

Initial Coverage: China Cord Blood

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Bank on China Cord Blood

Guangdong Market at Infant Stage

We project market penetration in Guangdong to reach 4.0% by 2011. Our 2008 estimates show CCBS reaches 1.22% of newborns compared to 11.4% in Beijing.

Little Emperors Increase Demand

As long as the one child policy exists, families will use a large percent of their disposable income to protect the health of their only child and demand will continue to grow.

Lack of Government Regulation

Absence of a price ceiling allows CCBS to set price according to demand. As sole operator in Beijing and Guangdong, CCBS has power to increase prices leading to unbounded growth potential.

China Cord Blood at Deep Discount

8/27/2009 price of \$7.10 signifies that CCBS will appreciate in the coming years to its target price of \$9.70-\$12.00.

Company Overview

China Cord Blood Services Corporation (CCBS) collects and stores cord blood for families in the Beijing municipality and Guangdong province of China. Cord blood is blood collected from a baby's umbilical cord after birth. This blood contains stem cells that could be used to correct genetic malfunctions later in the baby's life such as various kinds of cancers and immune system deficiencies. CCBS also provides laboratory testing, hematopoietic stem cell processing, and stem cell storage. Hematopoietic stem cells are cells that can be used to generate other kinds of blood cell types. According to Pantheon's CEO, CCBS serves 1.1 million babies per year.¹

CCBS has issued and outstanding warrants to purchase 13,583,334 ordinary shares and no options to purchase ordinary shares. In addition, they have one representative unit purchase option outstanding, which entitles the holder thereof to purchase 500,000 units, each unit consisting of one ordinary share and two warrants.²

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Key Statistics

Company:	China Cord Blood Corporation
Ticker:	CNDZF
Price Target:	12.00
Curr Price (8/27/09):	7.10
52wk Range:	0.00-9.00
Average Vol (3m):	1,868.18

Valuation Measures

Trailing P/E:	22.9x
TEV/EBITDA:	5.45x
TEV/Revenue:	2.99x

Profitability

Profit Margin:	51%
Operating Margin:	54%

Management Effectiveness

Return on Assets:	18%
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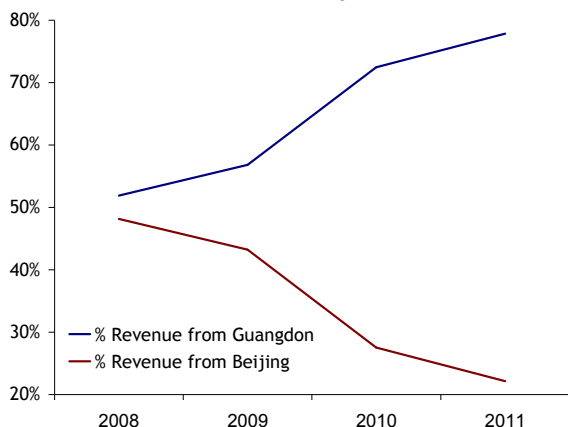
¹ Information retrieved from
<http://news.prnewswire.com/DisplayReleaseContent.aspx?ACCT=104&STORY=/www/story/11-11-2008/0004923304&EDATE=>

² China Cord Blood 20-F 6/30/2009
http://www.sec.gov/Archives/edgar/data/1467808/000114420409036370/v154254_20f.htm

China Sectors P/E Deviation from Past 10 Years ⁸ (Z-Scores)	
Energy	0.20
Materials	1.50
Industrials	0.30
Cons. Disc.	(0.20)
Staples	0.00
Healthcare	(3.20)
Financials	0.10
IT	0.20
Telecom	0.50
Utilities	23.10

As China's economy continues to grow and the median income rises in urban China, the demand for cord blood banking will increase.

Percentage of New Subscriber Revenue by Area



Industry Outlook

Private cord blood banking is popular in China due to the “one child per family” law to help reduce population growth. Parents use cord blood banking to ensure the health of their only child. At the end of 2008, there were about 80,000 privately banked samples compared to 25,000 publicly banked samples.³

Out of the 15,000 “successful unrelated cord blood transplants” in the world, 500 took place in China. However, there has not been a case of using autologous cord blood for the treatment of leukemia in China.³

Health Care: China's “Oversold” Sector

Even with China's recent 6 month rally, investors should not hesitate to buy Chinese healthcare. According to MSCI, China's current P/E ratios show that the healthcare sector is oversold compared to its 10 year historical average. We believe this provides a good opportunity for investors to make a mid to long-term value bet.

Forward Outlook: Growth

Increasing Market Penetration

China Cord Blood Services is the only private cord blood bank that has licenses in two provinces. In Beijing, we expect the market penetration to smooth at its current level. This assumption is made in comparing Beijing and Korea, where there is a dense population with established cord blood banks. In Korea, the penetration rate is 11.0% and in Beijing it is 11.4%.⁴ These similarities lead us to believe that the market in Beijing is done growing. CCBS's operations in Guangdong are relatively new⁵. For this reason, we expect their penetration rates to increase from 1.2% in 2008 to a projected 4.0% in 2011 and eventually match that of Beijing. Over the next four years, the percentage of revenue from Guangdong will increase from 51.9% in 2008 to 79.8% in 2011.

