



## American Oriental Bioengineering

### Analyst Highlights

<b>Recommendation:</b>	<b>BUY</b>
<b>Current Price:</b>	\$7.20
<b>Target Price:</b>	\$12.00
<b>Forecast Stock Return:</b>	66.7%
<b>2-yr Est. CAGR:</b>	32.3%

### Street Estimates

	<u>2006A</u>	<u>2007E</u>	<u>2008E</u>
<b>EPS</b>	\$0.46	\$0.59	\$0.72
<b>P/E</b>	15.7	12.2	10.0
<b>Revenue</b>	\$110	\$149	\$193
<b>P/S</b>	4.2	3.1	2.4

### Price History



### Company Information

<b>Ticker:</b>	AOB
<b>Industry:</b>	Pharmaceutical
<b>Insider Ownership:</b>	0%
<b>Cash &amp; Equiv (000's):</b>	\$93
<b>Debt (000's):</b>	\$10

### Key Stock Statistics

<b>Average Volume (000's):</b>	1,761
<b>52-Week High:</b>	\$14.19
<b>52-Week Low:</b>	\$4.77
<b>Market Capitalization:</b>	\$466
<b>Shares Outstanding:</b>	64.8

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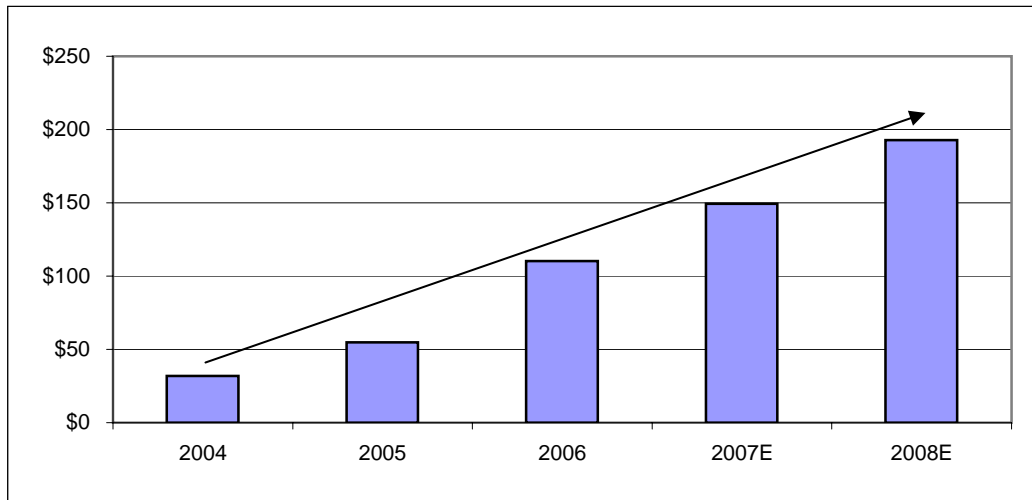
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## Company Overview

American Oriental Bioengineering, Inc., together with its subsidiaries, engages in the development, manufacture, and commercialization of plant-based pharmaceutical (PBP) and plant-based nutraceutical (PBN) products. It provides PBP products that include Shuanghuanlian Lyophilized injection powder, an anti-viral injection for treating respiratory diseases; Cease Enuresis Soft Gel and Patch, a prescription medicine formulated to help alleviate bed-wetting and incontinence, as well as offers over-the-counter drugs, such as Jinji capsules and pills to treat endometritis, annexitis, and pelvic inflammations; and Double Ginseng Yishen grains for people suffering from neurosis, vegetative nerve functional disturbance, and hypo-immunity. The company's PBN products include soy peptide products series, which offers soy peptide tablets, powder, and coffee; and compound bio-functional beverage that is derived from honey products, marine plants, and natural herbs. It sells its products directly to retail stores, pharmacies, hospitals, and to independent distributors. American Oriental Bioengineering is based in Shenzhen, China.

## Growth Story

	2004	2005	2006	2007E	2008E	CAGR
<b>Revenue</b>	\$32	\$55	\$110	\$149	\$193	57%



## Investment Thesis

### 1. Valuation

With shares declining close to 40% since the follow-on offering in May, we believe AOB is currently offers a very attractive entry point and the potential for extraordinary double-digit returns over the next 12-18 months.

### 2. Market opportunity

China is currently the 7th largest market in the world pharmaceutical industry and will become the third largest market in the next few years. The pharmaceutical and nutraceutical market in China has experienced significant growth in the past few years. Expenditures on medicine, including western pharmaceuticals and Traditional Chinese Medicine (TCM), reached approximately \$36.4 billion, by the end of 2005.

### 3. Strong growth story

From 2004 to 2006, AOB achieved impressive top line compound annual growth rate (CAGR) of 86%. This high CAGR has been achieved both through acquisitions and through organic growth. This strong growth is expected to continue into 2007 and 2008.

