

INDEPTH UPDATE REPORT
2 March 2011

Name of PLC: TMC Life Sciences Berhad	Target Price:	RM0.50
Business Summary : Fertility treatment services, specialist medical centre		
Major Shareholders :	Berjaya Group (Tan Sri Vincent Tan)	31.5%
	Gilberta Investments Ltd (Peter Lim)	32.6%
PLC Website : www.tmc.life.com	Recommendation:	Hold
IR Contact : Francis Lim, CEO	Market Capitalisation:	RM288.8m
	Current Price :	RM0.48
	Market / Sector:	Trading/Services
	Stock Code:	0101
Analyst : Corinna Cheah / Lim Boon Ngee Tel : +603 2163 3200; Email : corinnacheah@nra.com.my / bnlim@nra.com.my		

Key Stock Statistics	FY10	FY11F	FY12F
EPS (sen)	-5.3	-0.5	0.2
P/E on EPS (x)	nm	nm	212.6
Dividend/Share (sen)	0.0	0.0	0.0
NTA/Share (RM)	0.12	0.11	0.11
Book Value/Share (RM)	0.12	0.11	0.11
Issued Capital (m shares)	601.8	601.8	601.8
52-weeks Share Price Range (RM)			0.32-0.62

Per Share Data	FY09	FY10	FY11F	FY12F
Year-end 31 Dec				
Book Value (RM)	0.17	0.12	0.11	0.11
Cash Flow (sen)	3.8	2.3	2.0	2.8
Earnings (sen)	(1.4)	(5.3)	(0.5)	0.2
Dividend (sen)	0.3	-	-	-
Payout Ratio (%)	nm	-	-	-
PER (x)	nm	nm	nm	212.6
P/Cash Flow (x)	2.1	3.4	4.0	2.9
P/Book Value (x)	2.8	4.2	4.3	4.3
Dividend Yield (%)	0.6	-	-	-
ROE (%)	(8.3)	(45.9)	(4.2)	2.0
Net Gearing (%)	41.7	64.9	49.9	25.1

P&L Analysis (RMm) FY09	FY10	FY11F	FY12F
Year-end 31 Dec			
Revenue	48.5	57.9	69.4
Operating Profit	(7.2)	(29.2)	(0.3)
Depreciation	(7.4)	(8.4)	(8.6)
Net Interest	(1.7)	(2.6)	(2.6)
Pre-tax profit	(8.7)	(31.8)	(2.8)
Effective Tax Rate (%)	0.0	(0.3)	0.0
Net Profit	(8.5)	(31.8)	(2.8)
Operating Margin (%)	(18.0)	(54.9)	(4.1)
Pre-tax margin (%)	(18.0)	(54.9)	(4.1)
Net margin (%)	(17.5)	(54.9)	(4.0)

1. Investment Highlights/Summary

- In 2010, TMC registered a 36% YoY improvement in revenue, reflecting increased revenue at Tropicana Medical Centre, which operated with a more comprehensive range of services during the year. Promotional activities implemented during the year also helped boost market awareness, which in turn raised patient visits at the hospital.
- Pre-tax and net losses however deepened substantially in 2011, due largely to one-off items totalling RM19.2m that were taken in 4Q2010.
- With the change in top management, the cleaning up of the group's balance sheet, and stricter cost control, we believe TMC is in a good position to turnaround in 2011.
- We have valued TMC at RM0.50 per share based on an RNAV method in the absence of meaningful profits over the next 12 months. In arriving at our RNAV estimate, we have assumed a 17x PER on the group's profitable fertility operations (at a discount to local and regional healthcare service providers), added the estimated book value of the tertiary hospital and deducted the group's estimated net debt as at the end of 2011F. **HOLD**.

2. Key Investment Risks

Key investment risks for the stock include:

- a) Slower economic growth due to inflationary pressures and global uncertainties, which would affect existing and potential patients' spending power on the group's fertility treatment services and private healthcare services;
- b) Migration of key specialist doctors and medical support staffs.

