CCBC

As mentioned by my teammates, Cordlife is worth investing. However, the market seems to disapproves our point as the stock price has dropped over 30% since 25 August.

There were three main financial news on that day. Cordlife’s financial results atually trampled investor’s expectation. However, the optimistic sentiment was reversed by the acquisition of CCBC’s convertible bonds and the loan to Magnum Funds.

Investors mainly concerned about a potential loss of S$50m if the convertible bonds go out-of-money. However, given the CCBC’s positive outlook and strong financials, this is a highly unlikely event.

Investors also worried that Cordlife would not establish its access to Chinese market by investing heavily in CCBC. The fact is that Cordlife expects to reveice earning from Chinese market from FY2015.

Therefore, CCBC instead of being a major concern, is atually an undervalued upside catalyst for Cordlife.

Valuation:

We use both DCF models and Relative Valuation model to estimate Cordlife’s stock price as while we think that the ability to generate free cash flows is essential, we also want to consider Cordlife’s market value.

Our DCF model contains 5 major estimations such as revenue, gross profit margin and operating expenses.

To project future revenue, we first distinguish current revenue by region and find out the potential customers in each region to get the average revenue per customer.

We then project the increase in potential cutomser and average revenue per customer to get projected future revenue, which has a CAGR of 21.9%.

Together with other assumptions, we can then calculate the intrinsic value of cordlife.

We also use multiples to estimate the price of Cordlife. After selecting its peers such as stemlife, CCBC and cryolife, we use peer’s median and mean value to get a grand average of $1.32.

By combining these two methods, we arrive at a 12M target price of 1.19 and reward risk ratio of 5x.