

New Listing

4 October 2010

Malaysian Genomics Resource Centre

Issue Price : RM1.08
Fair Value : RM1.22

Public Issue Of 17.1m New Shares And Offer For Sale Of 2.0m Shares

Table 1: Investment Statistics								Bloomberg Ticker: MGRC MK		
FYE	Turnover	Net Profit	EPS	EPS Growth	PER	P/NTA	P/CF	ROE	Net Gearing	NDY
Jun	(RMm)	(RMm)	(sen)	(%)	(x)	(x)	(x)	(%)	(x)	(%)
2010 [^]	15.8	9.3	9.9	(22.4)	10.9	11.6	11.7	63.2	net cash	8.7
2011f	18.1	11.6	12.3	24.4	8.8	4.2	9.2	38.0	net cash	1.0
2012f	23.0	15.4	16.3	32.5	6.6	3.6	6.9	44.7	net cash	1.3
2013f	24.9	16.9	18.0	10.1	6.0	3.1	6.2	42.7	net cash	1.5

Valuations based on estimated fair value of RM1.22/share
[^]Based on 13 months

Issued capital (m shares)	94.7 (RM0.10 par)	Market capitalisation (RMm)	115.5
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◆ **Malaysia's sole provider of commercial bioinformatics service.** Malaysian Genomics Research Center (MRGC) was incorporated in May 2004 to provide online bioinformatics application services and in-depth bioinformatics computational analysis for life science research. Successful projects include analysing genomes for the Brigham and Women's Hospital (an affiliate of Harvard Medical School) and the Australian Genome Research Facility Ltd.

◆ **Future plans.** The future plans for MGRC are as follows:

- 1) **In-house sequencing.** MGRC plans to expand its contract services by purchasing sequencing machines to allow on-site sequencing capabilities. This allows MGRC to develop and sequence proprietary databanks on genomes in high-priority areas that will be more cost effective.
- 2) **Developing Propriety Genome Databanks.** The company intends to develop propriety databanks of genomic data which gives researchers easier access to conduct genomic research. The databank will provide analysis for clients in various industries i.e. drug development, nutraceuticals, cosmeceuticals, food crops and the oil and gas industry.
- 3) **Expanding Analysis Services.** MGRC is looking to add customisation features within its existing services to handle larger data volumes of new DNA sequencing machines. This potentially improves overall performance of data processing which allows the ability to enhance or modify existing pipeline services based on specific requirements.

◆ **Forecasts.** We estimate FY10-13 EPS CAGR of 27.2% mainly driven by: 1) additional sequencing projects and revenue stream from its development of genome databanks; 2) margin expansion due to in-house sequencing machinery which effectively reduces third party outsourcing costs; and 3) rising awareness of the benefits of bioinformatics in various industries

◆ **Valuations.** We have derived a target PER of 8.5x for MGRC, which implies a 30% discount to the global peers' weighted average. Although our target PER is higher than the Bursa Malaysia's Technology Index market cap weighted average FY11 PE of 7.1x, we believe MGRC deserves a premium given its growth potential and higher technological capabilities. Therefore, we estimate a fair value of RM1.22 based on 8.5x CY11 EPS.

LISTING DETAILS	
Listing Sought	Ace Market
Listing Date	5 Oct 2010
Public Issue	17.1m shares including: -14.5m shares to selected investors; - 0.6m to eligible directors; and - 2.0m to public
Offer For Sale	2.0m shares for private placement

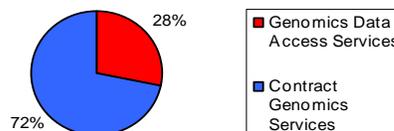
MAJOR SHAREHOLDERS	
Synamatix	64.3%
Neuramatix	5.1%

Yap Huey Chiang
(603) 92802166
yap.huey.chiang@rhb.com.my

Please read important disclosures at the end of this report.

