

TMC Life Sciences

Recommendation: **HOLD**

Stock Code: 0101

Bloomberg: TMCL MK

Price: MYR1.57

12-Month Target Price: MYR1.60

Date: September 2, 2008

Board: Mesdaq

Sector: Trading/Services

GICS: Health Care/Health Care Services

Market Value - Total: MYR290.7 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



Results Review & Earnings Outlook

- TMCL reported another slow quarter, with 2Q08 net profit falling 53% YoY to MYR1.2 mln. 1H08 net profit of MYR3.2 mln was below our expectations, accounting for only 36% of our previous forecast of MYR8.8 mln.
- Increased revenue from TMCL's five fertility treatment centers and stem cell storage business had pushed 1H08 turnover 13% higher YoY to MYR16.7 mln. However, higher opex from (i) workforce expansion in preparation for the opening of the Tropicana Medical Center (TMC), and (ii) increased marketing expenditure for the stem cell storage business as well as the prepaid healthcare wellness programs continued to drag earnings down. 1H08 net profit declined 37% YoY to MYR3.2 mln. As a result, 1H08 net margin fell to 19.4% against 34.7% in 1H07.
- Recall that the collections from the healthcare wellness programs (currently amounts to MYR2.7 mln) are capitalized in the balance sheet as services are only available upon the commencement of business at TMC. The associated marketing expenses are however, charged out in the income statement.
- Given the lower-than-expected performance, we reduce our 2008 revenue and net profit projections by 22% and 21% to MYR38.6 mln and MYR6.9 mln respectively. We are however, leaving our 2009 forecast unchanged for now as we expect TMC to boost earnings significantly in 2009.

Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	5.0	3.7
PER (x)	31.2	42.0
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	

Recommendation & Investment Risks

- With the recent 22% fall in share price, valuation appears to be less excessive and we are upgrading our recommendation to Hold (from Sell) with an unchanged 12-month target price of MYR1.60.
- Our target price is derived from ascribing a target PER 20x (unchanged) against TMCL's 2009 earnings, which is the lower end of its historical trading PER range of between 20x and 33x to reflect the gestation period for TMC.
- TMCL is experiencing a near-term setback in earnings with 2008 being the transition year, incurring higher expenditure to prepare for long-term growth and sustainability. Furthermore, earnings are likely to be dampened by the cutback in spending under the current inflationary environment. Longer-term prospects however, remain positive with TMC positioned to be a multi-disciplinary hospital specializing in women and children's health. TMC is expected to commence operations by late 3Q08 or early 4Q08. The hospital will complement the group's other businesses in fertility treatments, stem cell storage and Obstetrics and Gynecology (O&G) services.
- 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.

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)	33.9	29.6	31.2	42.0
P/Cash Flow (x)	31.7	26.4	27.1	29.0
P/Book Value (x)	6.4	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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Quarterly Performance

FY Dec. / MYR mln	2Q08	2Q07	% Change
Reported Revenue	8.5	7.8	9.0
Reported Operating Profit	1.9	3.9	-51.1
Depreciation & Amortization	-0.6	-0.4	47.5
Net Interest Income / (Expense)	0.1	0.1	28.2
Reported Pre-tax Profit	1.4	3.5	-61.7
Reported Net Profit	1.2	2.6	-53.4
Reported Operating Margin (%)	22.5	50.2	-
Reported Pre-tax Margin (%)	16.0	45.5	-
Reported Net Margin (%)	14.3	33.4	-

Source: Company data

Profit & Loss

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	-1.8
Reported Pre-tax Profit	12.6	13.2	9.1	18.2
Effective Tax Rate (%)	29.1	29.9	24.0	20.0
Reported Net Profit	8.9	9.3	6.9	14.6
Reported Operating Margin (%)	50.6	41.0	25.5	24.6
Reported Pre-tax Margin (%)	50.6	41.9	23.6	23.1
Reported Net Margin (%)	35.9	29.6	17.9	18.5

Source: Company data, S&P Equity Research

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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	Hold	1.60
02-Jun-08	Sell	1.60
31-Mar-08	Hold	1.60

