

# TMC Life Sciences

Recommendation: **STRONG SELL**

Stock Code: 0101

Bloomberg: TMCL MK

Price: MYR0.39

12-Month Target Price: MYR0.15

Date: April 9, 2009

Board: Mesdaq

Sector: Trading/Services

GICS: Health Care/Health Care Services

Market Value - Total: MYR234.7 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

- We recently went on a tour of TMCL's new flagship hospital, the Tropicana Medical Centre (TMC) in Kota Damansara, Selangor.
- The resort-themed TMC commenced operations in Dec. 2008 and has since provided treatments to over 1,000 patients (both in- and outpatients). The group's fertility centre was also relocated to the new premises in December from Damansara Utama.
- Currently, it has 70 beds with 15 full-time doctors and over 200 support staff. Upon full operations, it would have 179 beds with 52 specialist clinics across various disciplines such as cardiology, diabetes, endocrinology, aesthetics, orthopedics, hematology, stem cell therapy, radiology and health screening. Nonetheless, its primary focus would evidently be fertility, women and children's healthcare.
- To recap, the hospital was built at a cost of MYR110 mln (inclusive of land, construction and equipment), funded via a combination of internally generated funds, a rights issue and borrowings.
- According to management, TMC boasts a fully-computerized information system with electronic medical records and latest state-of-the-art diagnostic equipment, which gives it an edge over its competitors in the market.
- In order to reach critical mass and establish its reputation, we understand the services at TMC are priced competitively and are comparable to other hospitals in the Klang Valley.

## Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	0.9	1.3
PER (x)	45.1	29.9
Dividend/Share (sen)	0.3	0.3
NTA/Share (MYR)	0.17	0.18
Book Value/Share (MYR)	0.19	0.20
No. of Outstanding Shares (mln)	601.8	
52-week Share Price Range (MYR)	0.33 - 0.73	
Major Shareholders:	%	
Berjaya Group	30.6	
Dato' Dr. Colin Lee	24.0	
Skim Amanah Saham Bumiputera	5.2	

## Recommendation & Investment Risks

- We maintain our Strong Sell recommendation on TMC with an unchanged 12-month target price of 15 sen.
- We derive our target price by ascribing a target PER multiple of 15x (unchanged) to our 2009 earnings estimate. 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.
- While the TMC, with its wide range of services and latest equipment, is impressive, the hospital's fixed overheads will be a drag on the group's earnings over the next 12 months at the minimum, given the longer gestation period under the present economic downturn. Longer term prospects for the group remain positive with TMC set to be the anchor earnings contributor, providing a wider base of income streams. However, valuations looks stretched with TMCL currently trading at 2009 and 2010 PER of 30x and 21.8x, respectively, in our opinion.
- Risks to our recommendation and target price include better-than-expected performance by TMC, and continued increase in fertility treatment spending despite the current economic slowdown.

## Earnings Outlook

- We leave our current 2009 projections unchanged, which include the new revenue stream from TMC, moderated by the initial start-up costs and fixed overheads.

## Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	0.11	0.15	0.19	0.20
Cash Flow (sen)	2.2	2.1	1.3	1.9
Reported Earnings (sen)	2.0	1.8	0.9	1.3
Dividend (sen)	0.4	0.3	0.3	0.3
Payout Ratio (%)	13.4	14.9	46.7	23.0
PER (x)	19.8	21.4	45.1	29.9
P/Cash Flow (x)	17.7	18.6	31.0	20.1
P/Book Value (x)	3.7	2.7	2.1	1.9
Dividend Yield (%)	0.9	0.7	0.8	0.8
ROE (%)	20.4	15.0	4.1	6.7
Net Gearing (%)	0.0	0.0	7.8	0.0

Note: Figures adjusted for rights & bonus issue.

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**Profit & Loss**

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	31.3	38.9	66.3	86.6
Reported Operating Profit	13.0	4.8	11.0	15.2
Depreciation & Amortization	-1.4	-1.8	-3.8	-5.6
Net Interest Income / (Expense)	0.0	-0.5	-2.1	-2.8
Reported Pre-tax Profit	13.0	4.4	9.2	12.7
Effective Tax Rate (%)	28.8	15.2	15.0	15.0
Reported Net Profit	9.3	3.9	7.9	10.8
Reported Operating Margin (%)	41.5	12.3	16.6	17.5
Reported Pre-tax Margin (%)	41.5	11.3	14.0	14.7
Reported Net Margin (%)	29.8	10.0	11.9	12.5

Source: Company data, S&amp;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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**Recommendation and Target Price History**

Date	Recommendation	Target Price
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

