

## **Golden Meditech Co. Ltd.**

### **Investment Thesis**

We give Golden Meditech a buy rating based on our assumptions and forecasts. A buy rating is given due to continuation in the medical device industry, and the advantages and strengths of the different segments. The ABRS (Autologous Blood Recovery System) product line in the Medical Device segment, the Core Blood Bank segment being the first private cord blood bank operator in China, and signs of growth in the Chinese Herbal Medicine segment, especially the TangHerb® product which has proven, after series of medical trials, to boost the immune system of those infected with HIV and also serves to alleviate common symptoms of AIDS, all are promising signs of continued profitability and growth, resulting in a buy recommendation.

### **Assumptions**

Our assumptions for revenue in the Medical Device segment were forecasted in FY 2008-2009 by anticipating 10% and 12% growth respectively, and cost of goods sold was forecasted at 30% of revenue, while maintaining a 15% tax rate. The main product in this segment is the ABRS (Autologous Blood Recovery System), the first of its kind to obtain FDA approval for manufacturing in China. The Cord Blood Bank segment had forecasted revenue of 309.22 million for FY 2008 and has huge growth for forecasted revenue of 729.9 million for FY 2009 while COGS for the Cord Blood Bank Segment are estimated at 40% of revenue. The segment that has the most growth opportunity is the Chinese Herbal Medicine Segment. Roughly one million people in China have contracted the HIV/AIDS virus, and trends have shown, as well as professional speculation, that there has been a 30% annual increase\* in the number of cases. It is for these reasons that the Chinese Herbal Medicine segment will show huge growth rates and revenues in the upcoming years. In FY 2006, the revenue from this segment was 278,000; forecasts for FY 2008-2009 are 87.3 million and 415.4 million USD respectively.

\*HIV/AIDS data source: China AIDS survey, <http://www.casy.org/overview.htm>

## **LSB Industries**

### **Climate Control Growth Assumptions**

The forward growth assumption for LSB Industries' Climate Control division has boomed the past two years, and we felt a conservative 2008 sales growth rate of 30% and a 2009 estimated sales growth rate of 25% were adequate given the firms recent track record. The company WFI (comparable for geothermal) has an EBITDA multiple of 15.88, and GGL (comparable for HVAC) has a multiple of 8.35. Currently, LXU's forward EV/EBITDA multiple is 6.26. We see a lot of the growth potential in the geothermal division due to the current environmentally-friendly market trends. This booming growth could be offset by slower growth in the HVAC business where there is increased competition. Finally, overall sales growth for the climate control segment may start to decline due to cannibalization on new HVAC units from the geothermal segment and lower construction demand due to weaker credit markets.

### **Chemical Segment Assumptions**

We assumed the value of the Chemical division to be 200M and performed a sensitivity analysis showing that at a value of 225M the overall share price is \$37 and at 250M the price is \$38. Hence, even if our assumed value of 200M is too conservative, the resulting share price increases are not incredibly significant. Additionally, most of the growth potential of LSB lies with its Climate Control business.

### **Investment Thesis**

Our per share price for LSB Industries, taking into consideration the growth expected in the Climate Control division and the relative valuation using WFI and GGL as comparable companies we found that a share of LXU could jump to \$36. The current share price is \$21. We feel that the geothermal component of LSB's business is undervalued and are therefore issuing a **buy** recommendation for LSB Industries.



