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Asian Centre for Liver Diseases and Transplantation Limited (ASX Code: AJJ)

Executive Summary

8th November 2010

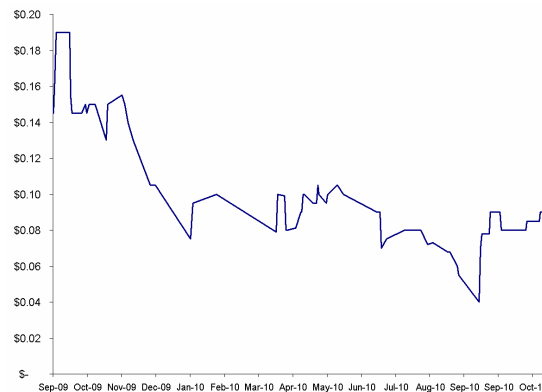
Recommendation: Buy. Target Price: 21c

Richard Li - Head of Corporate Research, John Kuo - Investment Analyst,

Table 1: AJJ Summary Statistics

Figure 1: ACLDT Daily Share Price Since Listing

| | |
|-------------------------------|-----------|
| Share price (as of) 5/11/2010 | \$0.09 |
| Issued capital | 188.45m |
| Market capitalization | A\$16.96m |
| P/E ratio (FY2011) | 6.6 |
| Dividend yield (FY2011) | 8.89% |



Investment Summary

Asian Centre for Liver Diseases and Transplantation Limited (ACLDT) is a company that specialises in the treatment of liver diseases and liver transplant. It is well positioned to capture a significant share in the growing private health care sector that specializes in liver diseases and liver transplant in South East Asia, a vast region with a total population of 593 million and an estimated annual expenditure of US\$15.3 billion on private health care.

Since the Company's listing on the ASX in September 2009, the Company's shares have not received much attention in the investment market with little trading or following. The lack of attention has contributed to the ridiculous multiples that the Company's shares are now trading on.

The Company offers a compelling investment case, as it is trading at a significant discount compared to its peers, offers an attractive dividend yield and solid growth prospects. The Asian market where ACLDT operates in has substantial yet relatively untapped business in treatment of liver diseases and transplant. ACLDT has the track record, technical and financial resources to capture a significant market share in the business it specializes in, and to become a major player in the specialist liver treatment and health care segment.

A large percentage of liver diseases came from excessive alcohol consumption over a prolong period. Alcohol abuse has cost societies both socially and financially. The loss of human lives due to indulgence in alcohol is tragic, but it can be avoided through education as well as preventive screening programs. According to a recent report from The World Today of ABC Television Australia (<http://www.abc.net.au/worldtoday/content/2010/s2991780.htm>), alcohol abuse cost Australia \$36 billion a year. In many other countries, this cost may vary but would still be significant.

Surely if even a small percentage of this enormous cost can be applied to preventive programs and education, many lives can be saved. ACLDT has the skill set to work with governments in Asian countries as part of its marketing strategy, to collaborate with them, to introduce and implement educational seminars and liver health screening programs that will provide early detection of liver diseases caused by alcohol abuse and other causes such as hepatitis.

Sino has initiated coverage of ACLDT with a BUY recommendation with a target price of 21c within 12 months, at which price the prospective PE multiple will be 15 times FY2011 earnings and 8 times FY2012 earnings, still cheap relative to its peers trading at an average of 18 times PE multiples on the ASX.

Introduction

ACLDT is a Singapore-based private one-stop centre for treatment of liver diseases. Founded by Dr K C Tan, a well-known and respected liver transplant specialist who had performed over 600 liver transplants. The Company operates its primary business within the Gleneagle hospital in Singapore, a 272 bed private facility owned by the listed Parkway hospital group, a multi-billion dollar regional health care provider with 16 hospitals and over 3,000 beds.

ACLDT's Singapore clinic, the Asian Liver Centre, consists of outpatient and in-patient liver units with its own liver intensive care unit. The company offers a suite of liver treatment and early-detection services, including general medical screening, medical oncology and chemotherapy, gastroenterology, and respiratory medicine.