- ◆ **Background.** Malaysian Genomics Research Center (MGRC) was incorporated in May 2004 initially to provide online bioinformatics application services. Later in 2006, MGRC established its Contract Genomics Services to provide in-depth bioinformatics computational analysis for life science research. Previous projects include analysing cancer genomes for the Brigham and Women's Hospital (an affiliate of Harvard Medical School), the first whole genome sequencing and assembly for a yeast and bacterial genome for University Kebangsaan Malaysia and genomic sequence data of two marsupial genomes for the Australian Genome Research Facility Ltd. Currently, MGRC is the only provider of commercial bioinformatics analysis services in Malaysia. In addition, MGRC is a BioNexus Status Company, and therefore enjoys 100% tax-free status until July 2017.
- ◆ **Bioinformatics** are essentially the research, development, and application of computational tools for extracting information from biological data. This includes the study of molecules i.e. DNA (deoxyribonucleic acid), RNA (ribonucleic acid) and proteins using computers to analyse molecules using computational algorithms. The genetic information is valuable for researchers to understand the mechanisms of biological systems.
- ◆ **Key applications of bioinformatics.** Therefore, understanding the biological system will enable the enhancement or suppression of certain characteristics of specific genes in various applications. These sectors include:
 - ◆ Agriculture – to improve crop yield and increase resistance to environmental stress.
 - ◆ Healthcare – research on disease prevention and drug discovery.
 - ◆ Environmental – further development of biodegradable plastics and climate cleaning microbes.
 - ◆ Industrial – less toxic dependency and harnessing enzymes for biofuel production.
- ◆ **Key products.** MGRC mainly derives its revenue from two key segments:
 - ◆ **Contract Genomics Services.** Provision of genome assembly and bioinformatics analysis services and DNA sequencing services i.e. computational analysis are conducted on the DNA sequencing data to extract information. For example, genes or mutations of an individual will be analysed for the development of customised drugs.
 - ◆ **Genomics Data Access Services.** Provides online bioinformatics service for exploratory research of DNA and protein sequences. Commissioned by BiotechCorp, the online resource center is available free to the public for research, development and commercialisation for the Malaysian biotechnology community i.e. universities and research institutes.

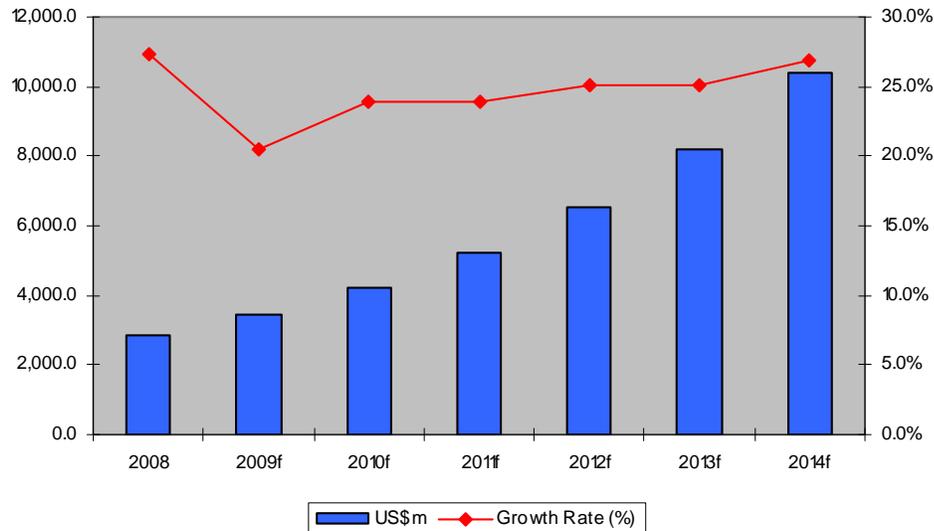
Chart 1 : Revenue Contribution By Services, FPE 31 Mar 2010



Source: Company data

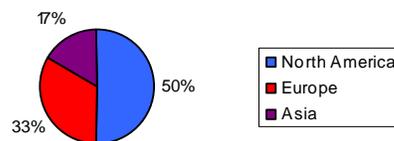
- ◆ **Industry outlook.** Frost and Sullivan forecasts the bioinformatics analysis industry market to reach a 2009-2012 CAGR of 24.9% mainly driven by: 1) increasing amounts of sequenced data worldwide; and 2) the growing demand for research in understanding genetic variations for the development of solutions in various industries. Currently, the market remains dominated in North America and Europe, with a combined total of 83% of the total global bioinformatics industry as of 2009. Therefore, service providers in Asia have a strong growth potential given its position as cost competitive coupled with the increase of outsourcing as the need for specialised service.

Chart 2 : Global Market Size For Bioinformatics Analysis, 2008-2014



Source: Frost and Sullivan

Chart 3 : Bioinformatics Analysis Industry Breakdown By Region



Source: Company data

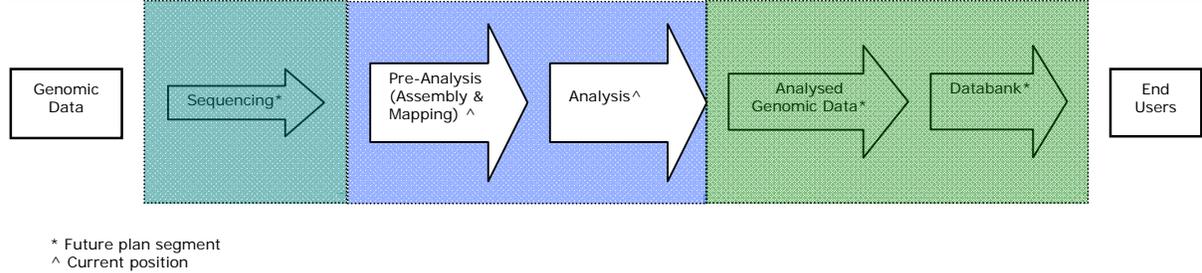
◆ **Key highlights.** Key highlights for MGRC include:

