



中国脐血网

China Cord Blood Corporation (CNDZF)

Group 5 ♦ August 30, 2009

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CHINA CORD BLOOD CORP					
Stock Price	\$7.10		2006	2007	2008
Shares Out	62.792	Sales	0.88	1.86	34.12
		Gross			
Market Cap	445.83	Margin	0.13	0.74	25.23
		Operating			
TEV	432.21	Income	(3.65)	(2.49)	(18.36)
		Net			
Assets	101.92	Income	(2.64)	(1.40)	17.13
		Operating			
TEV/EBITDA	31.83	CF	3.06	6.43	9.95

*Financial data for period ending 31 March 2009 quoted in \$ millions except for ratios and shares outstanding.^{1,2}

We place a **Hold** rating on China Cord Blood Corporation based on the following:

Investment Thesis

- Significant increases in revenue and new subscriptions are likely to continue under the government's "one license per region policy"
- Technology breakthroughs will continue to drive future applications for stem cells and, in turn, new subscriptions
- Relative valuation model suggests equity is fully priced. Target P/S ratio pegs the target price at \$7.26, just 2% undervalued.
- Geographic expansion remains in potential provincial licenses

¹ China Cord Blood Corporation Form F-1 filed 7/28/2009, pg. 41-43, Retrieved from <http://yahoo.brand.edgar-online.com/DisplayFiling.aspx?TabIndex=2&FilingID=6779104&companyid=808020&ppu=%252fdefault.aspx%253fcik%253d1367209>

² China Cord Blood Corporation Form POS AM filed 7/7/2009, pg. 15, 126, 148 & 153, Retrieved from http://www.sec.gov/Archives/edgar/data/1467808/000114420409036348/v154129_posam.htm

Company History

China Cord Blood Corporation (CCBC) was incorporated on 17 January 2008 in the Cayman Islands. On 30 June 2009, Pantheon China Acquisition Corporation merged with and into Pantheon Arizona, changing the company's name to Pantheon Arizona. Subsequently, Pantheon Arizona was redomesticated to the Cayman Islands changing its name to CCBC, and moving the place of incorporation to the Cayman Islands.

Following the redomestication, CCBC completed a 93.94% share exchange with the shareholders of China Cord Blood Services Corporation (CCBS). As a result, CCBS became a subsidiary of CCBC. In late August 2009, CCBC exchanged 3,506,136 newly issued shares of CCBC for the remaining 6.06% of outstanding shares in CCBS. The newly issued shares increased total shares outstanding to 62,792,642 as of August 28, 2009. Due to the share exchange between CCBC and CCBS, Golden Meditech's (GM) ownership, through its subsidiary GM Stem Cells, in the company was diluted to 46.3% from 49.1%.³ Financial results from CCBS can be found in Golden Meditech's financial statements under the "Cord Blood Bank Segment" title. One should note that CCBS reports their financial information using U.S. GAAP, unlike Golden Meditech. Consequently, reported results differ on financial releases.

CCBC holds warrants, stock units, and ordinary shares on the over-the-counter market under CNDWF, CNDUF, and CNDZF respectively.

³ China Cord Blood Corporation Form F-1 filed 7/28/2009, pg. 3, Retrieved from <http://yahoo.brand.edgar-online.com/displayfilinginfo.aspx?FilingID=6779104-21926-35174&type=sect&TabIndex=2&companyid=808020&ppu=%252fdefault.aspx%253fcik%253d1367209>

Business Overview

China Cord Blood Services (CCBS) is a provider of cord blood storage services in the Beijing and Guangdong regions. The company generates revenue by charging initial processing and annual storage fees to subscribers. Additional revenue streams are realized through matching services the company provides.³²

CCBS entered the Chinese market in 2002 through its subsidiary Jiachenhong. The company was the first to receive an exclusive Cord Blood Banking license in China and now holds permits for 2 of China's 31 regions. Combined, the company operates in a virtual monopoly on a market with a population of 110 million people. Within this market, 1.2 million babies were born in 2007. In fiscal 2009, the company added 34,678 new subscribers. Although this represents just 2.89% of newborns in the region, it amounts to a 74% CAGR over the past three years.

For Year Ending March 31st				
	2006	2007	2008	2009
New Subscribers	6,574	12,347	26,060	34,678
New Donations Accepted	1,177	1,412	693	698
Total	7,751	13,759	26,753	35,376

*The above data was obtained through Thomson Analytics⁸

One should also note that opportunities exist outside CCBS's current permitted region. Under the current regulatory environment, the People's Republic of China (PRC) issues just one license per region. At the moment, only 6 of the 31 regions have been issued licenses. The PRC intends to issue up to four additional permits by 2010. CCBS will apply in regions where it anticipates issuances, and the company has taken steps to increase the likelihood it will be granted these potential licenses.²

