

<b>TMC Life Sciences Berhad</b>	<b>0101</b>	<b>Price:</b>	RM1.50
		<b>Market Capitalisation:</b>	RM277.7m
		<b>Board:</b>	Mesdaq
		<b>Sector:</b>	Trading/Services
		<b>Recommendation:</b>	SELL

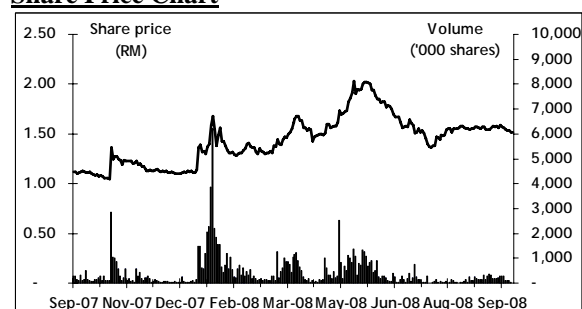
<b>Key Stock Statistics</b>	<b>FY07</b>	<b>FY08F</b>	<b>FY09F</b>
EPS (sen)	5.0	3.8	6.3
P/E on EPS (x)	29.8	39.5	23.9
Dividend/Share (sen)	0.8	0.8	0.8
NTA/Share (RM)	0.41	0.45	0.49
Book Value/Share (RM)	0.41	0.45	0.49
Issued Capital (m shares)	185.2	185.2	185.2
52-weeks Share Price Range (RM)	1.04-2.03		

<b>Major Shareholders:</b>	<b>%</b>
Dr Colin Lee Soon Soo (MD)	24.10
Berjaya Group	27.41
Skim Amanah Saham Bumiputera	5.23

<b>Per Share Data</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08F</b>	<b>FY09F</b>
Year-end 31 Dec				
Book Value (RM)	0.29	0.41	0.45	0.49
Cash Flow (sen)	(3.2)	7.7	4.5	7.4
Earnings (sen)	5.3	5.0	3.8	6.3
Dividend (sen)	1.0	0.8	0.8	0.8
Payout Ratio (%)	13.8	10.9	14.4	8.7
PER (x)	28.3	29.8	39.5	23.9
P/Cash Flow (x)	(27.8)	10.6	18.0	11.0
P/Book Value (x)	5.2	3.7	3.3	3.0
Dividend Yield (%)	0.3	0.3	0.5	0.5
ROE (%)	18.2	12.4	8.4	12.7
Net Gearing (%)	n.c.	n.c.	21.5	41.4

<b>P&amp;L Analysis (RMm)</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08F</b>	<b>FY09F</b>
Year-end 31 Dec				
Revenue	25.1	31.4	54.3	85.7
Operating Profit	12.6	13.2	9.3	16.1
Depreciation	1.1	1.8	3.8	3.8
Net Interest	0.5	0.3	(0.6)	(1.2)
Pre-tax profit	12.6	13.2	9.3	16.1
Effective Tax Rate (%)	29.1	29.9	25.0	25.0
Net Profit	8.9	9.3	7.0	11.6
Operating Margin (%)	50.1	41.9	17.1	18.8
Pre-tax margin (%)	50.1	41.9	17.1	18.8
Net margin (%)	35.6	29.6	13.0	13.5

### Share Price Chart



### 1. Recent Developments:

- TMC Life Sciences (TMC) announced recently that it had entered into a Memorandum of Understanding (MOU) with major shareholder, Berjaya Corporation (BCorp) and Viet Ha Corporation (Viet Ha) to jointly carry out activities relating to the design, construction, furnishing, equipping and operation of a hospital in or near Hanoi, Vietnam.
- The 12-month MOU covers issues such as feasibility studies and the securing of suitable land in or near Hanoi for the proposed hospital.
- Domestically, TMC is expected to open its eight-storey, 179-bed hospital, Tropicana Medical Centre by end-2008, with more than 50 specialists. TMC currently has eight specialists across six fertility centres in Malaysia.
- In our view, the MOU to look into the possibility of setting up a hospital in Vietnam should underpin longer-term prospects for TMC, assuming a positive outcome from the feasibility studies. The move also reflects TMC's continued efforts to expand in the region following a recent joint venture in Indonesia to tap into the stem cell therapy market there.
- Despite the positive news and projected strong earnings growth in FY09 on the commencement of new businesses, we do not expect TMC's share price to outperform significantly as prospective valuations, based on our earnings estimates do not appear compelling at this point, suggesting that the good news may be priced in. We therefore maintain our **SELL** recommendation on TMC.

