

<b>TMC Life Sciences Berhad</b>	<b>Price:</b>	RM2.00	
	<b>Market Capitalisation:</b>	RM370.3m	
	<b>Board:</b>	Mesdaq	
	<b>Sector:</b>	Trading/Services	
<b>Stock Code:</b>	0101	<b>Recommendation:</b>	BUY

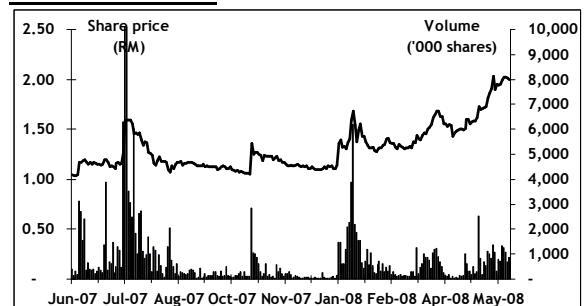
Key Stock Statistics	FY07	FY08F	FY09F
EPS (sen)	5.0	6.4	8.4
P/E on EPS (x)	39.8	31.2	23.7
Dividend/Share (sen)	0.8	0.8	0.8
NTA/Share (RM)	0.41	0.45	0.49
Book Value/Share (RM)	0.41	0.45	0.49
Issued Capital (m shares)	185.2	185.2	185.2
52-weeks Share Price Range (RM)		1.00-2.03	

Major Shareholders:	%
Dr Colin Lee Soon Soo	24.00
Berjaya Group	20.60
Skim Amanah Saham Bumiputera	5.20

Per Share Data	FY06	FY07	FY08F	FY09F
Year-end 31 Dec				
Book Value (RM)	0.29	0.41	0.45	0.49
Cash Flow (sen)	(3.2)	7.7	8.7	11.3
Earnings (sen)	5.3	5.0	6.4	8.4
Dividend (sen)	1.0	0.8	0.8	0.8
Payout Ratio (%)	13.8	10.9	8.5	6.5
PER (x)	37.7	39.8	31.2	23.7
P/Cash Flow (x)	(37.0)	14.1	12.4	9.6
P/Book Value (x)	6.9	4.9	4.4	4.0
Dividend Yield (%)	0.3	0.2	0.4	0.4
ROE (%)	18.2	12.4	14.3	17.0
Net Gearing (%)	n.c.	n.c.	12.1	25.5

P&L Analysis (RMm) FY06	FY07	FY08F	FY09F	
Year-end 31 Dec				
Revenue	25.1	31.4	56.6	92.3
Operating Profit	12.6	13.2	17.4	23.8
Depreciation	1.1	1.8	3.8	3.8
Net Interest	0.5	0.3	(0.3)	(0.8)
Pre-tax profit	12.6	13.2	17.4	23.8
Effective Tax Rate (%)	29.1	29.9	29.9	29.9
Net Profit	8.9	9.3	11.9	15.6
Operating Margin (%)	50.1	41.9	30.7	25.8
Pre-tax margin (%)	50.1	41.9	30.7	25.8
Net margin (%)	35.6	29.6	21.0	16.9

### Share Price Chart



### 1. 1QFY08 Results Highlights:

Year-ended 31 Dec	1Q08 RMm	1Q07 RMm	Chg %
Revenue	8.2	7.0	17.4
Operating Profit	2.9	3.7	(21.4)
Finance costs	(0.0)	(0.0)	5.6
Pre-tax Profit	2.6	3.4	(24.2)
Net Profit	2.0	2.5	(19.6)
Operating Margin (%)	35.8	53.5	
Pre-tax Margin (%)	31.3	48.5	
Net-Margin (%)	24.7	36.0	

- TMC Life (TMC)'s 1Q08 results appear below expectations on an annualised basis, as we are projecting initial contributions from three new operating divisions in 2H08 – wellness, stem cells banking and hospital services.
- At the core fertility division, revenue in 1Q08 grew by 17.4% yoy to RM8.2m, reflecting growing businesses at the group's five fertility treatment branches around the country.
- Profits were however down yoy, due to higher operating expenses for the expansion in human resources and increased marketing costs.
- We have trimmed our forecasts to factor in higher operating expenses. The stock is trading near its 12-month high although we believe share price performance should continue to be well supported by positive news flow and possibly further share accumulation by Berjaya Group.
- We maintain our **BUY** recommendation on TMC with a price target of RM2.30/share, based on a price-earnings-to-growth ratio (PEGR) of 1.2x.