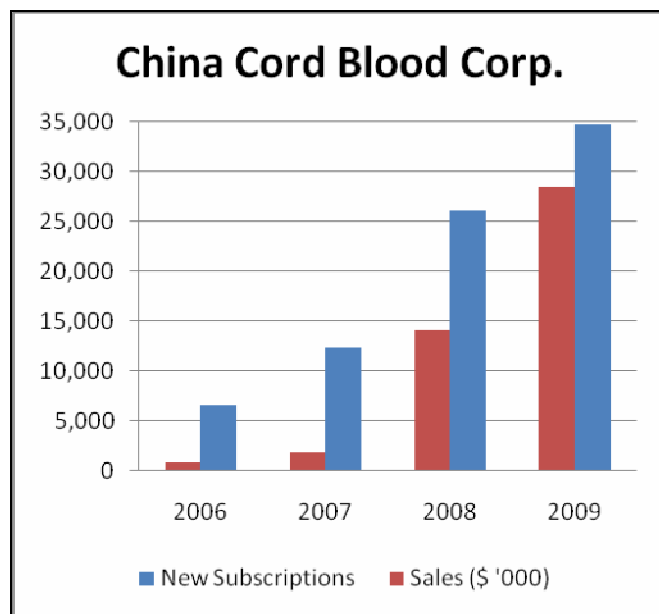
CCBS holds an 18.9% equity interest in CordLife, an international leader in private cord blood banking. CordLife is the only cord blood bank in Singapore and Southeast Asia to be accredited by the American Association of Blood Banks

² China Cord Blood Corporation Form POS AM filed 7/7/2009, pg. 15, 126, 148 & 153, Retrieved from http://www.sec.gov/Archives/edgar/data/1467808/000114420409036348/v154129_posam.htm

⁸ Data taken from China Cord Blood Corporation Form F-1 filed 8/28/2009 from Thomson Analytics, https://www.thomsononeim.com/v-com_fil_det.asp?CONT_CODE=REGST&DOC_TYPE=E&CONT_KEY=091043464&CONT_FORMAT=PDF

(AABB). The two companies recently entered into an agreement in which CordLife will assist CCBS in aligning its protocols with international AABB standards. If the

partnership is successful, CCBS would be the only blood cord bank in China to receive international accreditation. Such recognition would demonstrate CCBS's abilities and social responsibility when competing for new licenses. We contend attaining this standard will be a significant competitive advantage for the company.^{4,5}



⁴ "CordLife Makes Headway into China," 8/14/2009, retrieved from http://www.cordlife.com/news/pdf_pressReleases/pr_14aug2009_1.pdf

⁵ Excel data taken from China Cord Blood Corporation Registration Statement, filed 8/28/09, pg. 82, retrieved from Thomson Analytics, https://www.thomsononeim.com/v-com_fil_det.asp?CONT_CODE=REGST&DOC_TYPE=E&CONT_KEY=091043464&CONT_FORMAT=PDF

Valuation

Given the difficulty in predicting China Cord Blood's future financial performance, relative valuation is the most appropriate method. Furthermore, Price/Sales is the best ratio for comparison to competitors. We did not feel other earnings-based metrics were appropriate for valuation due to CCBS's earnings volatility. Earnings have been negative in recent years as the company expanded, and increased 1322% this past year. Therefore, we could not predict future earnings with any accuracy.

Company (Ticker)	CNDZF	CMED	BABY	PFWD
Stock Price	7.10	15.51	14.44	12.87
Shares Outstanding	62.792	32.106	28.351	0.000
Market Cap	445.82	497.97	409.39	0.00
TEV/EBITDA (FY 2008)	20.46	8.00	8.70	12.00
Price/Sales	12.26	9.10	2.20	3.20
Gross Margin %	73.94	61.18	62.35	56.17

*Prices and shares outstanding quotes in millions for the period ending 31 March 2009.^{6,7}

For this model, we forecasted 100% growth in sales for FY2010, giving us a target price of \$7.26, which represents 2% discount from the current price. The multiple used was 8. We felt CCBS deserved a large premium compared to the benchmark ratio of 4.83. Our rationale for the premium P/S is CCBS's licenses for 2 provinces, as well as a probable upcoming accreditation with the American Association of Blood Banks. These factors create substantial forward growth opportunities with little competition.

The table below also illustrates our model's sensitivity to sales surprises and disappointments. It is our belief that there is greater probability for upside potential than downside risk.

Sales Growth	75%	100%	150%	200%
Sales	\$49,840	\$56,960	\$71,201	\$85,441
P*	\$6.35	\$7.26	\$9.07	\$10.89
Premium (Discount)	(11%)	2%	28%	53%

⁶ Excel data taken from China Cord Blood Corporation Registration Statement, filed 8/28/09, pg. 13, retrieved from Thomson Analytics, https://www.thomsononeim.com/v-com_fil_det.asp?CONT_CODE=REGST&DOC_TYPE=E&CONT_KEY=091043464&CONT_FORMAT=PDF

⁷ Comparable company data taken from Thomson Analytics for fiscal year 2008, <https://www.thomsononeim.com/v-hom.asp#>

Bull Case

- Potential accreditation from AABB
- Newly issued licenses for other provinces
- New subscribers have grown a compounded 74% the past 3 years
- Former amenity has become more accessible due to rapid economic growth in China.
- In 2008, cord blood stem cell transplants totaled 14,000 worldwide, more than doubling from 2005 (6,000).

Bear Case

- PRC discontinues "one license per region" policy, which would increase competition and pressure margins
- Any deterioration in economy would decrease demand and profitability of CCBS's services
- Regulation changes prevent CCBS from profiting on collection of cord blood from donors

Conclusion

While significant upside potential remains in new licenses and growth from existing regions, our valuation suggests that the most probable case is already reflected in the current price. Our Hold recommendation will allow us the opportunity to reap the rewards of the bull case scenario that we feel are probable.