Use of Disposable Income

While CCBS is in the healthcare sector, their services are precautionary and therefore elective for families with only one child. As China's economy continues to grow and the median income rises in urban China, the demand for cord blood banking will increase.

Little Emperors

The one child policy or the “family planning policy” forces parents to place more importance on their child and give a larger share of their disposable income towards the health of that child. Cord blood banking is attractive for these families because it can prevent or fix life-threatening genetic diseases. The one child policy will continue through at least 2018 ensuring many “little emperors” for a decade or more.⁶

³Information retrieved from http://www.china.org.cn/health/2009-04/28content_17687884_2.htm

⁴China Cord Blood registration statement filed 7/7/2009, p. 146
http://www.sec.gov/Archives/edgar/data/1467808/000114420409036348/v154129_posam.htm

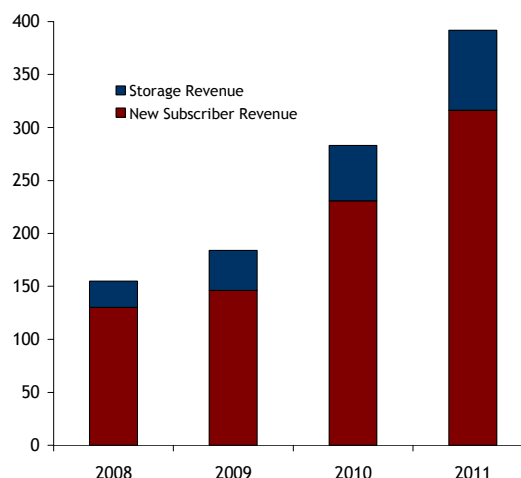
⁵China Cord Blood registration statement filed 7/7/2009, p. 148
http://www.sec.gov/Archives/edgar/data/1467808/000114420409036348/v154129_posam.htm

⁶New York Times 3/11/2008 http://www.nytimes.com/2008/03/11/world/asia/11china.html?_r=1

⁸MSCI/Thompson Datastream, BAS-ML Calculations

Forecasted Revenue

Projected Revenue by Service



To construct a proforma income statement for China Cord Blood, we have made the following assumptions. We assume China Cord Blood has not applied for or been issued a new license to operate in a new region. Second, we assume CCBS will not change their processing, maintenance, or annual storage fees. There is no current government regulation on these prices so an increase in price is plausible but not part of our assumption. In addition, we assume the market penetration in Beijing will remain constant, while penetration in Guangdong will increase. Lastly, we forecast new sales with the assumption that the population growth rate in both regions will be consistent with 2008 data at 0.655%.⁹ It is also noteworthy that we expect an increase in China Cord Blood's effective tax rate following the implementation of a new PRC tax law and set it accordingly.

Relative Valuation

Comparable Companies

We chose 3 comparable companies in order to perform our relative valuation. Haemonetics (HAE) provides blood management solutions in the US, Europe, and Asia. Geron Corporation (GERN) develops pharmaceutical products for the treatment of cancer and chronic degenerative diseases, including spinal cord injury, heart failure, and diabetes.⁷ Vita 34 (V3V) is Germany's leading blood bank, providing both private and public banking.

(\$, all figures in thousands)		Stock Price	Shares	Equity	Total		Net	Enterprise
Company	Ticker	8/28/09	Outstanding	Value	Debt	Cash	Debt	Value
Haemonetics Corp.	HAE	\$ 52.89	25,690	\$ 1,358,744	\$ 6,000	\$ 133,600	\$ (127,600)	1,231,144
Geron Corp.	GERN	7.18	91,050	653,739	-	163,700	(163,700)	490,039
VITA 34 Intl	V3V	6.58	2,647	17,414	3,392	10,078	\$ (6,686)	10,728
COMP TOTAL				\$ 2,029,897				\$ 1,731,911
China Cord Blood	CNDZF	\$ 7.10	121,000	\$ 859,100	\$ 225,446	\$ 33,695	\$ 191,751	\$ 1,050,851

TEV/EBITA Multiple

We used TEV/Revenue Multiple to compare the companies for two reasons. 1) Two of three comparable companies had negative earnings in 2008 and had a very small positive number for their 2009 estimated earnings that distorted the P/E valuation numbers. 2) We believe that CCBS's stock price tracks the estimated rapid revenue growth in the short- to mid-term horizon. We found the EBITDA number to be unpredictable due the huge swings in operating costs as a percent of revenue.

Result: \$9.70-\$12.00 per share

Our relative valuation shows that CCBS should trade between \$9.70 - \$12.00. The current stock price of \$7.10 allows room for appreciation in price. We issued a target price of \$12.00 per share and a **BUY** rating.

⁷ Yahoo! Finance Company Profile <http://finance.yahoo.com/q/pr?s=GERN>

⁹ CIA World Factbook <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>

¹⁰ Businessweek Company Profile <http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ric=V3Vgn.DE>