## LSB Industries

Ryan Rabe Sarah Byrne Anish Singh Greg Green

### Forecasted EBITDA for Climate Control Segment (Thousands)

|                    | FY 2003 | FY 2004 | FY 2005 | Q1 2006 | Q2 2006 | Q3 2006 | Q4 2006 | FY 2006 | Q1 2007 | Q2 2007 | Q3 2007E | Q4 2007E | FY 2007E | FY 2008E | FY 2009E |
|--------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|----------|----------|----------|----------|
| Sales              | 119,032 | 140,638 | 156,859 | 47,249  | 51,555  | 61,089  | 61,268  | 221,161 | 71,305  | 74,518  | 78,244   | 82,156   | 306,223  | 398,090  | 497,612  |
| Sales Growth       |         | 18.15%  | 11.53%  | 33.08%  | 28.92%  | 47.18%  | 53.72%  | 40.99%  | 50.91%  | 44.54%  | 28.08%   | 34.09%   | 38.46%   | 30.00%   | 25.00%   |
| Cost of Goods Sold | 82,893  | 98,589  | 108,737 | 32,652  | 36,072  | 43,535  | 44,407  | 155,665 | 50,598  | 52,597  | 55,600   | 58,764   | 217,559  | 282,827  | 353,533  |
| Gross Profit       | 36,139  | 42,049  | 48,122  | 14,597  | 15,483  | 17,554  | 16,861  | 65,496  | 20,707  | 21,921  | 22,644   | 23,392   | 88,664   | 115,263  | 144,079  |
| Gross Margin       | 30.36%  | 29.90%  | 30.68%  | 30.89%  | 30.03%  | 28.74%  | 27.52%  | 29.61%  | 29.04%  | 29.42%  | 28.94%   | 28.47%   | 28.95%   | 28.95%   | 28.95%   |
| Operating Expenses | 24,620  | 30,342  | 33,218  | 9,024   | 9,479   | 10,651  | 10,397  | 40,068  | 12,199  | 12,304  | 12,750   | 13,000   | 50,253   | 65,502   | 81,878   |
| Operating Income   | 11,519  | 11,707  | 14,097  | 5,573   | 6,004   | 6,903   | 6,463   | 25,428  | 8,508   | 9,617   | 9,894    | 10,392   | 38,411   | 49,761   | 62,202   |
| Operating Margin   | 9.68%   | 8.32%   | 8.99%   | 11.79%  | 11.65%  | 11.30%  | 10.55%  | 11.50%  | 11.93%  | 12.91%  | 12.65%   | 12.65%   | 12.54%   | 12.50%   | 12.50%   |
| D&A                | 1,720   | 2,720   | 2,223   | 648     | 648     | 648     | 649     | 2,590   | 700     | 700     | 700      | 700      | 2,800    | 3,100    | 3,400    |
| EBITDA             | 13,239  | 14,427  | 16,320  | 6,221   | 6,652   | 7,551   | 7,112   | 28,018  | 9,208   | 10,317  | 10,594   | 11,092   | 41,211   | 52,861   | 65,602   |
| EBITDA Margin      | 11.12%  | 10.26%  | 10.40%  | 13.17%  | 12.90%  | 12.36%  | 11.61%  | 12.67%  | 12.91%  | 13.84%  | 13.54%   | 13.50%   | 13.46%   | 13.28%   | 13.18%   |

### Enterprise Value

|                 |         |
|-----------------|---------|
| Market Cap      | 432,066 |
| Preferred       | 19,250  |
| Debt            | 110,000 |
| Cash            | 30,575  |
| EV              | 530,741 |
| Intrinsic Value | 34,493  |
| All In EV       | 565,234 |

The overall debt figure used for the Enterprise Value includes the amount of convertible debt. This issuance was left out of the common equity calculation since it is currently unfavorable for the debt holders to exchange their bonds for equity. A stock

| Relative Valuation  |         |
|---------------------|---------|
| Climate 2008 EBITDA | 52,861  |
| Competitive Ratio   | 12.11   |
| Climate Control EV  | 640,389 |
| Chemical EV         | 200,000 |
| Total EV            | 840,389 |
| Less Preferred      | 19,250  |
| Less Debt           | 110,000 |
| Plus Cash           | 30,575  |
| Equity Value        | 741,714 |
| Shares Outstanding  | 20,575  |
| Implied Share Price | 36.05   |

The companies used to compare LXU's Climate Control Division were WFI a Canadian geothermal competitor and GGL which is an HVAC company. By using these two firms a more accurate valuation multiple was obtained for the Climate Control sector.

| Comparables |         |         |           |
|-------------|---------|---------|-----------|
|             | LXU     | WFI     | GGL       |
| EV          | 330,741 | 329,270 | 2,420,470 |
| 2008 EBITDA | 52,861  | 20,730  | 290,040   |
| EV/EBITDA   | 6.26    | 15.88   | 8.35      |

The Current Price of Ammonium Nitrate according to the LSB Sales Team is \$264 per short ton

| Chemical EV Sensitivity Analysis |         |
|----------------------------------|---------|
| Chemical EV                      | 225,000 |
| Total Firm Value                 | 865,389 |
| Equity Value                     | 766,714 |
| Implied Share Price              | 37.27   |