



Chinese Medicine

2-8 Easy 10-Baggers in 5 Years

September 27, 2009

By being underconfident in one's abilities as opposed to overconfident, you can potentially overstep common sources of miscalculation and tragedy. What you don't know has more of an impact on your future than what you know. Under this mental framework, you can effectively make uncertainty work for you or against you. You make it work against you when you buy companies where the growth expectations are priced in and not meeting expectations will potentially crash the stock price. You can make it work for by buying companies that are priced to shrink and are set to grow.

MGMT 602
Group 10
Joe Garrott
Stoyan Atanasov
Peter Greco
Glen Bradford

Chinese Medicine: 2-8 Easy 10-Baggers in 5 Years

Abstract

We were assigned the virtually impossible MBA task of comparing two companies in the same industry and rating them like your average stock analyst would do. You can reference the assignment in **Appendix A**. We chose to go beyond the scope of this project and pick 2 companies in Chinese Medicine that we strongly feel will not lose money in the next 5 years if you owned them at today's prices. This includes the likely huge devaluation of the dollar that may result from the reversal of the flight to safety that occurred in the financial crisis of 2008.

We will do this by illustrating what the current price forecasts the company to do and show the discrepancy between this and what they are actually likely to do based on our limited information that we have gathered from company and industry reports. One of the main purposes of this document is to provide a historical reference to one of the group member's stock picking abilities. There are likely things that we do not yet know that we will know at a future date that will change our estimates going forward. On top of this, we will briefly cover 6 other 10-baggers in the next 5 years. *Disclaimer: This member owns LTUS and SKBI and some of the other 6.*

Introduction

Basically, most analysts offer buy/sell/hold recommendations for stocks all the time. They even go as far as to say some stocks are strong buys and strong sells. Instead of wasting our time doing this, we intend to break it down to the basics and just decide to not own any company unless it is suggestible that not owning the company doesn't make sense. For example, if someone was selling new Lamborghinis that you could touch, drive, and have the mechanic look at; it wouldn't make sense to buy as many as you could if the price was \$1,000. We call this approach the "Do not lose" approach as you overlook opportunities that can make you money and you take opportunities where the risk of loss appears to be negligible in the long run.

Basically all we did was take the current facts and use the current price to forecast what the underlying fundamentals were priced to do next year. If the company is priced to shrink and set to grow, we find it difficult trying to justify not owning it.

Industry Analysis

Included in the last page before the appendix are 6 other companies in the industry that are what we consider to be ridiculously cheap with an attached brief description. We feel that over time the rising tide will lift all boats as investors realize that this sector is ridiculously cheap and accumulate at lower prices and tell their friends. Right now, awareness is low and so are the prices. There are a lot of stimulus dollars headed into the industry and the rise of the health conscious middle-class Chinese consumer will pull business through the medical pipeline. As of right now, the Chinese healthcare industry relies heavily on imports. Companies like these are expanding as fast as they possibly can in the midst of what used to be a credit crunch to meet the growing consumer demands.

Company Analysis & Conclusion

The next two pages cover this analysis on a company basis and the following page briefly covers 6 other 10-baggers in the next 5 years. If forced to choose, Lotus is superior to Skystar.

Name	Lotus Pharmaceuticals, Inc.	BUY	Ticker	LTUS
-------------	-----------------------------	------------	--------	------

Brief Description

Lotus Pharmaceuticals, Inc. (Lotus) operates, controls and owns the pharmaceutical businesses in China of Beijing Liang Fang Pharmaceutical Co., Ltd. (Liang Fang) and Beijing En Zhe Jia Shi Pharmaceutical Co., Ltd. (En Zhe Jia), collectively Lotus East. Lotus provides business consulting and other general business operation services to Lotus East. Liang Fang is engaged in the production, trade and retailing of pharmaceuticals, focusing on the development of medicines. Liang Fang owns and operates 10 drug stores throughout Beijing, China that sell Western and traditional Chinese medications, lease medical treatment facilities to licensed physicians, and generate revenues from the leasing of retail space to third party vendors and the leasing of advertising locations at its retail stores. En Zhe Jia is a manufacturer for Liang Fang and maintains facilities for the production of medicines, Chinese medicine, as well as the research and production of other new medicines.