ACLDT operated the first private liver transplant centre in South East Asia and remains one of the few private medical clinics that specialise in the treatment of liver diseases in the region. It has established itself as a specialist company in liver transplant in Asia, having conducted more than 164 transplants since inception. It treats an average of 7,000 patients a year, with more than 90 per cent of patients coming from outside of Singapore.

ACLDT has been listed on the Australian Securities Exchange (ASX) since September 2009 after the takeover of Constarella Design Ltd. ACLDT reported its first full-year results as a listed entity with revenue and profit up 14.73 per cent and 22.9 per cent respectively, compared to the previous corresponding 12 months. After a 0.5c maiden interim dividend, the Company declared a final dividend of 0.2c, payable on 23 December 2010. It trades under the ASX code "AJJ".

ACLDT has opened its first satellite clinic in Ho Chi Minh City, Vietnam in September this year and is in talks to open other clinics in a number of neighbouring countries.

Table 2: Snapshot of ACLDT's Past Results

| | 2008 (\$ million) | 2009(\$ million) | 2010 (\$ million) |
|------------------|-------------------|------------------|-------------------|
| Revenue | \$17.61 | \$14.73 | \$16.84 |
| Total Expenses | \$15.16 | \$12.82 | \$14.55 |
| Profit after Tax | \$1.97 | \$1.57 | \$1.93 |

Source: ACLDT. Note: 2008 and 2009 results were pre-ASX listing. 2010 results included 2 months of the dormant Costarella Design Ltd.

Key Management

Dato Dr. K.C. Tan - Executive Chairman

Dr. K .C. Tan graduated from the Medical Faculty, University of Malaya in 1978, and obtained his Fellowship of the Royal College of Surgeons of Edinburgh in 1982. While in the UK, Dr Tan performed more than 400 liver transplant operations, many were procedures performed for the first time.

Dr. Tan returned to Asia in 1994 to set up ACLDT in Singapore. In 1996, Dr. Tan was appointed Director of the Liver Transplant Program, National University Hospital, Singapore. Dr. Tan performed many transplants, both adult and pediatric, in the National University Hospital before resigning in March 2002.

Ms. Pamela Jenkins - Executive Director

Ms. Jenkins graduated from the University of East London with a Bachelor of Science (Hons) before obtaining a MBA from Kingston University, London. Ms. Jenkins has significant experience in the medical industry. She was appointed a director of ACLDT in 1994 and became managing director in 1997. Ms. Jenkins is currently responsible for the day-to-day management of ACLDT.

Mr. Heng Boo Fong - Non-Executive Independent Director

Mr. Fong graduated from the University of Singapore with a Bachelor of Accountancy (Hons). Mr. Fong has over 30 years experience as a company director and manager.

Mr. Kee Tang - Non-Executive Independent Director

Mr. Tang has over 30 years experience in senior management positions in the finance and information technology industries. During the past 12 years, he founded several telecommunications companies that were eventually acquired by companies publicly listed on the ASX. After each of these acquisitions, he was retained to serve on the board and to continue in senior management positions.

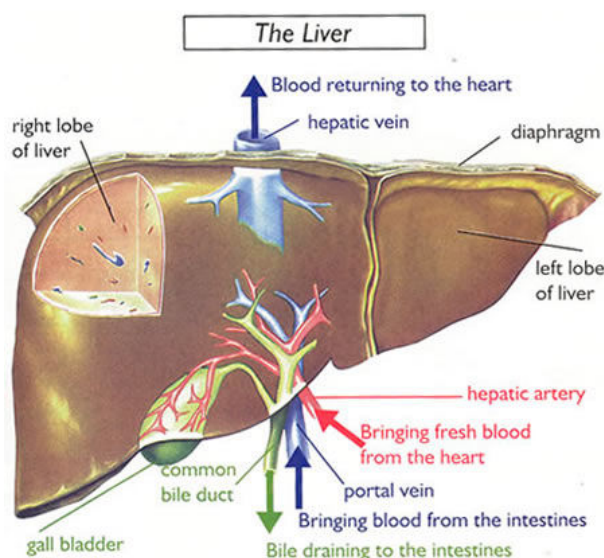
Mr. Dario Nazzari - Company Secretary

Mr. Nazzari graduated from the University of Adelaide with a Bachelor of Commerce. He has been a partner of UHY Haines Norton, since 2002. Dario has extensive experience in dealing with the ASX and handling corporate secretarial matters for listed companies.

