CHINA CORD BLOOD CORPORATION

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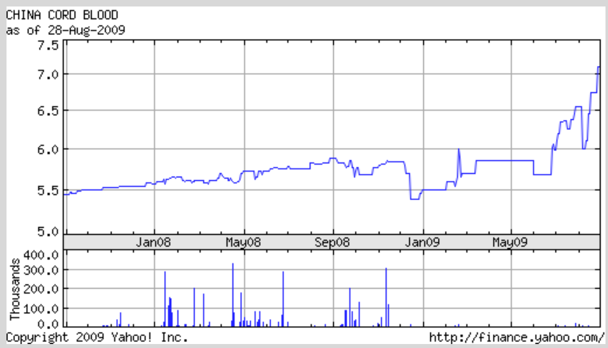
China Cord Blood (CNDZF)	
Recommendation:	**BUY**
Current Price	$7.10
Est. Price Range	$12.35-$16.40
Market Cap	470.72MM
TEV	309.32MM
TEV/EBITDA	3.80
Price/Sales	2.08
Forward PE	6.46
Shares Outstanding	66.299MM



We place a **BUY** recommendation on China Cord Blood Services for the following reasons:

- CCBS experiences a first-mover's advantage in the cord blood industry. They have no direct competition and are in an excellent position to obtain an additional license(s) to further expand their business into new regions.
- CCBS revenues are closely tied to population growth, which has been steadily increasing over the past five years. As this trend continues, we expect revenues to continue to expand.
- Due to their high percentage of fixed costs, CCBS experiences significant economies of scale. As customer base increases, we look to see higher profit margins compared to historical records.

Analysis and Description

Company Overview

China Cord Blood specializes in collecting umbilical cord blood from newborns in both the private and public sectors. CCBS stores cord blood in both sectors, which enables them to transplant blood samples to patients in need. Cord Blood is located in Beijing and Guangdong, China. Because of the way the People's Republic of China (PRC) authorizes licenses to perform cord blood services, China Cord Blood is the sole operator in these regions, having no immediate competition. China Cord Blood has been constantly expanding its network of hospitals, and currently has 90 hospitals in the Beijing region.[1] The PRC is expected to issue four more licenses by 2010, and it is expected that CCBS will be a benefactor of one of these licenses.

Ownership Structure

China Cord Blood has a complex ownership structure. The original operating company, China Cord Blood Services (CCBS), was acquired by Pantheon, a special purpose acquisition company. After the acquisition, Pantheon changed its name to China Cord Blood Corporation and currently owns 93.94% of CCBS. China Cord Blood Corporation is itself owned by three main groups – original shareholders in Pantheon, former CCBS shareholders who sold their shares in exchange for shares in Pantheon, and Golden Meditech. Golden Meditech owns 46.3% of China Cord Blood Corp, through its subsidiary, GM Stem Cells[2]. Now that Golden Meditech is not a majority owner (previously owned 50.25%), results from China Cord Blood Corp. will not be broken out on Golden Meditech's financials, but will be included in he consolidated net earnings numbers.

There are currently 62,792,642 shares outstanding[3] at a current price of $7.10 making the market cap $470.72 million. Total enterprise value is $309.32 million. At the date of initial registration, the difference between diluted and undiluted shares was 4,135,684 based on an outstanding option for 2,553,840 shares and 1,581,844 incremental shares relating to warrants[4]. In August 2009, CCBS announced in an SEC prospectus its intent to convert redeemable ordinary shares into 3,506,136 ordinary shares of CCBS[5]. We included these potential additions to ordinary shares when forecasting CCBS' results going forward.

Golden Meditech Connection

In 2009, Golden Meditech spun-off its Cord Blood operating segment into what is now known as China Cord

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[1] SEC Registration Statement: http://www.sec.gov/Archives/edgar/data/1467808/000114420409036348/v154129_posam.htm#tCB p 148
[2] Footnote 1, p. 3
[3] Footnote 1, p. 108
[4] Footnotes 1, p. 110
[5] New Shares Prospectus August 2009: http://www.sec.gov/Archives/edgar/data/1467808/000114420409046258/v157968_f1.htm, pg. 3