- **Highly specialised.** The industry has a very high barrier to entry as it requires technical and specialised know-how. Given its significant expertise, this gives the company the competitive advantage vis-à-vis its peers.
- **Adaptable.** The company intends to bring its genome sequencing on-site which was previously sent to third party sequencing providers. This gives MGRC the adaptability to provide a wider range of services to its customers.

◆ **Risk factors.** We see the following key risk factors:

- **Limited customer base.** For the past two years, MGRC's earnings have largely come from its oil palm genome project, accounting for around 70% of total revenue. Going forward, the company plans to diversify its customer base by securing additional projects from other sectors i.e. healthcare and industrial.
- **Revenue risks.** MGRC has yet to secure any subscriptions for its propriety databanks and fully implement its in-house sequencing services for existing projects. Furthermore, contract genomics services are project based and the company does not have any long-term contracts or recurring projects (excluding Data Access Service). Hence, there are risks that the company may not fully utilise its sequencing machinery capacity and may impair future earnings growth.
- **Awareness remains low.** In our view, the bioinformatics sector in Malaysia remains a policy driven industry and may be still reliant on government funds for short-term growth. Further out, these incentives to spur research both in the private and public sectors may not be permanent. Therefore, increasing awareness of the sector in the private sector remains a key factor for market growth in the long run.

Chart 4: Position Of MGRC In The Bioinformatics Industry Value Chain



Source: Prospectus

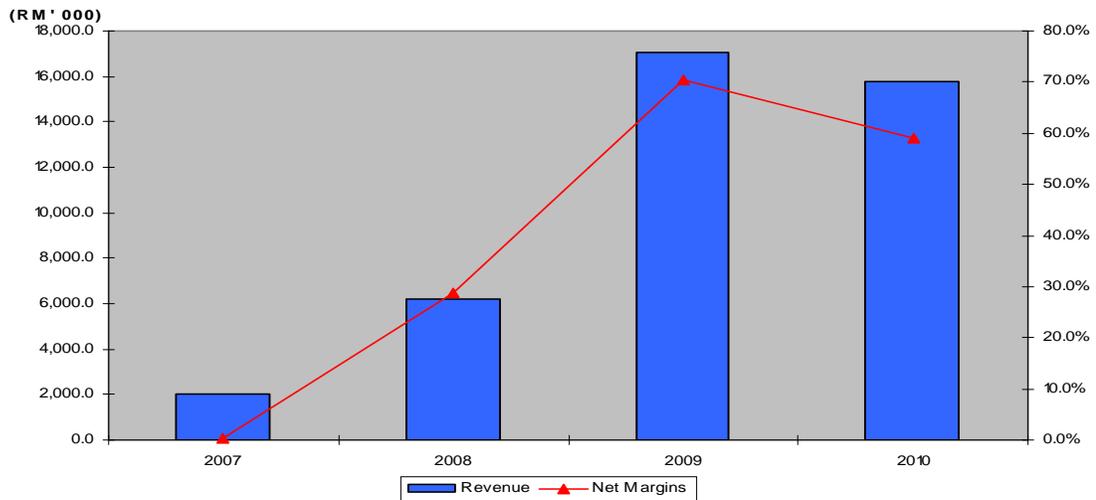
◆ **Future plans.** MGRC’s future plans are:

- **In-house sequencing.** MGRC plans to expand its contract services by purchasing a sequencing machine to allow on-site sequencing capabilities. Note that currently data sequencing are done off-site with its sequencing partners (third party). This allows MGRC to develop and sequence proprietary databanks on genomes in high-priority areas.
- **Developing Propriety Genome Databanks.** The company intends to develop propriety databanks of genomic data which give researchers easier access to conduct genomic research. Generation of sequence data may take long periods to complete but services by MGRC are almost immediately available. The databank will provide analysis for clients in various industries i.e. drug development, nutraceuticals, cosmeceuticals, food crops, and the oil and gas industry.
- **Expanding Analysis Services.** MGRC is looking to add customisation features within its existing services to handle larger data volumes of new DNA sequencing machines. This potentially improves overall performance of data processing which allows the ability to enhance or modify existing pipeline services based on specific requirements.

◆ **Listing and offer proceeds.** The total proceeds from the public issue will amount to RM18.5m and would be utilised as per Table 2.