Big Catalysts

\$36/\$51M construction-in-progress for new facility; mostly being financed out of working capital
Company Forecast: 30-40% growth in 2009 over 2008
China's Universal Healthcare Plan

Actual

All numbers in millions except share price

Price	\$ 0.79
Diluted Shares Outstanding	50
Diluted Market Cap	\$ 40

(ttm)

Revenues	\$ 66
Gross Profit	\$ 33
Net Income	\$ 18
Cash from Operations	\$ 48

Accounts Receivable	\$ 2
Adjusted Book Value	\$ 32

P/E	2.1944
P/B	1.2344
P/S	0.5985

Estimated Growth:	30%
--------------------------	-----

Priced in Forecast

All numbers in millions except share price

Price	0.79
Diluted Shares Outstanding	50
Diluted Market Cap	\$ 40

Next Year Price Forecast

Revenues	\$ 39.5
Gross Profit	\$ 19.8
Net Income	\$ 4.9
Cash from Operations	\$ 28.7

Accounts Receivable	\$ 2.0
Adjusted Book Value	\$ 39.5

P/E	8
P/B	1
P/S	1

Priced Growth:	-40%
-----------------------	------

Verdict:

Since the current price suggests that the company is going to shrink 40% and Lotus is likely to grow by at least 30%, we can be reasonably confident that owning at the current price will not lose investing dollars.

None of the above is intended as investment advice. I can't guarantee the information I gathered is from an accurate source. I may buy or sell any stock or security without prior notice.

Disclaimer: <http://www.glenbradford.com/disclaimer.php>

CHME – China Medicine Corporation

China Medicine Corporation is a distributor of pharmaceutical and medical products in the People's Republic of China (PRC), including prescription and over-the-counter drugs, Chinese herbs, traditional Chinese medicines made from Chinese herbs, nutritional supplements, dietary supplements, and medical instruments. The Company is also engaged in research and development with the aim of creating new pharmaceutical products and intellectual property that it may sell in the future. During the year ended December 31, 2008, 97.5% of its total revenues came from product sales and 2.5% came from sales of intellectual property. Through Guangzhou Konzern Medicine Co., Ltd. (Konzern), the Company's wholly owned subsidiary, it deals in approximately 2,400 pharmaceutical products in China. The Company also sells improved drug formulas after purchasing the rights to drug formulas at an early stage of development and improving those formulas through its own research.

SGTI – Shengtai Pharmaceutical Inc

We are through our wholly-owned subsidiary, Weifang Shengtai, a PRC-based company, a leading manufacturer and supplier of glucose products in the PRC. Our products include pharmaceutical grade glucose used for medical purposes, and glucose and starch products for the food and beverage industry, and for industrial production. Most of our sales are made domestically in the PRC.

CYXN - China Yongxin Pharmaceuticals Inc

China Yongxin Pharmaceuticals Inc, formerly NutraDyne Group, Inc. through Changchun Yongxin Dirui Medical Co., Ltd. (Yongxin) and its subsidiaries, the Company is engaged in the wholesale distribution of pharmaceuticals and medical-related products, and the sale and distribution of pharmaceuticals, health and beauty products, ginseng and herbal supplements, and other healthcare products through retail operations in the People's Republic of China (PRC). The Company operates in three segments: the wholesale of pharmaceuticals and other medical-related products, the operation of retail drugstores, and the cultivation and processing of ginseng. The Company also owns a digital e-learning business through its wholly owned subsidiary, Digital Learning Institute Inc. (Digital Learning) and through Digital Learning's wholly owned subsidiaries. In May 2008, China Yongxin Pharmaceuticals Inc completed its reverse merger with Nutradyne Group, Inc.

BSPM - Biostar Pharmaceuticals, Inc.

Biostar Pharmaceuticals, Inc. (Biostar), through its subsidiary, Shaanxi Aoxing Pharmaceutical Co., Ltd. (Aoxing Pharmaceutical), is engaged in the business of discovering, developing, manufacturing and marketing of over-the-counter (OTC) and prescription pharmaceutical products, as well as medical supplement products. The Company's medical supplement products include capsules, granules and powder type medicines for a variety of diseases and conditions, such as hepatitis, gynecopathy and various male diseases. Shaanxi Biostar BioTech Ltd (Shaanxi Biostar) is the Company's wholly owned subsidiary in the People's Republic of China. Aoxing Pharmaceutical's products are derived from medicinal herbs. Aoxing Pharmaceutical manufactures five drugs and ten nutrients, which are sold in over 30 provinces in the People's Republic of China.

