

Recommendation: **STRONG SELL**

Stock Code: 0101

Bloomberg: TMCL MK

Price: MYR0.45

12-Month Target Price: MYR0.27

Date: June 1, 2009

Board: Mesdaq

Sector: Trading/Services

GICS: Health Care/Health Care Services

Market Value - Total: MYR270.8 mln

Summary: TMC Life Sciences (TMCL) is a leader in the provision of fertility treatment services in Malaysia and the Asian region. Its delivery rate per embryo transfer is among the highest in the world. The group's flagship multi-disciplinary hospital, Tropicana Medical Centre, has commenced operations in December 2008.

Analyst: Alexander Chia, ACA



Results Review & Earnings Outlook

- TMCL reported a net loss of MYR2.8 mln in 1Q09, which is below our expectations when compared to our previous 2009 net profit estimate of MYR7.9 mln.
- The deviation was mainly attributed to our under-estimation of the gestation period and opex for the group's new flagship hospital, Tropicana Medical Centre (TMC), which began operations in December 2008.
- 1Q09 revenue was up 24% YoY to MYR10.2 mln due to new contributions from Tropicana Medical Centre (Penang) Sdn Bhd (formerly known as Srigim Medical Centre Sdn Bhd) from September 2008 and TMC from December 2008, as well as sales from wellness programs.
- Nevertheless, the improved turnover was insufficient to cover the increase in opex (particularly the staff force at the hospital), depreciation and finance costs, resulted in the group posting a net loss of MYR2.8 mln against a net profit of MYR2.0 mln a year ago. This is the first time TMCL reported a loss since its listing in October 2005.
- We slash our 2009 earnings estimate to a net loss of MYR0.2 mln from a net profit of MYR7.9 mln after incorporating higher opex and depreciation charge for the hospital. We are, however, leaving our 2010 estimates unchanged at this juncture.
- No dividend was declared in respect of the quarter under review.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	0.7	0.0
PER (x)	65.2	NM
Dividend/Share (sen)	0.3	0.3
NTA/Share (MYR)	0.16	0.17
Book Value/Share (MYR)	0.19	0.19
No. of Outstanding Shares (mln)	601.8	
52-week Share Price Range (MYR)	0.33 - 0.72	
Major Shareholders:	%	
Berjaya Group	31.5	
Dato' Dr. Colin Lee	24.0	
Skim Amanah Saham Bumiputera	5.2	

Recommendation & Investment Risks

- We retain our Strong Sell recommendation on TMCL but raise our 12-month target price to 27 sen (from 15 sen) after rolling over our valuation to 2010.
- We derive our target price by ascribing a target PER multiple of 15x (unchanged) to our 2010 (rolled-over from 2009) earnings estimate. We believe 2010 results will better reflect the group's performance and prospects upon stabilization of TMC's operations. Meanwhile, the PER multiple is at the lower end of its 15x-37x historical PER range to reflect the gestation period for TMC and the subdued macroeconomic outlook.
- The hospital, with its wide range of services and impressive setup, will serve as the group's growth driver going forward. While longer term prospects for the group remain positive, the hospital's fixed overheads will be a drag on the group's earnings in the near-term, given the longer gestation period likely in the present economic downturn. Valuations looks stretched with TMCL currently trading at 2010 PER of 27x, in our opinion.
- Risks to our recommendation and target price include better-than-expected performance by TMC and continued increase in fertility treatment spending.

Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	0.11	0.15	0.19	0.19
Cash Flow (sen)	2.0	2.0	1.0	0.0
Reported Earnings (sen)	2.0	2.0	0.7	0.0
Dividend (sen)	0.4	0.3	0.3	0.3
Payout Ratio (%)	13.4	15.2	50.5	NM
PER (x)	22.9	23.1	65.2	NM
P/Cash Flow (x)	22.9	22.1	44.5	NM
P/Book Value (x)	4.3	3.1	2.4	2.4
Dividend Yield (%)	0.8	0.6	0.7	0.7
ROE (%)	20.4	14.7	3.8	-0.1
Net Gearing (%)	0.0	0.0	7.6	22.2

Note: Figures adjusted for rights & bonus issue.

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Quarterly Performance

FY Dec. / MYR mln	1Q09	1Q08	% Change
Reported Revenue	10.2	8.2	24.5
Reported Operating Profit	-0.7	2.9	NM
Depreciation & Amortization	-1.7	-0.4	>100
Net Interest Income / (Expense)	-0.4	0.0	NM
Reported Pre-tax Profit	-2.8	2.6	NM
Reported Net Profit	-2.8	2.0	NM
Reported Operating Margin (%)	-7.1	35.8	-
Reported Pre-tax Margin (%)	-28.0	31.3	-
Reported Net Margin (%)	-27.0	24.7	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	31.3	38.8	66.3	86.6
Reported Operating Profit	13.0	4.6	1.7	14.2
Depreciation & Amortization	-1.7	-1.7	-6.9	-6.6
Net Interest Income / (Expense)	0.0	-0.5	-1.9	-2.5
Reported Pre-tax Profit	13.0	4.0	-0.2	11.7
Effective Tax Rate (%)	28.8	16.7	NM	15.0
Reported Net Profit	9.2	3.6	-0.2	10.0
Reported Operating Margin (%)	41.5	11.8	2.5	16.4
Reported Pre-tax Margin (%)	41.5	10.4	-0.3	13.5
Reported Net Margin (%)	29.3	9.2	-0.2	11.5

Source: Company data, S&P Equity Research

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Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Strong Sell	0.27
2-Mar-09	Strong Sell	0.15
1-Dec-08	Sell	0.33
2-Sep-08	Hold	0.58
2-Jun-08	Sell	0.58
31-Mar-08	Hold	0.58