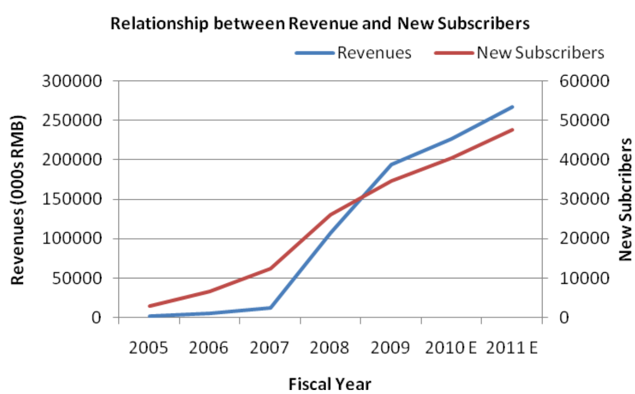
Blood Corporation. The new company was formed so that the segment would be able to be traded in the United States.

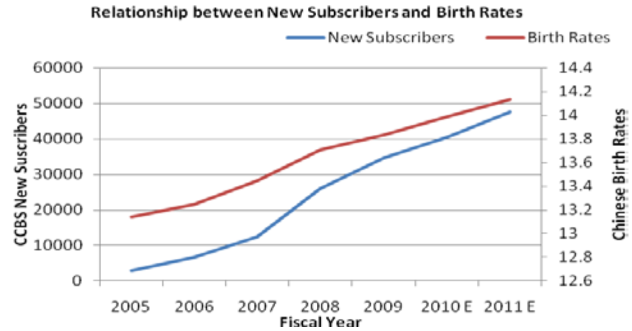
Historical Comparison in U.S. Dollars			
	2006	**2007**	**2008**
		Revenue	
Golden Meditech Segment[6]	4381	8185	17708
CCBS	753	1647	33284
		Gross Margin	
Golden Meditech Segment	65.00%	76.00%	78.80%
CCBS	14.62%	39.99%	73.94%
		Operating Income (Loss)	
Golden Meditech Segment	1456	3218	8071
CCBS	-3,113	-2,206	17,908
Note: Golden Meditech's cord blood segment and CCBS are the theoretically the same entity, however differences are caused by the use of different accounting practices. Golden Meditech reported its financial information based on Hong Kong Financial Reporting Standards. CCBS now reports according to GAAP.			

Conversion Rates obtained from http://www.oanda.com/convert/classic

Key Drivers/Strategy

China Cord Blood Services generates the majority (approximately 95%) of their revenues through initial subscription fees. CCBS' fee system allows them to generate constant revenues over the long term along with a short-term revenue boost based on the number of new subscribers. New subscribers enter into 18-year agreements and are charged an initial setup fee, along with yearly storage fees. The remaining (approximately 5%) of revenues come from cord blood matching and transplant operations.

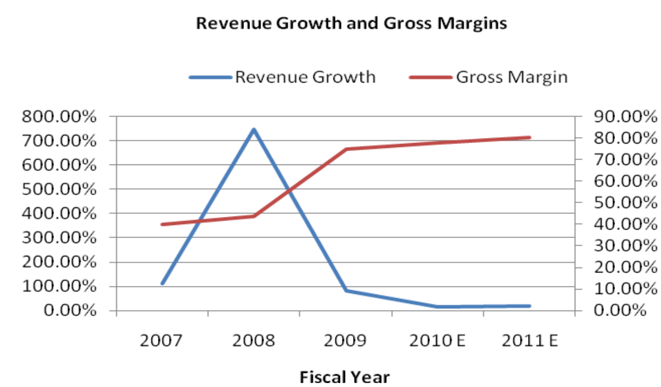




Historical Results[7]

	2006	**2007**	**2008**	**2009**
Revenues	6,032	12,722	233,081	194537
Gross Margin	14.62%	39.99%	73.94%	74.72%
Operating Income	-24,944	-17,038	125,403	85197
Net Income	-18,059	-9,578	117,010	20695
Operating Cash Flow	20,870	43,930	68,864	4,051

Historically, CCBS has seen large swings in its operating results. While at first experiencing losses, the company quickly made huge strides in revenues, margins, and profit. Going forward, we believe that gross margin will continue to improve but at a decreasing rate, and that revenue growth will continue. However, we expect revenue growth to settle in at more sustainable rates, in-line with new subscriber growth.



Industry Position

China Cord Blood was the first cord blood storage company in China, and has subsequently realized a competitive advantage in the industry. The governing institution that regulates the cord blood services industry, the PRC, issues only one operating permit per region, creating a monopoly-like business structure. Because such a structure exists, CCBS faces no immediate competition. A risk for the cord blood industry exists in China because of the potential government regulation it could face. In

[6] Investor Relations Page, http://www.goldenmeditech.com/eng/3_1.php

[7] Footnote 1, pg. 126
2009 FY information: Footnote 5, pg. 5

addition, this field of science remains somewhat controversial and has not yet received mass acceptance.