CBPO - China Biologic Products, Inc.

China Biologic Products, Inc. (China Biologic) is a biopharmaceutical company and through its indirect majority-owned Chinese subsidiary, Shandong Taibang. The Company is engaged in the research, development, production and manufacturing of plasma-based pharmaceutical products in China. Taibang operates from its manufacturing facility located in Taian City, Shandong Province. The Company's principal products include its approved human albumin and immunoglobulin products. The Company is approved to sell human albumin 20%/10ml, 20%/25ml and 20%/50ml. Human albumin is its top-selling product. Sales of these human albumin products represented approximately 57.8% of its total revenues, for the years ended December 31, 2008. In June 2008, the Company received approval from the Guangxi Province Bureau of Health to set up a new plasma collection station in Pu Bei County, Guangxi Province.

WKBT - Weikang Bio-Technology Group Co Ltd

Weikang Bio-Technology Group Co., Inc. (WKBT), formerly Expedition Leasing, Inc., through Heilongjiang Weikang Biotechnology Group Co., Ltd. (Heilongjiang Weikang), is principally engaged in developing, manufacturing and distributing health and nutritional supplements in China. Heilongjiang Weikang is a wholly owned subsidiary of Sinary Bio-Technology Holdings Group, Inc. (Sinary), which is a wholly owned subsidiary of the Company. Heilongjiang Weikang manufactures and distributes a series of internally developed health supplements under a Chinese name, which English transliteration is Rongrun. The Rongrun line of products includes Rongrun Youth Keeping Capsules, Rongrun Energy Keeping Capsules, Rongrun Vitamin Sugar Capsules, Rongrun Intestine Cleansing Capsules and Rongrun Artery Cleansing Capsules. On July 22, 2008, Heilongjiang Weikang acquired Tianfang (Guizhou) Pharmaceutical Co., Ltd. (Tianfang).



APPENDIX A: *The Assignment*

School of Management – Purdue University

MGMT 602 – Fall 2009 – Group project due Thursday, October 8, 2009.

Prepare an analysis of two competing companies in a chosen industry. The analysis should include an analysis of the industry, an analysis of each company's financials, and a recommendation to either buy or sell short each stock. The investment time horizon for the recommendation is one to two years. The expectation is that your group select small or mid-sized companies only – no blue chips or large capitalization companies.

You should rank the prospects of each company. If you decide to make a buy recommendation on both stocks you should recommend a preferred investment as if it were possible to only purchase one stock.

The industry selected and the two companies within that industry should be approved by Professor Greig before the detailed analysis is commenced.

Possible industries (although you are not limited to those listed):

1. Solar Energy: Ascent Solar Technologies (ASTI), Energy Conversion Devices (ENER), Evergreen Solar (ESLR), First Solar (FSLR), SunPower Corp (SPWR), Yingli Green Energy Holding (YGE).
2. For-Profit Education Companies: Apollo Group (APOL), Career Education Corp (CECO), Corinthian Colleges (COCO), DeVry (DV), ITT Educational Services (ESI), Strayer Education (STRA).
3. Biotech Companies: Sequenom (SQNM), Vivus (VVUS), Acorda Therapeutics (ACOR), Halozyme Therapeutics (HALO), Exactech (EXAC), Celgene (CELG).
4. Cosmeceuticals: Abaxis (ABAX), Advanced Medical Optics (EYE), Align Technology (ALGN), Medicis (MRX), Mentor (MNT).
5. Generic Drugs: APP Pharmaceuticals (APPX), Barr Pharmaceuticals (BRL), Dr. Reddy's Labs (RDY), Mylan (MYL), Par Pharmaceutical (PRX), Watson Pharmaceuticals (WPI).
6. Healthcare IT: Cerner (CERN), Eclipsys (ECLP), Allscripts (MDRX), Omnicell (OMCL), Phase Forward (PFWD), Quality Systems (QSII).