## **2. Earnings Outlook:**

- Based on our estimates, 2008 revenue and net profits are expected to post an 80% and 28% year-on-year growth respectively, with first-time contributions from new businesses in hospital services, stem cells storage and wellness programmes. The relatively smaller projected growth rate in earnings relative to revenue is due to higher operating costs, start-up expenses and lower projected margins at the three new businesses relative to the more lucrative fertility treatment operations.
- The outlook for fertility-related services in South East Asia remains bright as social trends such as an increasingly career-focused outlook and delayed marriages increase the inherent biological factors that cause infertility.
- Medical tourism is also increasing in the region due to rising healthcare costs and long waiting periods in developed countries. Beneficiaries of this trend include hospitals in Singapore (Parkway Holdings, Raffles Medical) and Thailand (Bumrungrad Hospital). Locally, players such as KPJ Healthcare Bhd, Pantai Holdings Bhd and Gleneagles have also taken efforts to attract foreign patients due to the higher average spend per patient on account of their more comprehensive treatment courses.
- Medical tourism has been growing by 20-30% per annum, far exceeding the 4-6% growth in general travel bookings recorded in 2006. Abacus International estimates that the medical tourism industry was worth approximately US\$500m in 2006 and is projected to be worth at least US\$4.4bn by 2012.
- In addition to the positive industry outlook, TMC group's growth prospects should also be supported by the addition of three new business operations:
  - The expected opening of Tropicana Medical Centre in 2H08.
  - The new stem cell processing and banking, clinical applications and related R&D business commenced operations in late 2007. Progress to date has been encouraging and the group's management is confident of its prospects.
  - TMC has also entered into a contract with Tropicana Wellness Sdn Bhd (formerly known as GE Wellness Sdn Bhd) to promote subscription-based healthcare programs. TMC is confident that the tie-up with Tropicana Wellness would lead to greater awareness of TMC's services and in turn result in a positive impact on the group's profitability.

## **3. Recommendation**

- We have trimmed our forecasts to factor in higher operating expenses. The stock is currently trading near its 12-month high of RM2.03/share. We believe share price performance should continue to be well supported by positive news flow and possibly further share accumulation by Berjaya Group.
- We maintain our **BUY** recommendation on TMC with a price target of RM2.30/share, based on a price-earnings-to-growth ratio (PEGR) of 1.2x.

---

Investment ratings:

Buy (generally >10% upside over the next 12 months)

Hold (generally negative 10% downside to positive 10% upside over the next 12 months)

Sell (generally >10% downside over the next 12 months)

Netresearch-Asia Sdn Bhd is a participant of the CMDF-Bursa Research Scheme and receives a compensation for each stock covered under the Scheme. The information and opinion in this document has been obtained from various sources believed to be reliable. This publication is for information purpose only, and must not be relied upon as authoritative or taken in substitution for the exercise of judgment. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. Opinions expressed in this publication are subject to change without notice and any recommendation herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. No representation, express or implied, is made with respect to the accuracy, completeness or reliability of the information or opinions in this publication. Accordingly, neither we nor any of our affiliates nor persons related to us accept any liability whatsoever for any direct, indirect or consequential losses (including loss and profit) or damages that may arise from the use of information or opinions in this publication.

Netresearch-Asia Sdn Bhd and its related companies, their associates, directors, connected parties and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may materially be interested in any such securities. Netresearch-Asia Sdn Bhd and its related companies may from time to time perform advisory, investment, communications or other services for, or solicit such advisory, investment, communications or other services from any entity mentioned in this report. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.