

Recommendation: **HOLD**

Stock Code: 0101

Bloomberg: TMCL MK

Price: MYR0.40

12-Month Target Price: MYR0.42

Date: October 21, 2009

Board: ACE

Sector: Trading/Services

GICS: Health Care/Health Care Services

Market Value - Total: MYR240.7 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. The group also operates a multi-disciplinary hospital, the Tropicana Medical Centre, in Kota Damansara, Selangor.

Analyst: Alexander Chia, ACA



Recent Developments

- TMCL's flagship hospital, Tropicana Medical Centre (TMC), was officially launched by the Sultan of Selangor recently, after having been in operation since December 2008.
- TMC currently operates approximately 60 beds, up from 30 beds in 1H09. Management plans to gradually increase the number of beds to 180 beds by mid-2010, after including the 60 daycare beds.
- There have been several positive developments at the hospital. Firstly, it reached EBIT breakeven in 2Q09, and secondly, management has reported healthy growth in three key operational metrics – the average revenue per patient day, average revenue per admission and average revenue per outpatient visit.
- Following the official opening, we expect more activities such as health talks, public forums and campaigns to be held to raise the public profile of the hospital that should augur well for TMCL's earnings prospects.
- Meanwhile, the fertility treatment business too, experienced a 30% YoY increase in patient visits in 1H09, mostly due to contribution from the branch in Penang, which was acquired in September 2008.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	0.7	-1.3
PER (x)	58.0	NM
Dividend/Share (sen)	0.3	0.0
NTA/Share (MYR)	0.16	0.16
Book Value/Share (MYR)	0.19	0.18
No. of Outstanding Shares (mln)	601.8	
52-week Share Price Range (MYR)	0.33 - 0.52	
Major Shareholders:	%	
Berjaya Group	31.5	
Dato' Dr. Colin Lee	24.0	
Skim Amanah Saham Bumiputera	5.2	

Recommendation & Investment Risks

- We upgrade our recommendation on TMCL to Hold (from Strong Sell) with a higher 12-month target price of 42 sen (from 27 sen).
- We derive our target price by ascribing a target PER of 25x (from 15x) to 2010 earnings. The target PER is benchmarked against peers such as Parkway Holdings (PWAY SP, SGD2.36, Not Ranked) and Raffles Medical Group (RFMD SP, SGD1.41, Not Ranked). The higher target PER is justified, in our opinion, given: (i) the TMC's operations have stabilized and patient visits are rising, and (ii) our expectation of TMCL's earnings growth in excess of 25% pa over the next few years.
- With the encouraging developments at TMC, we believe the group is on track to return to profitability in 2010 after several loss-making quarters. Nevertheless, despite the brighter outlook, we believe TMCL is close to being fully-valued at this juncture considering that it is already trading at a prospective 2010 PER of 23.5x that places it at the higher-end of its peers' PER average of between 20x-25x.
- Risks to our recommendation and target price include slower-than-expected growth in TMC's revenue and curtailment on fertility treatment spending.

Earnings Outlook

- We expect 3Q09 results to remain in negative territory, but overall 2H09 results should show higher revenue and narrower loss than 1H09. We maintain our existing estimates of a MYR7.6 mln net loss in 2009 and a net profit of MYR10.0 mln in 2010.

Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	0.11	0.15	0.19	0.18
Cash Flow (sen)	2.0	2.0	1.0	-1.3
Reported Earnings (sen)	2.0	2.0	0.7	-1.3
Dividend (sen)	0.4	0.3	0.3	0.0
Payout Ratio (%)	13.4	15.2	50.5	0.0
PER (x)	20.3	20.5	58.0	NM
P/Cash Flow (x)	20.3	19.7	39.6	NM
P/Book Value (x)	3.8	2.7	2.1	2.3
Dividend Yield (%)	0.9	0.7	0.8	0.0
ROE (%)	20.4	14.7	3.8	-6.9
Net Gearing (%)	0.0	0.0	7.6	39.6

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	38.8	54.1	86.6
Reported Operating Profit	13.0	4.6	-7.0	14.1
Depreciation & Amortization	-1.7	-1.7	-7.6	-7.3
Net Interest Income / (Expense)	0.0	-0.5	-1.9	-2.4
Reported Pre-tax Profit	13.0	4.0	-8.9	11.7
Effective Tax Rate (%)	28.8	16.7	NM	15.0
Reported Net Profit	9.2	3.6	-7.6	10.0
Reported Operating Margin (%)	41.5	11.8	-13.0	16.3
Reported Pre-tax Margin (%)	41.5	10.4	-16.4	13.6
Reported Net Margin (%)	29.3	9.2	-14.0	11.5

Source: Company data, S&P Equity Research

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Glossary

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
New	Hold	0.42
1-Jun-09	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

