

## TMC Life Sciences

Recommendation: **SELL**Stock Code: **0101**Bloomberg: **TMCL MK**Price: **MYR0.42**12-Month Target Price: **MYR0.33**Date: **December 1, 2008****Board:** Mesdaq**Sector:** Trading/Services**GICS:** Health Care/Health Care Services**Market Value - Total:** MYR255.8 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 disappointing 3Q08 results with a net profit of MYR0.5 mln, resulting in 9M08 net profit of MYR3.7 mln reaching only 54% of our previous 2008 forecast.
- 3Q08 revenue was 12% higher YoY arising from improved contribution from its six fertility treatment centers nationwide. However, increase in opex, particularly in human resources in preparation for the opening of its hospital, Tropicana Medical Center (TMC), dragged earnings substantially lower by 81% YoY.
- Similarly, 9M08 net profit fell 52% YoY to MYR3.7 mln despite a 13% YoY increase in 9M08 revenue to MYR25.6 mln, owing to the higher opex.
- The group's net gearing has risen to 0.3x from 0.1x in 2Q08 as funding requirements increased, given TMC's impending commencement of operations in December 2008.
- With TMCL's 9M08 earnings considerably below our expectations, we are reducing our 2008 net profit estimate by 35% to MYR4.4 mln. We expect minimal contribution from TMC in 4Q08, while its fertility treatment business is likely to be slower given the festive holidays during the quarter. 2009 net profit projection is also cut by 6% to MYR13.4 mln after factoring higher opex and the initial gestation period of TMC.
- No dividend was declared during the quarter under review.

**Key Stock Statistics**

FY Dec.	2007	2008E
Reported EPS (sen)	1.8	1.0
PER (x)	23.3	43.2
Dividend/Share (sen)	0.3	0.0
NTA/Share (MYR)	0.13	0.15
Book Value/Share (MYR)	0.15	0.16
No. of Outstanding Shares (mln)	601.8	
52-week Share Price Range (MYR)	0.33 - 0.73	
Major Shareholders:	%	
Dr. Colin Lee	24.0	
Berjaya Group	20.6	
Skim Amanah Saham Bumiputera	5.2	

**Recommendation & Investment Risks**

- We are lowering our recommendation to Sell (from Hold) with a revised 12-month target price of 33 sen (from 58 sen).
- We continue to value TMCL using relative PER valuation, ascribing a lower target PER multiple of 15x (from 20x) to our revised 2009 earnings. The lower PER multiple is in tandem with the reduced market valuation and is at the lower end of its 15x-37x historical PER range to reflect the gestation period for TMC and the subdued macroeconomic outlook.
- Note that TMCL is currently trading on ex-all basis (1-for-1 rights issue followed by 5 bonus shares for every 4 rights shares subscribed). Consequently, the outstanding shares increased to 601.8 mln shares from 185.2 mln shares previously. We have thus adjusted our projections and target price accordingly. The group also expects to complete the transfer of its listing to the Main Board by year-end.
- While the prospect of running its own multi-disciplinary hospital is positive in the longer term, we believe the group's outlook for the next 12 months is challenging due to the gestation period for TMC and the potential cutback in spending for fertility treatments given the slowing economy. The prospective 20x 2009 PER also appears to be rich relative to the current weak equity market
- Risks to our recommendation and target price include better-than-expected performance by TMC, and continued increase in fertility treatment business despite the current economic slowdown.

**Per Share Data**

FY Dec.	2005	2006	2007	2008E
Book Value (MYR)	0.09	0.11	0.15	0.16
Cash Flow (sen)	1.8	2.2	2.1	1.7
Reported Earnings (sen)	1.7	2.0	1.8	1.0
Dividend (sen)	0.4	0.4	0.3	0.0
Payout Ratio (%)	15.5	13.4	14.9	0.0
PER (x)	25.4	21.6	23.3	43.2
P/Cash Flow (x)	23.7	19.3	20.3	25.4
P/Book Value (x)	4.8	4.0	2.9	2.6
Dividend Yield (%)	0.9	0.9	0.6	0.0
ROE (%)	19.0	20.4	15.0	5.1
Net Gearing (%)	0.0	0.0	0.0	18.1

Note: Figures adjusted for rights &amp; bonus issue.

**All required disclosures and analyst certification appear on the last two pages of this report. Additional information is available upon request.**

Redistribution or reproduction is prohibited without written permission. Copyright © 2008 The McGraw-Hill Companies, Inc.