## **2. Earnings Outlook:**

- TMC Life Sciences (TMC) announced recently that it had entered into a Memorandum of Understanding (MOU) with major shareholder, Berjaya Corporation (BCorp) and Viet Ha Corporation (Viet Ha) to jointly carry out activities relating to the design, construction, furnishing, equipping and operation of a hospital in or near Hanoi, Vietnam.
- The 12-month MOU covers issues such as feasibility studies and the securing of suitable land in or near Hanoi for the proposed hospital.
- Viet Ha, which is wholly-owned by the Hanoi People's Committee, will source for suitable land whilst TMC will provide consultancy expertise in the planning, set-up, commissioning and management of the proposed hospital. The hospital, with potentially 300-500 beds, will be built over several phases subject to feasibility studies to be undertaken.
- Domestically, TMC is expected to open its eight-storey, 179-bed hospital, Tropicana Medical Centre by end-2008, with more than 50 specialists. TMC currently has eight specialists across six fertility centres in Malaysia.
- In our view, the MOU to look into the possibility of setting up a hospital in Vietnam should underpin longer-term prospects for TMC, assuming a positive outcome from the feasibility studies. The move also reflects TMC's continued efforts to expand in the region following a recent joint venture in Indonesia to tap into the stem cell therapy market there, via Indonesia-based PT Lucasta Murni Cemerlang.
- In terms of earnings, 2008 will be a year of consolidation for the group, due to pre-operating expenses incurred for Tropicana Medical Centre. In 2009, revenue and net profits are expected to post a 58% and 65% year-on-year growth respectively, with contributions from three new businesses in hospital services, stem cells storage and wellness programmes.
- 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 to its existing centres in Malaysia.
- Longer-term prospects within South East Asia are also positive, as social trends such as an increasingly career-focused outlook and delayed marriages increase the inherent biological factors that cause infertility.
- In addition to the positive industry outlook, TMC group's growth prospects are supported by the addition of three new business operations:
  - The expected opening of Tropicana Medical Centre in late 2008, which will have 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 has issued letters of offer to 41 doctors while 113 support staff are currently employed in preparation for the hospital's launch.
  - The Tropicana Medical Centre will also facilitate the group's entry into the wellness business. In Jul 2007, TMC had entered into a contract with Tropicana Wellness Sdn Bhd (formerly known as GE Wellness Sdn Bhd) to promote a subscription-based healthcare programme called Tropicana Wellness. Tropicana Wellness is targeting sales of RM42m over the five-year period via its offering a variety of health screening services such diabetes, full blood count, liver function, cancer screening, cardiovascular heart disease screening, stress tests, and infectious diseases. With the restructuring of this business in Jul 2008, management is optimistic of positive contributions from this programme in 2H08.
  - The stem cell processing and banking, clinical applications and related R&D business commenced operations in Sep 2007. StemTech International caters to in-house demand for cord blood and peripheral blood stem cell banking, research, application and therapy from the group's fertility centres and the upcoming Tropicana Medical Centre. TMC plans to enter into Indonesia through PT StemTech Indonesia, a joint-venture with Indonesia-based PT Lucasta Murni Cemerlang. StemTech is not expected to make any significant contribution in the immediate future.
- The acquisition of Penang-based Srigim Medical Centre is expected to complete by Sep 2008. Srigim provides women and children healthcare services. Srigim comes with a profit guarantee of RM700,000 in the first year of operations.

- TMC's proposed renounceable rights issue of 185.2m new shares on the basis of one (1) rights share for every one (1) existing share held at an indicative issue price of RM0.20 per rights share, bonus issue of 231.45m new shares on the basis of five (5) bonus shares for every four (4) rights shares subscribed, and transfer of listing of and quotation for its enlarged issued and paid-up share capital from the MESDAQ market to the Main Board of Bursa are expected to complete by end-2008.

### **3. Recommendation**

- Despite the positive developments and projected strong earnings growth in FY09 on the commencement of new businesses, we do not expect TMC's share price to outperform significantly in the near term as prospective valuations, based on our earnings estimates do not appear compelling at this point, suggesting that the good news may be priced in. We therefore maintain our **SELL** recommendation on TMC.

---

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)

Netresearch-Asia Sdn Bhd is a participant of the CMDF-Bursa Research Scheme and receives a compensation for each stock covered under the Scheme. The information and opinion in this document has been obtained from various sources believed to be reliable. This publication is for information purpose only, and must not be relied upon as authoritative or taken in substitution for the exercise of judgment. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. Opinions expressed in this publication are subject to change without notice and any recommendation herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. No representation, express or implied, is made with respect to the accuracy, completeness or reliability of the information or opinions in this publication. Accordingly, neither we nor any of our affiliates nor persons related to us accept any liability whatsoever for any direct, indirect or consequential losses (including loss and profit) or damages that may arise from the use of information or opinions in this publication.

Netresearch-Asia Sdn Bhd and its related companies, their associates, directors, connected parties and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may materially be interested in any such securities. Netresearch-Asia Sdn Bhd and its related companies may from time to time perform advisory, investment, communications or other services for, or solicit such advisory, investment, communications or other services from any entity mentioned in this report. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.