3. Company Background/Overview

- Key areas of operation

i. **Hospital**

- a. Tertiary hospital, Tropicana Medical Centre opened its doors to the public on 7 Dec 2008;
- b. Provides a wide range of specialist and sub-specialist services including:

<ul style="list-style-type: none"> ➤ Anaesthetics ➤ Cardiology ➤ Cardiothoracic surgery ➤ Colorectal surgery ➤ Cosmetic surgery ➤ Cosmetic dental surgery ➤ Dermatology ➤ Dietetics ➤ Ear, nose & throat surgery ➤ Endocrinology ➤ Fertility, women and children's health ➤ General surgery ➤ Haematology ➤ Plastic and reconstructive surgery ➤ Gastroenterology 	<ul style="list-style-type: none"> ➤ Hand and microsurgery ➤ Laparoscopic surgery ➤ Neonatology ➤ Obstetrics and gynaecology ➤ Ophthalmology ➤ Orthopaedics ➤ Paediatrics ➤ Respiratory medicine ➤ Rheumatology ➤ Stem cell banking and therapy ➤ Upper gastrointestinal surgery ➤ Vascular surgery;
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- c. The only medical centre in South East Asia with 32-Channel 1.5 Tesla Magnetic Resonance Imaging (MRI) machine;
- d. Capacity of 180 in-patient beds currently, comprising ward beds and ICU baby cots;
- e. 50 specialists operating 30 clinics.

ii. **Fertility treatment**

- a. Provides fertility treatment services through centres located in Puchong, Kepong, Johor Bahru, Sibul, Kuantan and Penang;
- b. Caters to both local and foreign patients, which account for around 20% of total revenue.

iii. **Wellness programme**

- a. Subscriber base creates captive market for new medical services provided by the group;
- b. Marketed under "Tropicana Wellness".

iv. **Stem cell services**

- a. StemTech International provides umbilical cord blood stem cell (UBSC) harvesting and banking services;
- b. Scope of services include adult stem cell (ASC) harvesting and platelet rich plasma (PRP) where blood is processed to be used in regenerative treatment of tendons, cartilages and joints.

- Revenue and operating profit breakdown

TMC does not provide segmental breakdown for the group's revenue and operating profit.

Medical Milestones

1995 Produced South East Asia's first reported IVF surrogate baby

1996 Produced Malaysia's first frozen embryo transfer baby

1997 Produced Malaysia's first conception twins (born 1.5 years apart)

1999 Produced the first donated frozen embryo pregnancy in Malaysia

2001 Obtained higher IVF pregnancy rates compared to all 67 IVF centres in the UK (2001)

2002 Produced Malaysia's first blastocyst transfer IVF baby

2003 Produced Malaysia's first freeze-thaw blastocyst transfer pregnancy

2004 Produced Malaysia's first pregnancy following PGD

2005 Produced Malaysia's first PGD twins

2005 TMC's embryo transfer technique, protocol and communication system was accepted for publication and presentation at the Conjoint Annual Meeting of the American Society for Reproductive Medicine (ASRM) and Canadian Fertility Andrology Society in Montreal, Canada.

2006 TMC's mathematical model for individualised treatment of polycystic ovarian syndrome, rate of improvement on air quality affected by usage of laminar flow in an IVF laboratory, and aneuploidy rate in patients of different age groups undergoing IVF-PGD presented at the Inaugural Congress of Asia Pacific Initiative of Reproductive Endocrinology in Changsha, China.

2006 Achieved Pre-Implantation Genetic Diagnosis (PGD) first-attempt successes; Produced Malaysia and Singapore's first:

- 1st Day-3 PGD
- 1st Day-5 PGD
- 1st Day-6 PGD
- 1st Sequential PGD
- 1st 7-probe PGD

May-Jun 2007 Presented 5 papers at Obstetrical and Gynaecological Society of Malaysia (OGSM): 17th Congress of Gynaecology and Obstetrics in Kuala Lumpur

