

TMC Life Sciences Berhad	Price:	RM1.64	
	Market Capitalisation:	RM303.7m	
	Board:	Mesdaq	
	Sector:	Trading/Services	
Stock Code:	0101	Recommendation:	BUY

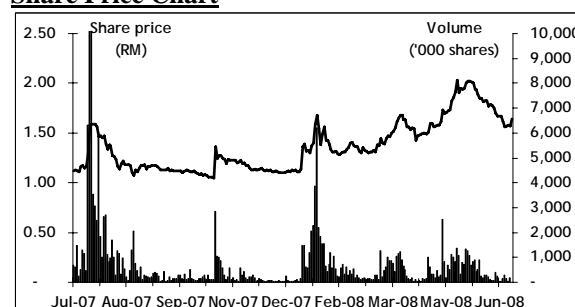
Key Stock Statistics	FY07	FY08F	FY09F
EPS (sen)	5.0	6.4	8.4
P/E on EPS (x)	32.6	25.6	19.5
Dividend/Share (sen)	0.8	0.8	0.8
NTA/Share (RM)	0.41	0.45	0.49
Book Value/Share (RM)	0.41	0.45	0.49
Issued Capital (m shares)	185.2	185.2	185.2
52-weeks Share Price Range (RM)	1.00-2.03		

Major Shareholders:	%
Dr Colin Lee Soon Soo	24.00
Berjaya Group	20.60
Skim Amanah Saham Bumiputera	5.20

Per Share Data	FY06	FY07	FY08F	FY09F
Year-end 31 Dec				
Book Value (RM)	0.29	0.41	0.45	0.49
Cash Flow (sen)	(3.2)	7.7	8.7	11.3
Earnings (sen)	5.3	5.0	6.4	8.4
Dividend (sen)	1.0	0.8	0.8	0.8
Payout Ratio (%)	13.8	10.9	8.5	6.5
PER (x)	30.9	32.6	25.6	19.5
P/Cash Flow (x)	(30.3)	11.6	10.2	7.9
P/Book Value (x)	5.6	4.0	3.6	3.3
Dividend Yield (%)	0.3	0.2	0.5	0.5
ROE (%)	18.2	12.4	14.3	17.0
Net Gearing (%)	n.c.	n.c.	12.1	25.5

P&L Analysis (RMm) FY06	FY07	FY08F	FY09F
Year-end 31 Dec			
Revenue	25.1	31.4	56.6
Operating Profit	12.6	13.2	17.4
Depreciation	1.1	1.8	3.8
Net Interest	0.5	0.3	(0.3)
Pre-tax profit	12.6	13.2	17.4
Effective Tax Rate (%)	29.1	29.9	29.9
Net Profit	8.9	9.3	11.9
Operating Margin (%)	50.1	41.9	30.7
Pre-tax margin (%)	50.1	41.9	30.7
Net margin (%)	35.6	29.6	21.0

Share Price Chart



1. Recent Developments:

- TMC Life Sciences (TMC) shareholders approved the group's proposed transfer of listing from Mesdaq to Bursa's Main Board, as well as proposals to raise authorised share capital to one billion units of 10 sen per share, a bonus issue and a rights issue.
- Managing director, Dr Colin Lee was quoted as saying that the group's revenue should be able to breach RM100m in 2010 with contribution from three new businesses and continued growth at its core activity of providing fertility services. This is in line with our projections.
- The group is expected to open its eight-storey, 179-bed hospital, Tropicana Medical Centre later this year, which will house more than 50 specialists. TMC currently has eight specialists across six fertility centres.
- The other two new business units are the wellness and stem cell services, which were launched in Aug 2007 and Sep 2007 respectively. On 19 Jun 2008, TMC announced that its 90%-owned stem cell service provider, Stemtech International had entered into a joint venture agreement with PT Lucasta Murni Cemerlang to set up a 65:35 stem cell banking joint venture in Indonesia, to facilitate the group's expansion regionally and tap into the large Indonesian market.
- We maintain our **BUY** recommendation on TMC with a price target of RM2.30/share, based on a price-earnings-to-growth ratio (PEGR) of 1.2x.

2. Earnings Outlook:

- Based on our estimates, 2008 revenue and net profits are expected to post an 80% and 28% year-on-year growth respectively, with first-time contributions from new businesses in hospital services, stem cells storage and wellness programmes. The relatively smaller projected growth rate in earnings relative to revenue is due to higher operating costs, start-up expenses and lower projected margins at the three new businesses relative to the more lucrative fertility treatment operations.
- Although near-term prospects may be affected by economic and political uncertainties, the longer-term outlook for fertility-related services in South East Asia remains bright as social trends such as an increasingly career-focused outlook and delayed marriages increase the inherent biological factors that cause infertility.
- Medical tourism is also increasing in the region due to rising healthcare costs and long waiting periods in developed countries.
- In addition, TMC group's growth prospects should be supported by the inclusion of three new business operations:
 - The expected opening of Tropicana Medical Centre in 2H08.
 - The new stem cell processing and banking, clinical applications and related R&D business commenced operations in late 2007. Progress to date has been encouraging and the group's management is confident of its prospects, particularly with the recent signing of a joint venture agreement to facilitate the group's expansion regionally into Indonesia.
 - TMC has also entered into a contract with Tropicana Wellness Sdn Bhd (formerly known as GE Wellness Sdn Bhd) to promote subscription-based healthcare programs. TMC is confident that the tie-up with Tropicana Wellness would lead to greater awareness of TMC's services and in turn result in a positive impact on the group's profitability.

3. Recommendation

- We maintain our **BUY** recommendation on TMC with a price target of RM2.30/share, based on a price-earnings-to-growth ratio (PEG) of 1.2x.

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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