### 4. Strong Balance Sheet

With over \$90M in cash and little debt, AOB is well-positioned to weather any downturn in their business.

### 5. Improving economics

The rapid growth of the Chinese pharmaceutical industry has primarily been driven by improving standards of living, the increase in disposable income, population growth, the aging population, and the increase in government spending on public health care.

### 6. International exposure

AOB is well positioned to ride the wave of Chinese economic hyper-growth and increased healthcare spending in the next few years.

## Valuation

We are initiating research coverage of American Oriental Bioengineering, Inc. (AOB) with a BUY rating and a \$12 price target. Our \$12 price target is based on a 16.7x P/E multiple on the consensus 2008 EPS estimates. This prices AOB's shares at a slight discount to its peer group which currently trades at a 17.3x P/E multiple for 2008. This valuation doesn't not take into account any potential strategic acquisitions which could have a material impact on the 2008 estimates.

## Sector - Internet Content

### Peer Group

Company	Current Price	P/E Valuation			P/S Valuation		
		<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
American Oriental Bioengineering	\$7.20	15.7	12.2	10.0	4.2	3.1	2.4
Teva Pharmaceuticals	\$42.02	18.3	18.6	16.2	3.8	3.5	3.1
Mindray Medical International	\$31.00	64.6	48.4	35.2	16.9	11.6	8.3
Simcere Pharmaceutical	\$11.85		19.8	14.6		0.6	0.4
Bradley Pharmaceuticals	\$16.04	16.9	22.3	14.7	1.9	1.7	1.5
Tongitang Chinese Medicine	\$11.89		13.5	12.8		0.7	0.5

<i>Average</i>	<i>28.8</i>	<i>22.5</i>	<i>17.3</i>	<i>6.7</i>	<i>3.5</i>	<i>2.7</i>
<i>Median</i>	<i>17.6</i>	<i>19.2</i>	<i>14.7</i>	<i>4.0</i>	<i>2.4</i>	<i>2.0</i>
<i>Average excl High &amp; Low</i>	<i>17.6</i>	<i>18.5</i>	<i>14.6</i>	<i>4.0</i>	<i>2.2</i>	<i>1.9</i>

### Consensus Estimates

Ticker	EPS			Revenue			Shares
	<u>2006A</u>	<u>2007E</u>	<u>2008E</u>	<u>2006A</u>	<u>2007E</u>	<u>2008E</u>	<u>Outstanding</u>
AOB	\$0.46	\$0.59	\$0.72	\$110	\$149	\$193	64.8
TEVA	\$2.30	\$2.26	\$2.60	\$8,410	\$9,240	\$10,350	764.0
MR	\$0.48	\$0.64	\$0.88	\$194	\$283	\$397	105.7
SCR		\$0.60	\$0.81		\$1,330	\$1,710	62.5
BDY	\$0.95	\$0.72	\$1.09	\$145	\$158	\$178	16.9
TCM		\$0.88	\$0.93		\$602	\$765	33.4

## Price-Earnings Valuation

### 2006

		Price Multiple						
		25.8	26.8	27.8	28.8	29.8	30.8	31.8
E P S	\$ 0.43	\$11.11	\$11.54	\$11.97	\$12.40	\$12.83	\$13.26	\$13.69
	\$ 0.44	\$11.37	\$11.81	\$12.25	\$12.69	\$13.13	\$13.57	\$14.01
	\$ 0.45	\$11.63	\$12.08	\$12.53	\$12.98	\$13.43	\$13.88	\$14.33
	\$ 0.46	\$11.89	\$12.35	\$12.81	\$13.27	\$13.73	\$14.19	\$14.65
	\$ 0.47	\$12.15	\$12.62	\$13.09	\$13.56	\$14.03	\$14.50	\$14.97
	\$ 0.48	\$12.41	\$12.89	\$13.37	\$13.85	\$14.33	\$14.81	\$15.29
	\$ 0.49	\$12.67	\$13.16	\$13.65	\$14.14	\$14.63	\$15.12	\$15.61

### 2007

		Price Multiple						
		19.5	20.5	21.5	22.5	23.5	24.5	25.5
E P S	\$ 0.56	\$10.90	\$11.46	\$12.02	\$12.58	\$13.14	\$13.70	\$14.26
	\$ 0.57	\$11.09	\$11.66	\$12.23	\$12.80	\$13.37	\$13.94	\$14.51
	\$ 0.58	\$11.29	\$11.87	\$12.45	\$13.03	\$13.61	\$14.19	\$14.77
	\$ 0.59	\$11.48	\$12.07	\$12.66	\$13.25	\$13.84	\$14.43	\$15.02
	\$ 0.60	\$11.68	\$12.28	\$12.88	\$13.48	\$14.08	\$14.68	\$15.28
	\$ 0.61	\$11.87	\$12.48	\$13.09	\$13.70	\$14.31	\$14.92	\$15.53
	\$ 0.62	\$12.07	\$12.69	\$13.31	\$13.93	\$14.55	\$15.17	\$15.79