- A Comparison of Two Culture Media for Blastocyst Culture: A Retrospective Review
- Effect of Reducing the Mean Number of Embryos Transferred from 2003 to 2006
- The Effect of Oil Overlay on pH Fluctuation in IVF Culture Medium
- TMC Fertility Centre's Experience of Assisted Hatching in ART Patients with Multiple Failures
- A Two Year Retrospective Review of ART Cycles performed at Damansara Fertility Centre, Johor Bahru, Malaysia

Jun 2007 Presented 5 papers at Preimplantation Genetic Diagnosis International Society (PGDIS): 7th International Symposium on Preimplantation Genetics in Melbourne, Australia

- Correlation Between Embryo Morphology and Aneuploidy
- Preimplantation Genetic Diagnosis Policy: Cleavage Stage Embryo Biopsy as the First Approach with Blastocyst Biopsy as the Back Up Option
- Ongoing Pregnancy After Transfer of Normal Pronucleate Embryo following PGD-FISH
- Ongoing Pregnancies from Repeat-Biopsied PGD Embryos
- Sequential Embryos Transfer following PGD

Sep 2007 Presented 2 papers at International Society for In Vitro Fertilization (ISIVF): 14th World Congress on In Vitro Fertilization & 3rd World Congress on In Vitro Maturation in Montreal, Canada

- The Value of Tube-Rinsing in Oocytes Recovery Procedure
- Embryo Transfer Duration and its Effect on Pregnancy Outcome

Nov 2007 Presented 1 paper at 2nd Asia Pacific Congress on Controversies in Obstetrics, Gynaecology and Infertility in Shanghai, China, on the use of atosiban in an extremely preterm labour in an elderly primigravid with triplet pregnancy

4. Recent Developments

On 1 Sep 2010, TMC announced the resignation of Dato' Dr Colin Lee Soon Soo as managing director. Dr Colin Lee was the founder of TMC and has been in medical practice for 26 years, specializing in the fields of fertility and laparoscopic surgery.

On 20 Sep 2010, the group appointed Mr Francis Lim Poon Thoo as CEO. Mr Francis Lim was previously group executive director of Singapore listed healthcare group Health Management International Limited (Jul 2002 until May 2010) and executive director/CEO of Mahkota Medical Centre Sdn Bhd (Nov 1998 until May 2010)

On 30 Sep 2010, TMC announced the resignation of the following:

- 1) Mr Amos Siew Boon Yeong, executive director;
- 2) Dato' Wenddi Anne Chong Wai Yeng, executive director;
- 3) Dato' Robin Tan Yeong Ching, director; and
- 4) Yeoh Cheng Lee, alternate director.

On 1 Oct 2010, TMC announced the termination of Tropicana Wellness Sdn Bhd as the marketing agent of the Tropicana Wellness Programme, the group's subscription-based healthcare programme with effect from 21 Dec 2010. In the announcement, TMC indicated that the group will take over the marketing of the programme internally.

On 12 Jan 2011, TMC announced the appointment of the following:

- 1) Dr. Wong Chiang Yin, a Singaporean, as executive director.
Dr. Wong was previously the CEO of Bright Vision Hospital, executive director at Pantai Holdings Berhad, COO at Changi General Hospital, and COO at Singapore General Hospital;
- 2) Dr. Lee G. Lam, a Canadian national, as non-executive director.
Dr. Lam has over 28 years' experience in multinational general management, corporate governances, investment banking and direct investments. He is currently Chairman of Monte Jade Science and Technology Association of Hong Kong;
- 3) Gary Ho Kuat Fong, an Australian national, as non-executive director.
Mr Ho is also a non-executive director of UPP Holdings Ltd.; and
- 4) Dr. Chan Boon Kheng, a Singaporean, as non-executive director.
Dr. Chan was an advisor and interim group CEO of Pantai Holdings Berhad. He also served as an advisor to various healthcare companies including Mubadala Development Company based in Abu Dhabi and was CEO and general manager of East Shore Hospital in Singapore under Parkway Healthcare.