Liver - A Brief Description

The liver is the largest internal organ in the body. It supports almost every other organ in the body and is vital to survival of the human body. It plays a major role in metabolism, storage of sugars and fats, decomposition of red blood cells and detoxification, amongst many other functions. While some of the liver's functions can be emulated by liver dialysis, currently there is no artificial organ or device capable of emulating all the functions of the liver.

Figure 2: Diagram of the liver



The liver is known as the “silent organ” and in most cases only produces symptoms after extensive damage. Causes of liver diseases include:

- Non-alcoholic fatty liver disease (‘fatty liver’)
- Hepatitis virus infections
- Alcohol-related liver disease
- Toxic effect of medications, herbal medicines and pollution
- Congenital or inherited abnormalities of the liver

Hepatitis, a viral infection of the liver, is widespread in Asia. Chronic hepatitis can lead to cirrhosis of the liver, liver failure and liver cancer. According to Stanford University, approximately 78 percent of global sufferers of chronic hepatitis B, or 275 million people, reside in Asia or the Pacific Islands. China has the highest incidence of the disease, with an estimated 170 million people with chronic infections.

According to statistics from the World Health Organisation (WHO), in 2008, liver cancer is the third largest reported cancer in Asia behind breast and lung cancers but is the second deadliest cancer after lung cancer.

Figure 3: Cancer Incidence – Asia (2008)

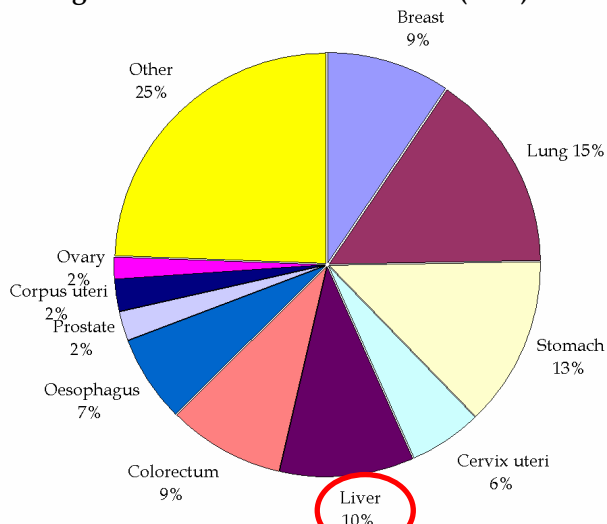
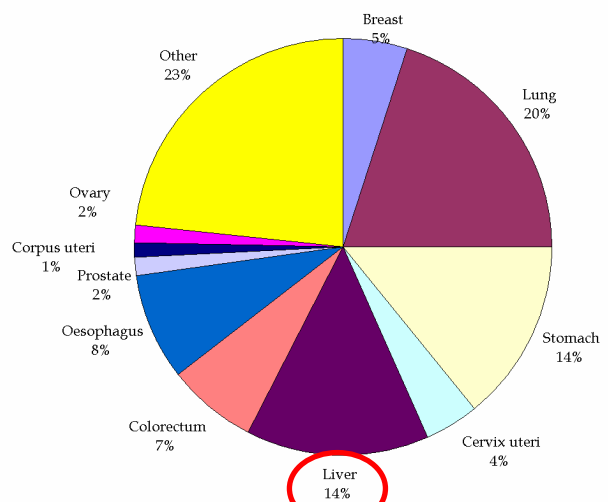


Figure 4: Cancer Mortality – Asia (2008)

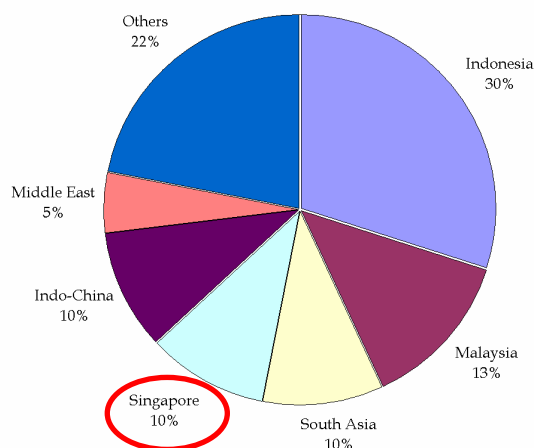


Source: World Health Organisation

Company Overview

Headed by Dr KC Tan, ACLDT has established itself as a specialist centre in the treatment of liver diseases in Asia, where a majority of its patients are from outside of its Singapore base.

