

STOCK DATA

Ticker:	LXU (AMEX)
Enterprise Value:	\$574.6 M
Market Cap:	\$553.9 M
Preferred Equity:	\$20.7 M
2008E EBITDA:	\$44.2 M
TEV/2008E EBITDA:	13.0x
Target Price:	\$33.67
Current Price (8/7/07):	\$21.12
Shares issued:	20,686,369

INVESTMENT THESIS

We recommend a BUY rating for LSB Industries, based on the following key indicators:

- Geothermal climate control is a rapidly growing industry and LSB is market leader
- LSB's multiple segments stabilize cash flow for the company during economic downturns
- Management has strong track record, with particularly impressive performance in the most recent quarter

LSB is a market leader in the growing industry of geothermal climate control. "Going green" has become immensely popular in the past few years, and LSB has strategically positioned itself to become a powerhouse in this sector. Given the cost savings and environmental friendliness of geothermal power, this product is likely to see increased demand over the next five years—especially as traditional energy sources like coal and natural gas become more expensive. The company's HVAC segment should perform strongly as well, largely thanks to a healthy commercial construction sector. LSB's broad product offering should ensure that the company retains a strong footing in the climate control industry. With the problems in the Cherokee plant fixed, LSB should see an increase in chemical production in the coming year. Management cites efficiency improvements as one of the primary goals going forward.¹ In the recent quarter, it should be noted that EBITDA grew by 45%.² Management has clearly performed well in the recent past and we expect that trend to continue.

KEY ASSUMPTIONS

Key Assumptions	
	CAGR (FY04-FY07E)
Revenue	29.61%
Operating Profit	41.86%
EBITDA	34.00%
Average	
Op. Profit Margin	9.95%
EBITDA Margin	11.11%

¹ 2Q Conference Call, 8 August 2007.

² 10-Q (2Q). <http://www.sec.gov/>.

STOCK DATA

Ticker:	HK:8180
Enterprise Value:	\$549.46 M
Market Cap:	\$932.43 M
Preferred Equity:	
2008E EBITDA:	
TEV/2008E EBITDA:	
Target Price:	\$1.90/ 14.80 HKD
Current Price:	3.54 HKD as of 9/5/07
Shares issued:	1,522,225,000

INVESTMENT THESIS

We recommend a BUY rating for Golden Meditech Company. Given the variety of their product set as well as abnormally strong growth prospects we believe the company will continue to profit its shareholders at least for the following three years. We believe

- The medical devices profits will continue to grow at a steady rate between 13 and 17%
- In the coming years there will be above 60% revenue growth for the blood bank segment, as they plan to expand from two to eight cities by 2010

With more facilities, we believe the bank's margins will continually benefit from the larger scale operations and minimize efficiencies which may have existed in the beginning years.

We view Golden Meditech's 50% interest in Pypo as a solid investment which once again allows diversity in the revenue stream. Also the Company will leverage the investment to distribute the Blue Touch device planned for distribution in the future and these synergies have yet to be realized.

KEY ASSUMPTIONS

Segments as % of Revenues and Net Income			
As % of Revenue in 2007		As % of Net Income in 2007	
Medical Devices	55.5%	Medical Devices	80.9%
Blood Bank	13.3%	Blood Bank	5.3%
Herbal Med.	2.1%	Herbal Med.	-7.3%
Pypo	29.1%	Pypo	21.1%
As % of Revenue in 2009		As % of Net Income in 2009	
Medical Devices	48.4%	Medical Devices	63.8%
Blood Bank	25.6%	Blood Bank	20.4%
Herbal Med.	1.8%	Herbal Med.	0.2%
Pypo	24.2%	Pypo	15.5%

As noted in the above chart:

- The company is trending towards less dependence upon its typical revenue stream of the medical devices segment
- This diversifies Golden Meditech and provides a valuable hedge against any segment underperforming in certain quarters.

VALUATION – LSB INDUSTRIES

Total Enterprise Value	
Shares Outstanding (fully-diluted)	25,153.48
Stock Price (LXU)	22.02
Total Market Cap	553,879.5
Total Preferred Stock	20,699.8
Enterprise Value (Fully Diluted)	574,579.4

After fully diluting the shares outstanding to account for outstanding warrants, options, and convertible-debt instruments, we calculated LSB's market cap to be approximately \$553 M. To find Enterprise value we chose to add the value of the firm's equity, both preferred and common, but ignored net debt and cash since they essentially cancelled each other out.

Debt	
Long Term Debt:	121,738.0
Less: Working Capital Revolver	(50,000.0)
Less: Convertible Preferred (D)	(60,000.0)
Net Debt	11,738.0

LSB's long term debt is overstated on the balance sheet because its credit revolver should be treated as working capital rather than as long term debt. The revolver is used for short term cash needs—not long term financing—hence should not be considered long term debt.

Comparables			
	TEV	EBITDA (FY08E)	TEV/EBITDA
WFI	544,000	19,000	28.63
ASD	8,844,000	1,045,000	8.46
LII	2,430,030	280,000	8.68
Average			15.26

Considering LSB's unique structure, strong comparables were hard to find. However, we feel that WFI, ASD, and LII are the most similar publicly traded companies in terms of their HVAC and/or geothermal product offerings. This is most apparent in the wide range of TEV/EBITDA multiples as shown in the table above.