Table 2. Utilisation Of Proceeds		
Details	Estimated timeframe for utilisation upon listing	RMm
Capital expenditure	Within 2 years	6.9
R&D expenditure	Within 2 years	1.5
Marketing expenditure	Within 3 years	2.0
Working capital	Within 2 years	4.6
Estimated listing expenses	Within 1 month	3.5
Total proceeds		18.5

Source: Prospectus

Chart 5. Revenue And Net Profit Margin Trends (from FY06-10)


Source: Company data

- ◆ **Forecasts.** We estimate a FY10-13 EPS CAGR of 27.2% mainly driven by: 1) additional sequencing projects and revenue stream from its development of genome databanks; 2) margin expansion due to in-house sequencing machinery which effectively reduces outsourcing costs; and 3) rising awareness of the benefits of bioinformatics in various industries. MGRC does not have any specific dividend policy but we have assumed a conservative net dividend payout ratio of 10%, which implies an annual yield of 1.0-1.5%.
- ◆ **Valuations.** We have compared MGRC to its global peers that are broadly similar in the industry i.e. healthcare companies that utilise genome sequencing. We have derived a target PER of 8.5x for MGRC, which implies a 30% discount to peers' weighted average. While our target PER is higher than the Bursa Malaysia's Technology Index FY11 weighted average of 7.1x, we believe MGRC deserves a premium given its growth potential and early adopter advantage. Therefore, we estimate a fair value of RM1.22 based on 8.5x CY11 EPS.

Table 3: Comparative Valuations

Company	Bloomberg ticker	Market cap (US\$m)	FY11 PER (x)
Alere Inc	ALR US	2,610.2	10.4
Life Technologies Corp	LIFE US	8,728.0	12.5
Steris Corp	STE US	1,975.4	13.1
Market cap-weighted average			12.2

Source: RHBRI and Bloomberg

Table 4: Comparative Valuations

Company	Bloomberg ticker	Market cap (RMm)	FY11 PER (x)
ENG Teknologi	ENG MK Equity	222.0	3.5
ETI Tech Corp	ETIT MK Equity	1,872.0	9.2
Globetronics Technology	GTB MK Equity	295.3	11.1
JCY International	JCYH MK Equity	2,014.1	6.2
Malaysian Pacific Industries	MPI MK Equity	1,227.8	8.6
Notion VTEC	NVB MK Equity	258.1	5.8
Unisem	UNI MK Equity	1,294.4	7.1
Vitrox Corp	VITRO MK Equity	179.8	5.3
Market cap-weighted average			7.1

Source: RHBRI and Bloomberg

Table 5: Earnings Forecasts

FYE Jun (RMm)	FY09	FY10	FY11f	FY12f	FY13f
Revenue	17.1	15.8	18.1	23.0	24.9
<i>Growth (%)</i>	<i>175.6</i>	<i>(7.5)</i>	<i>14.7</i>	<i>26.9</i>	<i>8.6</i>
EBITDA	12.7	10.3	13.0	17.2	19.2
<i>EBITDA margin (%)</i>	<i>74.7</i>	<i>65.3</i>	<i>71.8</i>	<i>74.8</i>	<i>76.8</i>
Depreciation & amortisation	(0.7)	(1.0)	(1.4)	(1.8)	(2.2)
EBIT	12.0	9.3	11.6	15.4	17.0
<i>EBIT margin (%)</i>	<i>70.5</i>	<i>58.9</i>	<i>64.3</i>	<i>67.1</i>	<i>68.1</i>
Finance costs	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Pretax profit	12.0	9.3	11.6	15.4	17.0
<i>Pretax margin (%)</i>	<i>70.5</i>	<i>58.9</i>	<i>64.3</i>	<i>67.1</i>	<i>68.1</i>
Tax expense	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)
Net profit	12.0	9.3	11.6	15.4	16.9
<i>Net profit margin (%)</i>	<i>70.4</i>	<i>58.6</i>	<i>64.0</i>	<i>66.9</i>	<i>67.8</i>

Source: Company data, RHBRI's forecasts

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Stock Ratings

Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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RHB DEALING AND RESEARCH OFFICES

MALAYSIA

RHB Investment Bank Bhd

Level 10, Tower One, RHB Centre,
Jalan Tun Razak
50400 Kuala Lumpur
P.O. Box 12699
50786 Kuala Lumpur, Malaysia
Tel (General) : (603) 9285 2233

Dealing Office

Tel (Dealing) : (603) 9285 2288
Fax (Dealing) : (603) 9284 7467

RHB Research Institute Sdn Bhd

Level 10, Tower One, RHB Centre,
Jalan Tun Razak
50400 Kuala Lumpur
P.O. Box 12699
50786 Kuala Lumpur, Malaysia
Tel (Research) : (603) 9280 2160
Fax (Research) : (603) 9284 8693

Lim Chee Sing

Director

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