Figure 5: ACLDT Client Base by Nationalities



Source: ACLDT

Despite a combined population of 593 million in South East Asia, there is little in the availability of privately run specialist liver clinics. Liver transplants and specialist liver wards are predominately within the public health care system, where government subsidies limit services predominately for its citizens and quality of service can vary.

In addition to political stability, geographic location and the widespread use of English amongst its citizens, Singapore has one of the most transplant-friendly laws in the Asia Pacific, where the law assumes all citizens are willing organ donors (unless explicitly stated otherwise). Singapore also permits living non-related organ donation and recently legalised financial payment to organ donors.

Table 3: Living Donor Transplant Policies in Selected Asian Countries

| | Donor restriction | | | Living unrelated | Donor compensation |
|------------------|-------------------|-----------------|----------------------|------------------|--------------------|
| | Living related | | | | |
| | Immediate family | Close relatives | Emotionally attached | | |
| China | Yes | Yes | Yes | No | No |
| Hong Kong | Yes | Yes | No | No | No |
| Iran | Yes | Yes | Yes | Yes | Yes |
| Japan | Yes | Yes | Yes | Yes | No |
| Korea | Yes | Yes | Yes | Yes | No |
| Malaysia | Yes | Yes | Yes | No | No |
| Philippines | Yes | Yes | Yes | Yes | No |
| Saudi Arabia | Yes | Yes | Yes | Yes | Yes |
| Singapore | Yes | Yes | Yes | Yes | Yes |
| Taiwan | Yes | Yes | No | No | No |

Source: Global Health Governance, Volume III, No 2 (Spring 2010), AFP

A successful specialist organ treatment and/or transplant ward requires an experienced medical team with a proven track record, state-of-the-art equipment and is highly research-intensive. Barriers to entry into this sector are high. Patients typically seek word-of-mouth referrals and value the clinic’s track record and post-transplant survival rate. Treatment cost is less of a deciding factor, especially for the affluent patients.

ACLDT has capitalised on the favourable regulatory framework of Singapore and prospered in this niche market. It focuses on technically challenging and high margin procedures and is able to charge a premium fee based on the quality of service delivery and favourable treatment outcomes. It has also benefited from marketing efforts of the Parkway Group, where ACLDT promotes its services alongside Parkway in medical seminars, TV and radio appearances and print advertising.

Figure 6: ACLDT SWOT Analysis

| | |
|---|---|
| <p>Strengths</p> <ul style="list-style-type: none"> • High-barriers to entry; • Established brand name and proven track record; • Favourable regulatory framework; | <p>Weakness</p> <ul style="list-style-type: none"> • Highly reliant on availability of highly skilled staff members |
| <p>Opportunities</p> <ul style="list-style-type: none"> • Capacity expansion – recruitment of additional staff members and setting up of regional satellite clinics; • Patent early liver detection tests; • Commercialise liver dialysis machines; | <p>Threats</p> <ul style="list-style-type: none"> • Established US and/or European liver specialist clinics opening satellite clinics in Asia; • Mismanagement or cost blow-out of satellite clinics |

ACLDT’s Growth Strategies

Expansion of its Singapore Medical Team

One of ACLDT’s aims of listing on the stock exchange was to enable it to attract specialist surgeons via offering remuneration packages that are partly share based. It has already recruited Dr Tan Yu Meng, an experienced liver transplantation surgeon and cancer specialist and Dr Vincent Lai Wai Kwan, a leading gastroenterologist and specialist in acute liver failure, in April and October this year respectively, and is expected to recruit at least another specialist in the coming 12 months.

