

TMC Life Sciences

Recommendation: **HOLD**

Stock Code: **0101**

Bloomberg: **TMCL MK**

Price: **MYR1.58**

12-Month Target Price: **MYR1.60**

Date: **September 11, 2008**

Board: Mesdaq

Sector: Trading/Services

GICS: Health Care/Health Care Services

Market Value - Total: MYR292.6 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. As a growth strategy, it is also building its own hospital as well as venturing into stem cell-related business and wellness programs.

Analyst: Alexander Chia, ACA



Recent Developments

- At a recent briefing, we understand that the construction of TMCL's hospital, the Tropicana Medical Center (TMC), has been completed and is now awaiting the Certificate of Completion and Compliance.
- To recap, the total investment in TMC is approximately MYR100 mln, which includes cost of construction, equipment and interior design. The capex is funded via a combination of the IPO proceeds raised earlier, internally-generated funds, private placements and borrowings.
- The eight-story hospital with 235,000 sf of built-up area will have 52 specialist clinics and 179 beds. While the focus is on fertility treatments as well as women and children's health, there will also be specialist clinics on cardiology, endocrinology, aesthetics, orthopedics, hematology etc.
- According to management, TMC is slated to commence operations toward the year-end and there are currently over 120 support staff undergoing preparation work for the opening. Management endeavors for TMC to eventually have 70-80 doctors with over 300 support staff when in full operation.
- Meanwhile, the acquisition of Srigim Medical Center (Srigim) in Penang was completed on Sep. 2, 2008. Srigim, which specializes in women and children's health, is now an 85%-owned subsidiary of TMCL. The acquisition comes with a profit guarantee of MYR700,000 in the first year of operation under TMCL. TMCL will acquire the remaining 15%-stake in Srigim in March 2011.

Recommendation & Investment Risks

- We maintain a Hold recommendation with an unchanged 12-month target price of MYR1.60. Our target price is derived from ascribing a target PER of 20x (unchanged) against TMCL's 2009 earnings, which is at the lower end of its historical trading PER range of between 20x and 33x to reflect the gestation period for TMC.
- On its proposed rights and bonus issue and transfer of listing to the Main Board, the group has secured the necessary approvals from the Securities Commission, Bursa Malaysia and its shareholders. The rights issue is expected to raise about MYR37 mln, to be used to part-finance TMC and pare down borrowings incurred earlier to fund TMC. The group expects the entire corporate exercise to be completed by year-end. We shall adjust our valuation, which is on cum basis currently, upon the finalization of the rights price and the ex-date of the entitlements.
- Risks to our recommendation and target price include a prolonged slowdown in the economy significantly affecting spending power, delay in the opening of TMC and potential perception of political instability by foreigners that could affect medical tourism.

Earnings Outlook

- We maintain our current 2009 revenue and net profit forecast of MYR78.9 mln (+104% YoY) and MYR14.3 mln (+106% YoY) respectively. We note that our projections are lower compared to management's guidance, after considering the potential delays in TMC's opening as well as the gestation period in the initial operations.

Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	5.0	3.7
PER (x)	31.4	42.2
Dividend/Share (sen)	0.8	0.8
NTA/Share (MYR)	0.35	0.38
Book Value/Share (MYR)	0.41	0.44
No. of Outstanding Shares (mln)	185.2	
52-week Share Price Range (MYR)	1.05 - 2.03	
Major Shareholders:	%	
Dr. Colin Lee	24.0	
Berjaya Group	17.9	
Skim Amanah Saham Bumiputera	5.2	

Per Share Data

FY Dec.	2005	2006	2007	2008E
Book Value (MYR)	0.24	0.29	0.41	0.44
Cash Flow (sen)	5.0	6.0	5.8	5.4
Reported Earnings (sen)	4.6	5.3	5.0	3.7
Dividend (sen)	1.0	1.0	0.8	0.8
Payout Ratio (%)	15.5	13.8	14.9	20.0
PER (x)	34.1	29.8	31.4	42.2
P/Cash Flow (x)	31.9	26.5	27.2	29.2
P/Book Value (x)	6.5	5.4	3.9	3.6
Dividend Yield (%)	0.6	0.6	0.5	0.5
ROE (%)	NA	19.9	15.0	8.9
Net Gearing (%)	0.0	0.0	0.0	40.0

Note: FY05 numbers are on proforma basis

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FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	24.9	31.4	38.6	78.9
Reported Operating Profit	12.6	12.9	9.8	19.4
Depreciation & Amortization	-1.1	-1.4	-3.1	-5.7
Net Interest Income / (Expense)	0.0	0.0	-0.9	-2.2
Reported Pre-tax Profit	12.6	13.2	9.1	17.8
Effective Tax Rate (%)	29.1	29.9	24.0	20.0
Reported Net Profit	8.9	9.3	6.9	14.3
Reported Operating Margin (%)	50.6	41.0	25.5	24.6
Reported Pre-tax Margin (%)	50.6	41.9	23.6	22.6
Reported Net Margin (%)	35.9	29.6	17.9	18.1

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.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

Shariah-compliant stock - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
02-Sep-08	Hold	1.60
02-Jun-08	Sell	1.60
31-Mar-08	Hold	1.60

