



TMC Life Sciences Bhd

“A new dawn on new wing”

Bloomberg: TMCL MK | Reuters: TMCN.KL | Stock Code: 0101

Main Board

Healthcare

Buy

TP : RM0.71

Price: RM0.59

Valuation / Recommendation

TMC is valued at RM0.71 with CY23 EBITDA of RM92m, based on the industry's CY23 EV/EBITDA of 13.4x. TMC's valuation is considered fair as the recent acquisitions of Columbia Asia hospitals by Hong Leong Group and Fortis by IHH Group were at 24x EV/EBITDA with an acquisition price of more than RM3 million/bed. TMC is currently trading at a FY24 P/E of 23.2x and an acquisition price of RM2.7/bed on the back of strong FY23 EBITDA growth of 53.9% from its 100-plus extended beds from the new wing of its sole Thomson Hospital at Kota Damansara. Hence, we initiate a Buy call on TMC.

Investment Highlights

Earnings should expand on strong revenue growth and improved margins.

In the latest 2QFY23 results, TMC managed to post a 24% yoy growth in revenue, driven by increased bed capacity from 305 to an estimated 405 and the recovery of the fertility business. The additional capacity has resulted in high depreciation and amortisation charges. Together with the high tax charges, the net profit plummeted 21% yoy to RM5.5m from RM6.9 m which triggered a sell-down. Nonetheless, we believe the added capacity will bring revenue and margin expansion in 2HFY23 once economies of scale take hold. TMC also planned to build a 500-bed hospital in Johor Bahru, which would open in 2026.

Undervalued stock with takeover potential. TMC is the smallest compared to its listed peers, IHH and KPJ; however, its sole hospital, Thomson Hospital, has created a market niche in a strategic location, specialising in the highly lucrative fertility business. The timely staggered expansion of 100 beds from FY22 onward will bring its revenue and earnings staggering upward. In a nutshell, we like TMC for (i) its participation in a defensive yet niche sector, which provides TMC with competitive pricing power; (ii) the added beds just in time for the medical tourism industry's recovery; (iii) margin expansion expected on better economies of scale; (iv) the low valuation with the current sell-down; and (v) a potential takeover target with its low acquisition price of RM2.7m/ bed.

Risk factors. Key risks include (i) a slower-than-expected recovery in economic growth and medical tourism (ii) higher-than-expected interest rates and inflation rates. (iii) eroding pricing power with new and more sophisticated hospitals being established in the nearby area (the newly established 300-bed KPJ Damansara Specialist 2 PJ is just 12 minutes away).

INVESTMENT STATISTICS - Jun	FY21	FY22	FY22F	FY23F	FY24F
Revenue (RM m)	201	244	322	404	488
EBITDA (RM m)	39	48	74	100	125
EBITDA Margin (%)	19.4%	19.8%	23.1%	24.8%	25.5%
Net profit (RM m)	20	41	27	44	63
EPS (sen)	1.2	2.4	1.6	2.5	3.6
EPS growth (%)	n.m	104.0	-33.7	61.0	41.9
DPS (sen)	0.2	0.3	0.3	0.5	0.5
Dividend Yield (%)	0.4%	0.5%	0.5%	0.8%	0.8%
BVPS (sen)	45.3	47.5	49.4	52.4	56.5
P/E (X)	50.6	24.8	37.4	23.2	16.4
P/BV (X)	1.30	1.24	1.19	1.13	1.04
Net gearing (%)	-4.4%	-8.4%	-7.4%	-6.5%	-4.5%
ROE (%)	2.6%	5.0%	3.2%	4.8%	6.4%
ROA (%)	1.9%	3.7%	2.4%	3.6%	4.9%

Sources: Mercury Securities, Company

Business Overview

TMC is an investment holdings company that operates in the healthcare sector. The subsidiary includes IVF Technologies Sdn Bhd, providing fertility and women clinic services. The other subsidiary is TMC Biotech Sdn Bhd, providing fertility consultancy, laboratory and embryology services.