The additional specialists will bring their existing client base, help reduce the existing waiting list for specialist procedures and assist the Company’s promotional efforts. We estimate that after only a few months, each additional specialist will be able to add \$2.5 million to the Company’s revenue per annum.

Assuming Management Responsibility of Parkway Liver Clinics

In June this year, ACLDT executed an agreement to take-over sole management responsibilities of its Singapore specialist liver centre, previously partly managed by the Parkway administration. Under this new agreement, the Company will be entitled to a management fee and a share of profit generated from the centre, provided it performs above a specific performance threshold. Prior to the agreement, the Company was remunerated from revenue arising from consultations and medical procedures, but did not part-take in other revenue sources, including hospital stays.

Management indicated that the Singapore centre is already performing above the profit-sharing threshold and will contribute to underlying profit from FY2011 onwards. We believe this agreement requires little additional management input from ACLDT and has the potential to substantially increase the Company's profitability going forward.

With the additional specialist staff, the Company has, in July this year, entered into an agreement with Panasia Surgery Pte Ltd (Panasia) which operates out of Mount Elizabeth Hospital, one of Singapore's most prestigious hospitals. Part of the Parkway group, Mount Elizabeth Hospital is a 357-bed hospital renown in the areas of cardiac surgeries and neurosurgeries.

The agreement will see ACLDT supply liver specialists to Panasia at Mount Elizabeth on a regular basis and will earn a percentage of income from consultations that its doctors perform. The Company is also in talks to provide its liver specialists to other Parkway hospitals.

Apart from revenue implications, we believe such agreements allow ACLDT to broaden its patient base with little additional marketing efforts. We believe these agreements will support significant long term growth prospects for the Company.

Setting-up Regional Satellite Clinics

ACLDT has found that face-to-face consultations greatly increase the likelihood of patients accepting treatment. This has prompted the Company to set up satellite clinics in the region. Staffed by local doctors and receive regular visits from specialists in Singapore, these satellite clinics will provide a suite of liver diagnosis and treatment services and act as referral bases for complicated procedures to the Singapore main clinic.

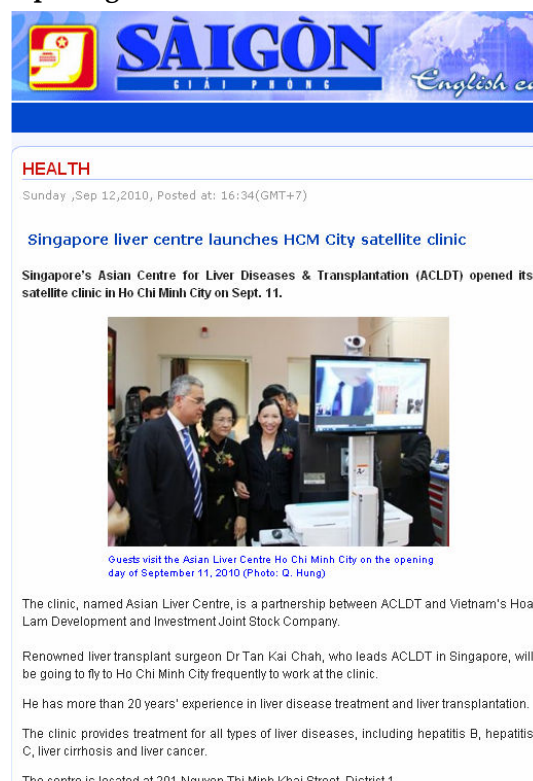
ACLDT opened up its first satellite clinic in Ho Chi Minh City, Vietnam in September 2010 amid widespread press coverage. The Vietnam clinic is a joint venture between ACLDT and a local partner, with the Company holding a 70 per cent stake. The opening of the Vietnam clinic was fast tracked with the help of former VIP patients that the Company treated.

Figure 7: Photo of ACLDT's Vietnam Clinic Opening Ceremony



Source: ACLDT

Figure 8: Online Press Coverage of the Opening of ACLDT's Vietnam Clinic



Source: ACLDT

Apart from Vietnam, ACLDT has recently signed a Memorandum of Understanding (MOU) to set up a satellite clinic in Indonesia. It has also received expressions of interest to open satellite clinics in Malaysia, India, Mongolia, UAE, Myanmar and China.

