

Recommendation: **STRONG SELL**

Stock Code: 0101

Bloomberg: TMCL MK

Price: MYR0.41

12-Month Target Price: MYR0.15

Date: March 2, 2009

Board: Mesdaq

Sector: Trading/Services

GICS: Health Care/Health Care Services

Market Value - Total: MYR246.7 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 turned in a weak 4Q08 performance with net profit of MYR0.1 mln (-92% YoY). 2008 net profit of MYR3.9 mln reached 89% of our estimate of MYR4.4 mln.
- Increased contributions from the group's fertility treatment branches as well as sales of wellness programmes pushed 4Q08 revenue 53% higher YoY to MYR13.2 mln. However, net profit plummeted 92% YoY to MYR0.1 mln due to recognition of operating costs for its hospital in Kota Damansara, Tropicana Medical Centre (TMC), which only began operations in Dec. 2008.
- Similarly, 2008 revenue was up 24% YoY to MYR38.9 mln, underpinned by improved sales from its fertility treatment branches. Nonetheless, net profit reduced 59% YoY to MYR3.9 mln as higher human resources expenditures and initial start-up costs at the hospital wiped out profits from the fertility treatment business.
- TMCL will see a new revenue stream from its hospital in 2009. However, we now expect it to be lower than initially anticipated as the economic slowdown will likely affect medical tourism and visitation from local patients. Therefore, we are trimming our 2009 net profit estimate by 43% to MYR7.9 mln after factoring lower revenue from all its business streams. We also introduce our 2010 estimates, which assume some recovery in private healthcare spending by then.
- The group declared a single-tier interim dividend of 0.3 sen during the quarter under review.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	0.9	1.3
PER (x)	47.4	31.4
Dividend/Share (sen)	0.3	0.3
NTA/Share (MYR)	0.17	0.18
Book Value/Share (MYR)	0.19	0.20
No. of Outstanding Shares (mln)	601.8	
52-week Share Price Range (MYR)	0.33 - 0.73	
Major Shareholders:	%	
Berjaya Group	30.6	
Dato' Dr. Colin Lee	24.0	
Skim Amanah Saham Bumiputera	5.2	

Recommendation & Investment Risks

- We downgrade our recommendation on TMCL to Strong Sell (from Sell) with a reduced 12-month target price of 15 sen (from 33 sen) on account of lower 2009 earnings estimates.
- We derive our target price using relative PER valuation, ascribing a target PER multiple of 15x (unchanged) to our revised 2009 earnings. The PER multiple is at the lower end of its 15x-37x historical PER range to reflect the gestation period for TMC and the subdued macroeconomic outlook.
- While the long-term prospects for TMCL are positive, we expect outlook to be challenging for TMCL in the next 12 months. With the downturn in global economy, spending on private healthcare and fertility treatment is likely to shrink. Meanwhile, the initial start-up costs and fixed overheads at the hospital will continue to weigh down earnings until it reaches critical mass which could take some time under the current environment. The stock is currently trading at 2009 PER 31.4x, which in our opinion, is stretched. As such, we do not see potential upside to the share price within our investment horizon.
- Risks to our recommendation and target price include better-than-expected performance by TMC, and continued increase in fertility treatment spending despite the current economic slowdown.

Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	0.11	0.15	0.19	0.20
Cash Flow (sen)	2.2	2.1	1.3	1.9
Reported Earnings (sen)	2.0	1.8	0.9	1.3
Dividend (sen)	0.4	0.3	0.3	0.3
Payout Ratio (%)	13.4	14.9	46.7	23.0
PER (x)	20.8	22.5	47.4	31.4
P/Cash Flow (x)	18.6	19.5	32.6	21.1
P/Book Value (x)	3.9	2.8	2.2	2.0
Dividend Yield (%)	0.9	0.7	0.7	0.7
ROE (%)	20.4	15.0	4.1	6.7
Net Gearing (%)	0.0	0.0	7.8	0.0

Note: Figures adjusted for rights & bonus issue.

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Quarterly Performance

FY Dec. / MYR mln	4Q08	4Q07	% Change
Reported Revenue	13.2	8.6	53.3
Reported Operating Profit	1.2	2.7	-56.9
Depreciation & Amortization	-0.7	-0.1	>100
Net Interest Income / (Expense)	0.0	0.1	-92.8
Reported Pre-tax Profit	0.0	2.7	-98.9
Reported Net Profit	0.1	1.6	-91.9
Reported Operating Margin (%)	8.9	31.5	-
Reported Pre-tax Margin (%)	0.2	31.3	-
Reported Net Margin (%)	1.0	18.1	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	31.3	38.9	66.3	86.6
Reported Operating Profit	13.0	4.8	11.0	15.2
Depreciation & Amortization	-1.4	-1.8	-3.8	-5.6
Net Interest Income / (Expense)	0.0	-0.5	-2.1	-2.8
Reported Pre-tax Profit	13.0	4.4	9.2	12.7
Effective Tax Rate (%)	28.8	15.2	15.0	15.0
Reported Net Profit	9.3	3.9	7.9	10.8
Reported Operating Margin (%)	41.5	12.3	16.6	17.5
Reported Pre-tax Margin (%)	41.5	11.3	14.0	14.7
Reported Net Margin (%)	29.8	10.0	11.9	12.5

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

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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
New	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

