

TMC Life Sciences

Recommendation: **STRONG SELL**

Stock Code: 0101

Bloomberg: TMCL MK

Price: MYR0.40

12-Month Target Price: MYR0.27

Date: August 31, 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's flagship multi-disciplinary hospital, Tropicana Medical Centre, commenced operations in December 2008.

Analyst: Alexander Chia, ACA



Results Review & Earnings Outlook

- TMCL's 2Q09 results were below expectations with a net loss of MYR2.1 mln, compared with a net profit of MYR1.2 mln in 2Q08. 1H09 net loss of MYR4.8 mln exceeded our previous 2009 net loss estimate of MYR200,000.
- The deviation was mainly due to our underestimation of the opex incurred at its new flagship hospital in Kota Damansara, Tropicana Medical Centre (TMC).
- Meanwhile, the 32% YoY increase in 1H09 revenue to MYR22.0 mln was attributed to additional contributions from TMC, Tropicana Medical Centre (Penang) Sdn Bhd, (formerly known as Srigim Medical Centre Sdn Bhd) - acquired in September 2008 - as well as sales from wellness programs.
- With TMC's gestation period looking to be longer than initially expected, we slash our 2009 estimate to a net loss of MYR7.6 mln. We are, however, leaving our 2010 net profit estimate of MYR10.0 mln unchanged for now, on the assumptions that the hospital will break even by then, and that the group's profit will primarily be contributed by the fertility treatment business.
- No dividend was declared during the quarter under review (2Q08: nil).

Recommendation & Investment Risks

- We maintain our Strong Sell recommendation on TMC with an unchanged 12-month target price of 27 sen.
- We continue to derive our target price by ascribing a target PER multiple of 15x (unchanged) to our 2010 earnings estimate. The PER multiple is at the lower end of its 15x-78x historical PER range to reflect the gestation period for TMC and the subdued macroeconomic outlook.
- We note that TMCL paid a dividend of 0.3 sen (adjusted for rights and bonus issue) in 2008. Given its current performance and the need to conserve cash for working capital and expansion requirements, we are not assuming a payout in 2009 and 2010.
- We believe the impressive hospital setup will serve to anchor earnings growth for the group going forward. Nonetheless, in the near term, earnings will be dragged lower by high expenditures incurred at the hospital. At this juncture, with a 2010 PER of 24x vs. the FBMKLCI's 14x 2010 PER, valuations look stretched, in our opinion.
- Risks to our recommendation and target price include faster-than-expected breakeven at TMC and continued increase in fertility treatment spending.

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 - 0.58	
Major Shareholders:	%	
Berjaya Group	31.5	
Dato' Dr. Colin Lee	24.0	
Skim Amanah Saham Bumiputera	5.2	

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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FY Dec. / MYR mln	2Q09	2Q08	% Change
Reported Revenue	11.8	8.5	39.1
Reported Operating Profit	0.3	1.9	-85.6
Depreciation & Amortization	-2.2	-0.6	>100
Net Interest Income / (Expense)	0.1	0.1	24.3
Reported Pre-tax Profit	-2.2	1.4	NM
Reported Net Profit	-2.1	1.2	NM
Reported Operating Margin (%)	2.3	22.5	-
Reported Pre-tax Margin (%)	-18.4	16.0	-
Reported Net Margin (%)	-17.7	14.3	-

Source: Company data

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

Required Disclosures

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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.

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Recommendation and Target Price History

Date	Recommendation	Target Price
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

