tropicana Medical Centre, which opened to the public on 7 Dec 2008, is expected to take several months to resolve initial teething issues whilst public awareness programmes including public forums and open days at the new facility would take time to kick in, in our view.
- We also expect the economic downturn and resultant drop in consumption demand to impact on patient traffic at Tropicana Medical Centre and at the other five fertility treatment centres nationwide this year. The group recorded a total 35,600 patient-visits in 2008, up 13.4% yoy from 31,400 visits in 2007.
- Despite our projection of lower patient visits, fixed costs are expected to remain relatively high at the new medical centre, on items such as human resources, equipment & furniture, hospital supplies and depreciation, hence our projection of start-up losses at Tropicana Medical Centre.
- 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. The group has been able to maintain consistently high pregnancy rates, averaging at 51.5% from 2001-2008. The estimated clinical pregnancy rate per embryo transfer for 2008 was 55.9% and management indicated at the briefing that pregnancy rates have been on the uptrend since relocating to the new Tropicana Medical Centre due to newer technology and more advanced facilities such as dedicated incubators for every patient.
- Investment risks for the stock include a prolonged slowdown in the economy which would 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. A long-drawn economic downturn may also result in patients trading down to more affordable public healthcare at the expense of private hospitals in general. We understand that fertility treatments at government hospitals cost less than half of those offered at private facilities although success rates are believed to be very much lower.
- 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.
- Corporate social responsibility (CSR) – the group indicated in its 2007 annual report that it sponsored fertility treatment services for infertile couples under the Tunku Azizah Fertility Foundation and co-organised a charity dinner for the foundation. The group also participated in a fund raising project to help preserve indigenous craft and improve living standards of underprivileged communities in Malaysia.

3. Recommendation

- Given unexciting earnings prospects in the near term, we are maintaining our **SELL** recommendation on the stock.

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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