5. Financial Review

2010 results review:

Year-ended 31 Dec	2010 RMm	2009 RMm	Chg %
Revenue	66.1	48.5	36.1
Operating Profit	1.8	0.4	>100
Finance costs	(2.6)	(1.7)	58.8
Pre-tax Profit/(Loss)	(31.8)	(8.7)	>100
Net Profit/(Loss)	(31.8)	(8.5)	>100
Operating Margin (%)	2.7	0.8	
Pre-tax Margin (%)	(48.1)	(17.9)	
Net-Margin (%)	(48.1)	(17.5)	

Source: TMC

Quarterly results review:

Year-ended 31 Dec	1Q09 RMm	2Q09 RMm	3Q09 RMm	4Q09 RMm	1Q10 RMm	2Q10 RMm	3Q10 RMm	4Q10 RMm
Revenue	10.2	11.8	12.3	14.3	12.4	14.3	14.6	14.9
EBITDA	(0.7)	0.3	0.6	0.2	0.1	0.1	1.6	(0.0)
Depreciation	(1.7)	(2.2)	(2.1)	(1.4)	(2.0)	(2.1)	(2.0)	(2.2)
EBIT	(2.4)	(1.9)	(1.5)	(1.2)	(2.0)	(2.0)	(0.4)	(2.2)
Other expenses	-	-	-	-	-	-	(3.3)	(19.2)
Associates	-	-	-	0.7	(0.5)	(0.0)	-	-
Finance	(0.4)	(0.3)	(0.5)	(1.3)	(0.1)	(0.7)	(0.7)	(0.7)
PBT	(2.8)	(2.2)	(2.0)	(1.7)	(2.6)	(2.7)	(4.4)	(22.1)

Source: TMC

In 2010, TMC registered a 36% YoY improvement in revenue, reflecting increased revenue at Tropicana Medical Centre, which operated with a more comprehensive range of services during the year. Promotional activities implemented during the year also helped boost market awareness, which in turn raised patient visits at the hospital.

Pre-tax and net losses however deepened substantially during the year, due largely to the following one-off items (totalling RM19.2m) that were taken in 4Q2010:

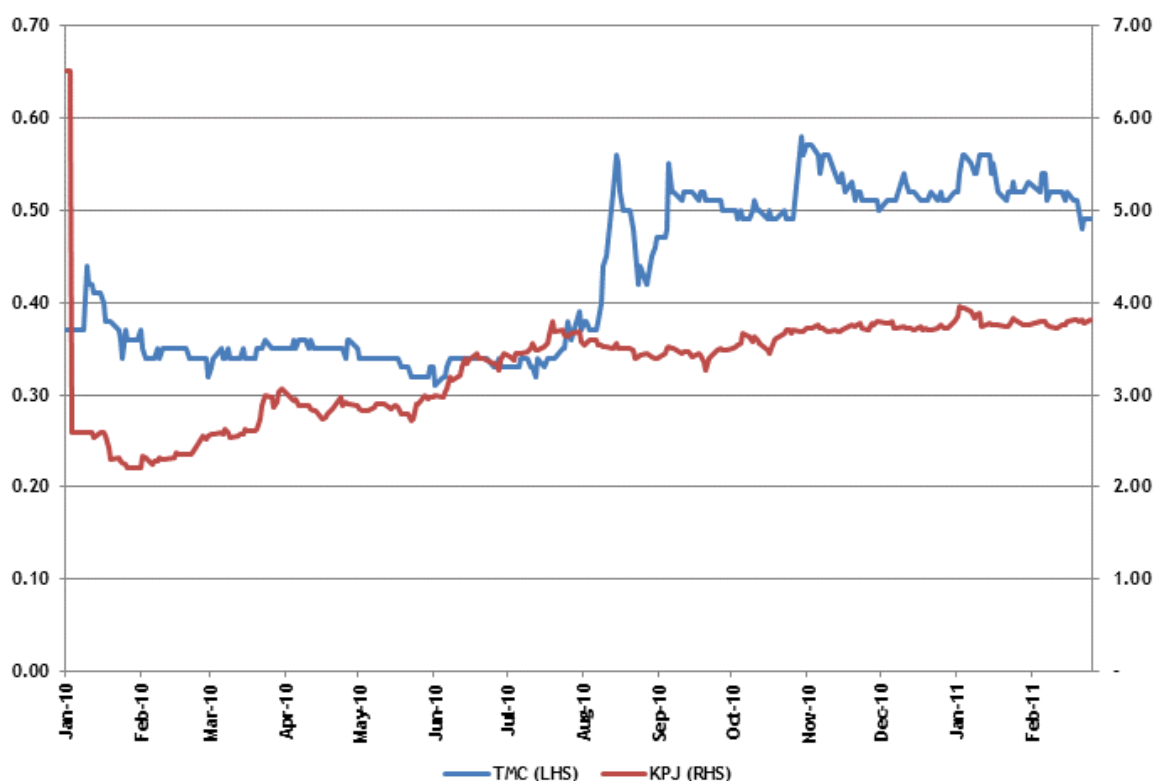
- Recognition of impairment on goodwill on consolidation of RM1.96m;
- Write-off of development costs of RM9.55m;
- Write-off of nursing and embryologist sponsorship costs of RM2.41m;
- Write-off of software and other costs of RM1.12m;
- Specific and general provisions for doubtful debts of RM4.14m.

