

# TMC Life Sciences

Recommendation: **SELL**

Stock Code: **0101**

Bloomberg: **TMCL MK**

Price: **MYR2.00**

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

Date: **June 2, 2008**

**Board:** Mesdaq

**Sector:** Trading/Services

**GICS:** Health Care/Health Care Services

**Market Value - Total:** MYR370.3 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



## Results Review & Earnings Outlook

- TMCL's 1Q08 net profit of MYR2 mln was within our expectations, accounting for 23% of our 2008 forecast of MYR8.8 mln.
- 1Q08 revenue improved 17% YoY to MYR8.2 mln due to growth in sales at the group's five fertility branches nationwide. However, 1Q08 net profit deteriorated by 19% YoY to MYR2 mln from MYR2.5 mln a year earlier, mainly affected by higher operating expenses arising from increase in workforce in preparation for its upcoming hospital operations, as well as higher marketing expenditure for its healthcare wellness programs.
- EBITDA margin has fallen to circa 30%-level, down from the historical 50%. The decline is understandable as the group prepares itself to grow to the next level by operating a full-fledged hospital, Tropicana Medical Centre (TMC), instead of just fertility treatment services.
- We maintain our current 2008 and 2009 net profit estimate of MYR8.8 mln (-6% YoY) and MYR14.6 mln (+66% YoY) respectively. 2008 earnings will be subdued due to the higher staff cost and initial set-up expenditures for TMC, which is slated for business commencement in end-2Q08 or early-3Q08. The marked earnings improvement expected in 2009 is largely attributed to a full year's contribution from TMC that will have over 50 doctors and 180 beds.

## Recommendation & Investment Risks

- We downgrade our recommendation to Sell from Hold with a 12-month target price of MYR1.60 (unchanged). With the stock currently trading at 2008 and 2009 PER of 42x and 25x respectively, we believe the share price has run ahead of fundamentals.
- Our target price is derived from ascribing a target PER 20x (unchanged) against our 2009 EPS estimate of 8 sen. We have used the lower end of its historical trading PER range of between 20x and 33x at this juncture to account for the potential delays in the opening of TMC and the expected gestation period for activities to pick up at TMC post-commencement of business.
- We still like the group's leading position in fertility treatment services, proven treatment track record, high profit margins, hands-on management and clear growth strategy. Nonetheless, we believe all the good news has already been factored in the current price and valuation appears to be rich given the current market scenario and uncertain domestic political climate.
- TMCL had on May 5, 2008 proposed a 1-for-1 renounceable rights issue, a bonus issue comprising 5 bonus shares for every 4 rights shares subscribed and transfer of listing to the Main Board. On May 27, 2008, it submitted its application for these proposals to the Securities Commission.
- Risks to our recommendation and target price include higher-than-expected earnings contribution from TMC and the group's other existing businesses.

### Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	5.0	4.7
PER (x)	39.8	42.3
Dividend/Share (sen)	0.8	0.8
NTA/Share (MYR)	0.35	0.45
Book Value/Share (MYR)	0.41	0.45
No. of Outstanding Shares (mln)	185.2	
52-week Share Price Range (MYR)	1.03 - 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	0.45
Cash Flow (sen)	5.0	6.0	5.8	6.7
Reported Earnings (sen)	4.6	5.3	5.0	4.7
Dividend (sen)	1.0	1.0	0.8	0.8
Payout Ratio (%)	15.5	13.8	14.9	15.9
PER (x)	43.2	37.7	39.8	42.3
P/Cash Flow (x)	40.3	33.6	34.5	29.8
P/Book Value (x)	8.2	6.9	4.9	4.5
Dividend Yield (%)	0.5	0.5	0.4	0.4
ROE (%)	NA	19.9	15.0	11.1
Net Gearing (%)	0.0	0.0	0.0	3.1

Note: FY05 numbers are on proforma basis

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FY Dec. / MYR mln	1Q08	1Q07	% Change
Reported Revenue	8.2	7.0	17.4
Reported Operating Profit	2.9	3.7	-21.4
Depreciation & Amortization	-0.4	-0.4	-9.5
Net Interest Income / (Expense)	0.0	0.1	-79.3
Reported Pre-tax Profit	2.6	3.4	-24.2
Reported Net Profit	2.0	2.5	-19.5
Reported Operating Margin (%)	35.8	53.5	-
Reported Pre-tax Margin (%)	31.3	48.5	-
Reported Net Margin (%)	24.7	36.0	-

Source: Company data

**Profit & Loss**

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	24.9	31.4	49.8	88.9
Reported Operating Profit	12.6	12.9	12.0	21.3
Depreciation & Amortization	-1.1	-1.4	-3.7	-9.7
Net Interest Income / (Expense)	0.0	0.0	-0.7	-2.4
Reported Pre-tax Profit	12.6	13.2	11.5	19.2
Effective Tax Rate (%)	29.1	29.9	24.0	24.0
Reported Net Profit	8.9	9.3	8.8	14.6
Reported Operating Margin (%)	50.6	41.0	24.1	23.9
Reported Pre-tax Margin (%)	50.6	41.9	23.2	21.5
Reported Net Margin (%)	35.9	29.6	17.6	16.4

Source: Company data, S&amp;P Equity Research

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**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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**Required Disclosures**

**Recommendation and Target Price History**

Date	Recommendation	Target Price
New	Sell	1.60
31-Mar-08	Hold	1.60