Stock Return Information

FBM KLCI (pts)	1475.17
Expected Share Return (%)	22.0%
Expected Dividend Yield (%)	0.8%
Expected Total Return (%)	22.9%

Share Information

Market Cap (RM m)	1,028
Issued Shares (m)	1,742
52W High (RM)	0.67
52W Low (RM)	0.475
Estimated Free Float (%)	8.2
Beta vs FBM KLCI	0.6
3-month Average Vol. (m)	0.8

Top 3 Shareholders (%)

UOB Kay Hian	70.1
DYAM Tunku Ismail Ibni Sultan Ibrahim	7.6
HSBC – Credit Suisse	4.8

Price Performance

	1M	3M	12M
Absolute (%)	-8.5	-4.1	-3.3
Relative to Index (%)	-0.6	0.8	-5.2



Source: Bloomberg

Soh Meng Hui

mhs@mersec.com.my



Earnings Forecast (RM m) Jun	FY21	FY22	FY23F	FY24F	FY25F
Hospital & ancillary services	177.0	215.0	287.6	363.6	456.0
Clinic services	16.7	19.1	22.0	26.0	17.0
Others	7.3	9.8	12.0	14.0	15.0
Revenue	201.0	243.8	321.6	403.6	488.0
Inventories and consumables	(66.8)	(75.8)	(92.0)	(114.0)	(143.0)
Gross Profit	134.3	168.0	229.6	289.6	345.0
Staff costs	(64.8)	(80.1)	(103.0)	(125.0)	(145.0)
Other operating expenses	(31.6)	(42.0)	(55.0)	(67.0)	(78.0)
Adjusted EBITDA margin	37.9	45.9	71.6	97.6	122.0
Other Income	1.1	2.3	2.6	2.6	2.6
EBITDA	39.0	48.2	74.2	100.2	124.6
Depreciation & Amortisation	(13.0)	(15.9)	(29.0)	(33.0)	(34.0)
EBIT	26.0	32.3	45.2	67.2	90.6
Interest income	2.2	2.0	1.0	1.0	2.0
interest expenses	(0.4)	(2.1)	(10.0)	(10.0)	(10.0)
Pre-tax profit	27.7	32.2	36.2	58.2	82.6
Taxation	(7.4)	9.2	(8.7)	(14.0)	(19.8)
Net Profit	20.3	41.4	27.5	44.2	62.8
Net Profit after MI	20.3	41.4	27.5	44.2	62.8
Enlarged Shares (m)	1,742	1,742	1,742	1,742	1,742
EPS (sen)	1.2	2.4	1.6	2.5	3.6
DPS (sen)	0.2	0.3	0.3	0.5	0.5
BVPS (sen)	45.3	47.5	49.4	52.4	56.5

Source: Mercury Securities, Company

Peers Comparison

Company	Price (RM)	Market Cap. (RM m) (23/8)	EPS	EPS	P/E	P/E	P/E	P/BV	P/BV	DY	DY	ROE	ROE
			Growth %	Growth %	(x)	(x)	(x)	(x)	(x)	(%)	(%)	(%)	(%)
			FY22-23	FY23-24	FY22	FY23	FY24	FY22	FY23	FY22	FY23	FY22	FY23
IHH	5.95	52,396	19.0	-1.0	34.2	28.7	29.0	2.2	2.1	1.0	1.0	6.5	7.4
KPJ	0.985	4,278	8.8	8.1	29.0	26.6	24.6	2.0	2.0	1.5	1.7	6.3	6.6
TMC Life	0.59	1,028	-33.7	61.0	24.8	37.4	23.2	1.2	1.1	0.5	0.5	5.0	3.2
Weighted Average			16.8	0.6	33.5	28.7	28.5	2.3	2.2	1.0	1.1	6.5	7.2

Company	EV	EBITDA	EBITDA	EV/EBITDA	EV/EBITDA
	(RM m)	(RM m)	(RM m)	(X)	(x)
		CY22	CY23	CY22	CY23
IHH	59,784	4,051	4,200	14.8	14.2
KPJ	5,744	635	680	9.0	8.4
TMC Life	1,092	60	92	18.1	11.9
Weighted Average	Average	4,746	4,972	14.0	13.4

Company	Total Beds	Valuation	Value / Bed
		(RM m)	(RM m)
IHH	15,000	59,784	3.99
KPJ	3,626	5,744	1.58
TMC Life	405	1,092	2.70
Sunway	1,056	4,688	4.44
Columbia Asia	1,494	5,280	3.53
Simple Average			3.25

Sources: Mercury Securities, Company, Newspaper cutting and Bloomberg

*Valuation/Bed is based on the recent acquisition of the hospital assets

**GIC Pte Ltd acquired 16% stake in Sunway Healthcare Holdings for RM750m

***Hong Leng Group acquired Columbia Asia Hospitals for US\$1.2 bn

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Registration No. 198401000672 (**113193-W**)

L-7-2, No 2, Jalan Solaris, Solaris Mont' Kiara, 50480 Kuala Lumpur

Telephone: (603) - 6203 7227 Website: www.mercurysecurities.com.my

Email: mercurykl@mersec.com.my