Excluding the one-off items above, TMC's 2010 losses would have been in line with losses incurred in 2009.

6. Competitive Analysis

Comparative Valuation	TMC Life Sciences	KPJ Healthcare
Share Price (RM) @ 25-Feb-2011	0.49	3.78
Mkt. Cap (RM mil)	291.9	2,112.1
Ave. Daily Vol. (mil)	2.3	0.7
P/E FY09 (x)	na	14.1
P/E FY10 (x)	na	17.8
P/NTA (x)	4.2	2.8
Yield (%)	-	2.3

Source: Bloomberg, NRA estimates



Source: The Star

7. Earnings Outlook

With the change in top management, the cleaning up of the group's balance sheet, and stricter cost control, we believe TMC is in a good position to turnaround in 2011. Our projections assume smaller losses at hospital services this year, which we expect to be matched by contributions from the profitable fertility operations.

At the hospital services division, we have assumed higher floor space rental by the specialists and also higher average occupancy rates, on the assumption of increased patient visits as the group continues its marketing efforts via awareness programmes and talks, locally and overseas.

8. Balance Sheet

Balance Sheet and Other Financial Data (RM mil)	FY09	FY10	FY11F	FY12F
Total Assets	149.1	117.6	102.9	87.9
Fixed Assets	135.2	129.3	132.3	135.4
Current Asset	12.6	12.5	8.6	10.3
LT Assets	1.7	1.5	1.4	1.4
Current Liabilities	16.3	26.0	39.9	59.5
LT Liabilities	50.6	48.9	48.9	48.9
Share Capital	60.2	60.2	60.2	60.2
Shareholders' Funds	102.9	69.3	66.5	67.9

Source: TMC, NRA estimates

TMC ended Dec 2010 with an estimated net debt position of RM45m or net gearing of 65%. The group's reserves declined sharply at the end of Dec 2010 to RM9.1m from RM42.7m at the end of 2009, due largely to the write-offs and provisions taken in 2H2010.

An analysis of the group's operating cash flows versus interest expense commitments shows that TMC's interest cover, on an operating cash flow level, remains comfortable. However, the possibility of some capital-raising exercise should not be discounted, if additional working capital is needed to strengthen the group's balance sheet to support its growing operations.

Year ended 31-Dec	2009	2010	2011F	2012F
Operating cash flow (RMm)	22.7	14.1	12.1	16.7
Interest expense (RMm)	(1.7)	(2.7)	(2.7)	(2.7)
Operating cash flow to interest expense (x)	13.0	5.2	4.5	6.2

Source: TMC, NRA estimates

9. Valuation and recommendation

We have valued TMC at RM0.50 per share based on an RNAV method in the absence of meaningful profits over the next 12 months. In arriving at our RNAV estimate, we have assumed a 17x PER on the group's profitable fertility operations (at a discount to local and regional healthcare service providers), added the estimated book value of the tertiary hospital and deducted the group's estimated net debt as at the end of 2011F. **HOLD.**

Disclosures/Disclaimer

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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