

**GICS:** Health Care/Health Care Facilities

**Business Summary:** Incorporated in 1977, and listed on the SGX-SESDAQ board in 2005, Thomson Medical Centre (TMC) is a leading provider of private healthcare services for women and children in Singapore.

**Country of Incorporation:** Singapore

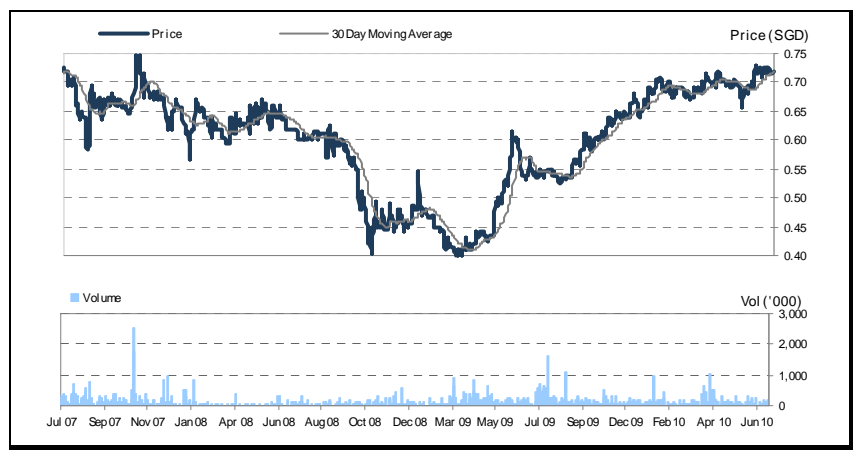
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**Place of Operations:** Singapore

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**Results Review**

- TMC reported a net profit of SGD4.8 mln for 3QFY10 (Aug.) (+38.7% YoY). Cumulative 9MFY10 results were ahead of our expectations, making up about 84% of our original full-year net profit forecast. The stronger performance was due to better-than-expected revenue and higher gross margin of 43.2% (vs. FY10E:42.8 %). As expected, no interim dividend was declared for the quarter (FY10 YTD:1.2 cents).
- 9MFY10 group revenue rose 20.4% YoY to SGD59.5 mln on the back of stronger revenue from its: (i) hospital operations and ancillary services (+11.3% YoY to SGD42.7 mln) and (ii) specialized and other services (+52.2% YoY to SGD16.8 mln). The growth in hospital operations and ancillary services was driven by higher inpatient admissions and deliveries, as well as demand for outpatient services. TMC recorded a higher number of deliveries of 6,976 babies in 9MFY10, a 5.3% increase over 9MFY09. For its specialized services, the growth was due to higher patient load in its network of Thomson Women's Clinics and positive contribution from both Thomson Women Cancer Centre (TWCC) and Thomson Paediatric Centre (TPC).
- Despite higher operating expenses from increased headcount and higher depreciation charge for newly renovated wards, EBIT margin improved to 24.6% (+1.2%-pts YoY) in 9MFY10 due to prudent cost management. Meanwhile, the group reported a lower effective tax rate of 17.6% in 9MFY10 (-1.3 %-pts YoY). The above altogether resulted in an increase in 9MFY10 net profit by 26.3% to SGD11.9 mln.

**Earnings Outlook / Estimates Revision**

- After some fine-tuning, we have increased both our FY10 and FY11 forecasts by 9% to incorporate higher revenue contribution particularly from its specialized services and improvement in its gross margin of 43.2% (vs. 42.8% previously).
- TMC will continue to explore opportunities to develop new growth drivers to augment its present business. These include increasing its network of clinics, attracting more specialists as tenants in its hospital, expanding its facilities to meet evolving patient demands and continuing to seek out regional ventures. Two senior O&G tenant specialists commenced operations in May 2010 which will further add to the utilization of the hospital's existing facilities. The group's newly established TWCC and TPC should also bolster growth.
- Meanwhile, the group's potential source of income from its management consultancy project in Hanh Phuc Hospital, Vietnam is targeting its soft opening in October 2010. The outlook looks positive with the potential recovery in global economy and the government's drive to position the city-state as a medical hub.

**Investment Risks**

- Investment risks include dependence on patient referrals from its tenant specialists, dependence on the local market and declining national birth rate, stiff competition leading to pricing and margin pressure, possible hike in rental leases for the Thomson Women's Clinics and overseas execution risk in Vietnam.

**Key Stock Statistics**

52-week Share Price Range (SGD)	0.53 - 0.73
Avg Vol - 12 months ('000 shares)	158.6
Price Performance (%)	
- 1 month	2.1
- 3 month	2.1
- 12 month	34.6
No. of Outstanding Shares (mln)	292.1
Free Float (%)	36.8
Market Cap (SGD mln)	210.3
Enterprise Value (SGD mln)	187.5
Major Shareholders (%)	
T Holdings Pte Ltd	20.0
Harilela (S) Pte Ltd	16.9
Wei Chen Cheng, Dr	16.2

**Per Share Data**

FY Aug.	2008	2009	2010E	2011E
Book Value (SG cents)	37.47	38.12	39.61	42.74
Cash Flow (SG cents)	4.8	5.5	6.5	7.2
Reported Earnings (SG cents)	3.8	4.4	5.3	5.9
Dividend (SG cents)	2.5	2.8	3.0	3.1
Payout Ratio (%)	65.2	63.9	56.9	52.2
PER (x)	18.8	16.4	13.6	12.1
P/Cash Flow (x)	14.9	13.0	11.1	10.0
P/Book Value (x)	1.9	1.9	1.8	1.7
Dividend Yield (%)	3.5	3.9	4.2	4.3
ROE (%)	11.1	11.6	13.6	14.4
Net Gearing (%)	0.0	0.0	0.0	0.0

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**Earnings Performance**

FY Aug. / SGD mln	3Q10	3Q09	% Change
Reported Revenue	21.8	17.4	25.4
Reported Operating Profit	5.9	4.2	38.9
Depreciation & Amortization	-0.9	-0.9	9.6
Net Interest Income / (Expense)	0.1	0.0	NM
Reported Pre-tax Profit	5.9	4.2	40.8
Reported Net Profit	4.8	3.5	38.7
Reported Operating Margin (%)	26.9	24.3	-
Reported Pre-tax Margin (%)	27.1	24.1	-
Reported Net Margin (%)	22.0	19.9	-

Source: Company data

**Profit & Loss**

FY Aug. / SGD mln	2008	2009	2010E	2011E
Reported Revenue	60.3	67.4	78.8	87.7
Reported Operating Profit	13.9	15.8	18.9	21.3
Depreciation & Amortization	-2.9	-3.4	-3.6	-3.8
Net Interest Income / (Expense)	-0.2	-0.1	0.1	0.1
Reported Pre-tax Profit	13.8	15.7	19.0	21.4
Effective Tax Rate (%)	18.9	18.9	19.0	19.0
Reported Net Profit	11.2	12.8	15.4	17.3
Reported Operating Margin (%)	23.1	23.4	24.0	24.3
Reported Pre-tax Margin (%)	22.8	23.3	24.1	24.4
Reported Net Margin (%)	18.6	19.0	19.6	19.8

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

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