Valuation

Pro Forma

CCBS	2009 RMB	2010 E RMB	2011 E RMB
Revenues	**194,537**	**226,546**	**267,269**
Direct Costs	49170	50501	53278
Gross Profit	145,366	176,046	213,991
Gross Margin	**74.72%**	**77.71%**	**80.07%**
Total Operating Expenses	60169	103180	121728
Operating (loss)/Income	**85,197**	**72,865**	**92,263**
Depreciation & Amortization	8546	8546	8546
EBITDA	**93,743**	**81,412**	**100,810**

CCBS generates approximately 95% of their revenues from subscription fees. Due to their fee structure, the majority of these revenues come from the initial subscription fee. Through a simple regression analysis, we determined the R^2 correlation value between revenues and new subscribers to be .97, confirming that new subscribers were the main source of revenues. We also assumed that new subscribers are closely related to the Chinese birth rate; more babies should lead to more demand for CCBS services. We obtained birth rates per 1000 people from 2003 to 2008 and modeled these against CCBS new subscriber base, resulting in an R^2 of .99.[8] Birth rates during this time have been steadily increasing on a linear scale and we assume this trend to continue in the short run. Based on this information, we then forecasted our new subscriber base and subsequently our revenue base for the next three years.

Relative Valuation

As we compared CCBS to other competitors in its Healthcare sector, we found that TEV/EBITDA provided the most accurate data for comparison. TEV/EBITDA allows companies to be compared without the influence of capital structure and market capitalization. TEV/EBITDA is also more satisfactory than P/E and P/S comparisons, due to CCBS' historical losses in 2006 and 2007.

Relative Valuation TEV/EBITDA	
Current Price	$7.10
EBITDA y+1	$81,412
Median TEV/EBITDA	10.05
TEV y+1	$818,523
Shares O/S	66,299
Intrinsic Price/Share	**$12.35**
Undervalued	73.9%

	CCBS	Median	HAE	ARTC	HGR	NM4.F
Forward P/E	6.46	14.93	16.86	22.18	12.34	27.02
Price/Sales	2.08	1.41	2.26	1.41	0.56	2.49
TEV/EBITDA	3.80	10.05	8.82	13.36	6.95	11.29
Market Cap	471	469	1,350	469	442	411

Source: Bloomberg Estimates, obtained 8/28/09

We chose to use companies for our relative valuation that fit into two categories: (1) relevant business segments within the health care industry and (2) similar market cap. With the exception of HAE, all our relative companies fit into this category. HAE, we felt, closely mirrored CCBS operations, so we decided to forgo the market cap requirement.

In addition to our TEV/EBITDA valuation, we also performed a PE valuation, using the same comparable companies. We used a median PE of 14.93, resulting in a predicted price per share of $16.40, indicating CCBS is undervalued by 131%.

Relative Valuation P/E	
Current Price	$7.10
Earnings y+1	$72,865
Median P/E y+1	14.93
Price y+1	$1,087,515
Shares O/S	66,299
Intrinsic Price/Share	**$16.40**
Undervalued	131%

We ran a sensitivity analysis on our valuation multiples to see if our BUY recommendation would hold with different sets of data. The results are clear: even with a 20% decrease in our original multiples, China Cord Blood remains undervalued.

TEV/EBITDA Multiple Sensitivity					
% Change in Ratio	**-20%**	**-10%**	**0%**	**10%**	**20%**
Price/Share	$7.40	$9.87	$12.35	$14.81	$17.28

PE Multiple Sensitivity					
% Change in Ratio	**-20%**	**-10%**	**0%**	**10%**	**20%**
Price/Share	$9.85	$13.13	$16.40	$19.69	$22.97

Our TEV/EBITDA and PE analysis indicate that CCBS is undervalued by an average of 102% and we believe the market has yet to realize the full potential of CCBS. As the company becomes better known and the market becomes more accepting of this industry, we believe the company's potential will become realized. We place a **BUY** recommendation on China Cord Blood Services and feel it fits well with the overall APM portfolio objectives.

[8] www.indexmundi.com/g/g.aspx?c=ch&v=66
Population statistics by country