Valuation (figures in thousands, US\$)			
Segment	EBITDA Multiple	FY2008 EBITDA	Valuation
Climate Control	15.26x	44,213.0	674,690.4
Chemical	N/A	N/A	200,000.0
TOTAL			874,690.4
Less: Preferred Stock			20,699.8
Equity Value			895,390.2
Current Shares Outstanding			25,153.5
Target Price			35.60

To find a target price for LSB, we used a relative valuation of the climate control segment and used a sensitivity analysis to demonstrate the change in share price given a variety of chemical-segment values. We have assumed a \$200M valuation for the chemical segment as our base value. We expect 2008 EBITDA to grow 30% from \$35.12 FY07 to \$44 M for FY08. We have used this figure to calculate a forward looking TEV/EBITDA, our primary valuation metric.

Sensitivity Analysis	
Chemical Value	Valuation
\$175M	\$34.60
200M	35.60
225M	36.59
250M	37.58

We have determined that LSB has significantly more intrinsic value than the market seems to believe. Even if the chemical segment underperforms, which is possible due to price fluctuations in commodities like ammonium nitrate and ammonia, LSB's stock is still significantly under priced. Recent events, particularly the rise in corn prices due to ethanol research and production, have significantly bolstered LSB's chemicals business, which is primarily focused on fertilizer production.

Selling Price of Ammonium Nitrate	
AN-(A)(.46)+O= \$204.18	
A=t*0.91+T	
Given:	
275	Ammonium Nitrate Cost (AN) ³
295.27	Ammonia Cost (A) ⁴
65	Overhead (O)
25	Transportation (T)
297	Tampa Price (t)

We calculated the current selling price of Ammonium Nitrate (fertilizer) to be \$204.18/ST, which is significantly higher than it has been in the past. LSB has greatly benefited from this price hike, but this price hike may not last much longer if the government changes some of its policies regarding agriculture subsidies.

³ According to email correspondence with Joe Ewing, Investor Relations at Terra Industries (8/5/07).

⁴ *Fertilizer Index*. <http://www.fertilizer-index.com/price-index.asp>. Accessed 8/5/07.

VALUATION – GOLDEN MEDITECH

To value Golden Meditech and each of its segments, we used a TEV/EBITDA multiple. The blood bank segment and its comparable companies had the highest multiple, which is intuitive because it is a growing industry, and investors are willing to pay more for future growth. To find intrinsic value and price for the entire firm, we added the segment values and prices together respectively and determined a 2009 intrinsic enterprise value of \$1,469,251,650 and a 2009 target price of \$1.90.⁵

Medical Devices	
EBITDA	33,482.17
Avg EV/EBITDA	30.67
Enterprise Value	1,026,936.55
Shares Outstanding	761112500
Intrinsic Value Per Share	\$1.35

Blood Bank	
EBITDA	10339.45
Avg EV/EBITDA	\$33.48
Enterprise Value	\$346,206.12
Shares Outstanding	502334250
Intrinsic Value Per Share	\$0.69
52% Owned	\$0.36

Pypo	
EBITDA	10961.79
Avg EV/EBITDA	\$8.77
Enterprise Value	\$96,108.99
Shares Outstanding	258778250
Intrinsic Value Per Share	\$0.37
50% Owned	\$0.19

When selecting comparable companies, we looked for those of similar size and product mix. We selected Mindray and Haemonetics in valuing the medical device segment, both companies known for their healthcare products, especially blood recovery products. For the blood bank segment, we chose two blood banks that provide services very similar to what Golden Meditech offers.

To determine the value of CMED, we multiplied the number of shares owned by Golden Meditech by the current share value.

C M E D	
Shares Count (Millions)	2.71
Current Price	\$33.77
Value of CMED Shares (USD)	\$91.52

⁵ Because the Herbal Medicine segment was negligible in our 2009 income, we elected not to include it in the final enterprise value.

⁶ All segment data in thousands unless otherwise noted. Shares outstanding reflect the % of 2009 revenues which each segment represents.

Current Cash Estimate in HDK (000's)	
2007 Annual Cash Reported	296235
Cash from Sales of Securities in Q1 ¹	99198.4
Current Cash Balance	395433.4

1-When computing the current cash held by Golden Meditech we took the value reported in the 2007 Annual Report and added to that number a portion of the income received during the first quarter as the result of realization of gains from securities trading. Due to the recent nature of the cash inflow we assumed a 70% retention of cash to date from the sale of those securities.

Enterprise Value in USD (000's)	
Market Capitalization	691,742
Excess Cash	50,762
Enterprise Value	640,980
CMED Value	91,520
Enterprise Value less Cash & CMED	\$549,460

After reviewing the Company's investment in China Medical Technologies (CMED) we believe that the Company should liquidate its position due to the current value of their shares. Also we believe that the Company could command a higher return on its capital from other internal investments.

06/07 Earnings by Segment in HDK (000's)	
Medical Devices	190,700
Cord Blood Bank	12,000
Herbal Medicines	(16,500)
Pypo/Blue Touch	48,000

08/09 Earnings by Segment in HDK (000's)	
Medical Devices	238,801
Cord Blood Bank	51,459
Herbal Medicines	17,496
Pypo/Blue Touch	58,080

These earnings numbers assume an average growth rate over the coming two years of

- Medical Devices 12%
- Cord Blood Bank 67%
- Herbal Medicines 11%
- Pypo 10%

As stated previously in the report, in order for these earnings to be accurate the Company will need to

- Continue to grow revenues in its core business of the medical devices at or above 10%
- Margins will need to improve in the Cord Blood Bank segment as they continue to expand the segment
- Pypo will need to maintain its profitability margin around its current 34% figure