Based on discussion with management, we believe the Company will open a number of satellite clinics in Indonesia and Malaysia within the next 2 years. As 30 per cent of the Company's existing client base originates from Indonesia, we are particularly excited about the revenue implications from the Indonesian satellite clinic. While we estimate that each satellite clinic will take up to 18 months to achieve breakeven, they will contribute to the group's profitability much more rapidly via client referrals to its Singapore centre.

Company Valuation

To estimate ACLDT's profitability for the next 2 years, Sino has made a number of assumptions. They are as follows:

- Cost increase of 5 per cent and 7 per cent per annum over FY2011 and FY2012, respectively;
- Australian-Singapore (AUD/SGD) and Vietnam-Singapore (VND/SGD) exchange rates to remain at 1.2 and 13,000, respectively, over the forecast period;
- Operations in Singapore and Vietnam to pay company tax of 17 and 10 per cent, respectively;
- Apart from Vietnam, the Company will open a referral centre in Indonesia in FY2012. Due to the low cost nature of a referral centre, the Indonesian centre is forecast to achieve operational breakeven in its first year of operation but is expected to contribute to an increased number of patients for the Singapore centre;

Table 4: Summary of Sino's Forecast for ACLDT

| | 2009A | 2010A | 2011F | 2012F |
|----------------|----------|----------|----------|----------|
| Revenue | \$14.75m | \$16.84m | \$22.95m | \$30.07m |
| Gross Profit | \$5.88m | \$7.39m | \$9.77m | \$12.98m |
| Net Profit | \$1.61m | \$1.93m | \$2.58m | \$5.05m |
| EPS | 0.86c | 1.00c | 1.37c | 2.68c |
| PE Ratio | 10.5 | 9.0 | 6.6 | 3.4 |
| DPS | Nil | 0.7.c | 0.8c | 1.0c |
| Dividend Yield | N/A | 7.78% | 8.89% | 11.11% |

Source: ACLDT, Sino estimates

Apart from ACLDT, we found two other listed specialist organ transplant companies in the world, Clinica LAS Condes (listed in Chile) and Indraprastha Medical Corp (listed in India). As no consensus EPS and DPS estimates are available for these companies, Sino has therefore compared ACLDT with a number of local and international healthcare indices.

Table 5: Comparison of Healthcare Indices

| Company | Code | Price | Market Cap (A\$) | P/E Ratio (FY2011) |
|--|--------|---------|------------------|--------------------|
| S&P/ASX300 Healthcare Index | AS52HC | 7246.1 | 41.21bn | 17.8 |
| S&P500 Healthcare Index | S5HLTH | 364.31 | N/A | 11.7 |
| FTSE 350 Healthcare Equipment & Services Index | F3HLTH | 3312.63 | \$9.01bn | 13.9 |
| ACLDT | AJJ | \$0.09 | \$16.96m | 6.6 |
| Average of the Healthcare Indices | | | | 14.5 |

Source: Bloomberg, Sino estimates

Using the average PE ratio of the healthcare indices as a benchmark, we then took a number of factors into consideration when formulating our valuation. These factors include:

- The vital and life-saving nature of its business;
- Its growth prospects;
- Its market capitalisation;

After considering the abovementioned factors, average healthcare industry PE multiples and dividend yield appropriate for the sector, we believe a PE multiple of 15 is warranted for ACLDT, giving it a valuation of 21c per share.

Table 6: ACLDT Profit & Loss Projection (FY2011 – FY2012)

| | FY2011 (\$'000) | FY2012 (\$'000) |
|----------------------------------|----------------------------------|----------------------------------|
| Revenue | 22,947 | 30,074 |
| Cost of sales | -13,174 | -17,096 |
| Gross Profit | 9,773 | 12,978 |
| Expenses | -6,442 | -6,673 |
| EBITDA | 3,332 | 6,305 |
| Depreciation and Interest | -217 | -222 |
| Taxation | 3,114 -539 | 6,083 -1,033 |
| Non-controlling interest | 37 | -0 |
| Net Profit after tax | 2,613 | 5,049 |

Source: Sino estimates

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