Page 1 of 4

## TMC Life Sciences

Recommendation: **SELL**Stock Code: **0101**Bloomberg: **TMCL MK**Price: **MYR0.42**12-Month Target Price: **MYR0.33**Date: **December 1, 2008****Quarterly Performance**

FY Dec. / MYR mln	3Q08	3Q07	% Change
Reported Revenue	9.0	8.0	11.7
Reported Operating Profit	0.5	4.0	-87.1
Depreciation & Amortization	-0.1	-0.5	-86.7
Net Interest Income / (Expense)	0.0	0.0	-92.8
Reported Pre-tax Profit	0.5	3.5	-87.2
Reported Net Profit	0.5	2.6	-80.7
Reported Operating Margin (%)	5.7	49.3	-
Reported Pre-tax Margin (%)	5.0	43.9	-
Reported Net Margin (%)	5.7	32.9	-

Source: Company data

**Profit & Loss**

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	24.9	31.3	34.4	78.4
Reported Operating Profit	12.6	13.0	6.0	18.4
Depreciation & Amortization	-1.1	-1.4	-3.1	-3.8
Net Interest Income / (Expense)	0.0	0.0	-0.2	-2.2
Reported Pre-tax Profit	12.6	13.0	5.8	16.8
Effective Tax Rate (%)	27.2	28.8	24.0	20.0
Reported Net Profit	9.2	9.3	4.4	13.4
Reported Operating Margin (%)	50.6	41.5	17.4	23.4
Reported Pre-tax Margin (%)	50.6	41.5	16.9	21.4
Reported Net Margin (%)	36.8	29.8	12.8	17.1

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

**Required Disclosures**

**Standard & Poor's Equity Research Services**

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes Standard & Poor's LLC- London; Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Hong Kong and Singapore, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

**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

**Required Disclosures**

**All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.**

**Additional information is available upon request.**

**Other Disclosures**

This report has been prepared and issued by Standard & Poor's and/or one of its affiliates. In the United States, research reports are prepared by Standard & Poor's Investment Advisory Services LLC ("SPIAS"). In the United States, research reports are issued by Standard & Poor's ("S&P"); in the United Kingdom by Standard & Poor's LLC ("S&P LLC"), which is authorized and regulated by the Financial Services Authority; in Hong Kong by Standard & Poor's LLC, which is regulated by the Hong Kong Securities Futures Commission; in Singapore by Standard & Poor's LLC, which is regulated by the Monetary Authority of Singapore; in Malaysia by Standard & Poor's Malaysia Sdn Bhd ("S&PM"), which is regulated by the Securities Commission; in Australia by Standard & Poor's Information Services (Australia) Pty Ltd ("SPIS"), which is regulated by the Australian Securities & Investments Commission; and in Korea by SPIAS, which is also registered in Korea as a cross-border investment advisory company.

The research and analytical services performed by SPIAS, S&P LLC, S&PM, and SPIS are each conducted separately from any other analytical activity of Standard & Poor's.

A reference to a particular investment or security by Standard & Poor's and/or one of its affiliates is not a recommendation to buy, sell, or hold such investment or security, nor is it considered to be investment advice.

Standard & Poor's and its affiliates provide a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those

organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

**CMDF-Bursa Research Scheme ("CBRS")**

This report has been prepared by S&PM for purposes of CBRS administered by Bursa Malaysia Berhad, independent from any influence from CBRS or the subject company. S&P will receive total compensation of RM15,000 each year for each company covered by it under CBRS. For more information about CBRS, please visit Bursa Malaysia's website at: <http://www.bursamalaysia.com/website/bm/>

**Disclaimers**

This material is based upon information that we consider to be reliable, but neither S&P nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. With respect to reports issued to clients in Japan and in the case of inconsistencies between the English and Japanese version of a report, the English version prevails. Neither S&P nor its affiliates guarantee the accuracy of the translation. Assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Neither S&P nor its affiliates are responsible for any errors or omissions or for results obtained from the use of this information. Past performance is not necessarily indicative of future results.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material is not intended for any specific investor and does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

For residents of the U.K. This report is only directed at and should only be relied on by persons outside of the United Kingdom or persons who are inside the United Kingdom and who have professional experience in matters relating to investments or who are high net worth persons, as defined in Article 19(5) or Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, respectively.

For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.

**Required Disclosures**

**Recommendation and Target Price History**

Date	Recommendation	Target Price
New	Sell	0.33
02-Sep-08	Hold	0.58
02-Jun-08	Sell	0.58
31-Mar-08	Hold	0.58