### 2008

		Price Multiple						
		14.3	15.3	16.3	17.3	18.3	19.3	20.3
E P S	\$ 0.69	\$9.83	\$10.52	\$11.21	\$11.90	\$12.59	\$13.28	\$13.97
	\$ 0.70	\$9.98	\$10.68	\$11.38	\$12.08	\$12.78	\$13.48	\$14.18
	\$ 0.71	\$10.12	\$10.83	\$11.54	\$12.25	\$12.96	\$13.67	\$14.38
	\$ 0.72	\$10.26	\$10.98	\$11.70	\$12.42	\$13.14	\$13.86	\$14.58
	\$ 0.73	\$10.40	\$11.13	\$11.86	\$12.59	\$13.32	\$14.05	\$14.78
	\$ 0.74	\$10.55	\$11.29	\$12.03	\$12.77	\$13.51	\$14.25	\$14.99
	\$ 0.75	\$10.69	\$11.44	\$12.19	\$12.94	\$13.69	\$14.44	\$15.19

## Price-Sales Valuation

### 2006

		Price Multiple						
		5.2	5.7	6.2	6.7	7.2	7.7	8.2
E P S	\$ 1.67	\$8.69	\$9.52	\$10.36	\$11.20	\$12.03	\$12.87	\$13.70
	\$ 1.68	\$8.74	\$9.58	\$10.42	\$11.26	\$12.10	\$12.94	\$13.78
	\$ 1.69	\$8.79	\$9.64	\$10.48	\$11.33	\$12.17	\$13.02	\$13.87
	\$ 1.70	\$8.85	\$9.70	\$10.55	\$11.40	\$12.25	\$13.10	\$13.95
	\$ 1.71	\$8.90	\$9.75	\$10.61	\$11.46	\$12.32	\$13.17	\$14.03
	\$ 1.72	\$8.95	\$9.81	\$10.67	\$11.53	\$12.39	\$13.25	\$14.11
	\$ 1.73	\$9.00	\$9.87	\$10.73	\$11.60	\$12.46	\$13.33	\$14.19

### 2007

		Price Multiple						
		2.0	2.5	3.0	3.5	4.0	4.5	5.0
E P S	\$ 2.27	\$4.59	\$5.72	\$6.86	\$8.00	\$9.13	\$10.27	\$11.41
	\$ 2.28	\$4.61	\$5.75	\$6.89	\$8.03	\$9.17	\$10.32	\$11.46
	\$ 2.29	\$4.63	\$5.77	\$6.92	\$8.07	\$9.21	\$10.36	\$11.51
	\$ 2.30	\$4.65	\$5.80	\$6.95	\$8.10	\$9.25	\$10.41	\$11.56
	\$ 2.31	\$4.67	\$5.82	\$6.98	\$8.14	\$9.29	\$10.45	\$11.61
	\$ 2.32	\$4.69	\$5.85	\$7.01	\$8.17	\$9.33	\$10.50	\$11.66
	\$ 2.33	\$4.71	\$5.87	\$7.04	\$8.21	\$9.37	\$10.54	\$11.71

### 2008

		Price Multiple						
		1.2	1.7	2.2	2.7	3.2	3.7	4.2
E P S	\$ 2.95	\$3.56	\$5.03	\$6.50	\$7.98	\$9.45	\$10.92	\$12.40
	\$ 2.96	\$3.57	\$5.05	\$6.53	\$8.01	\$9.48	\$10.96	\$12.44
	\$ 2.97	\$3.58	\$5.07	\$6.55	\$8.03	\$9.52	\$11.00	\$12.48
	\$ 2.98	\$3.59	\$5.08	\$6.57	\$8.06	\$9.55	\$11.04	\$12.52
	\$ 2.99	\$3.61	\$5.10	\$6.59	\$8.09	\$9.58	\$11.07	\$12.57
	\$ 3.00	\$3.62	\$5.12	\$6.61	\$8.11	\$9.61	\$11.11	\$12.61
	\$ 3.01	\$3.63	\$5.13	\$6.64	\$8.14	\$9.64	\$11.15	\$12.65

## Analyst Certification

I, Josh Goodwin, research analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

## Rating Methodology

Our investment rating system is three tiered, defined as follows:

- Buy**        We expect this stock to outperform the S&P 500 by more than 10% over the next 12-18 months.
- Hold**       We expect this stock's total return will be in line with the average total return of the S&P 500 over the next 12-18 months.
- Sell**        We expect this stock to underperform the S&P 500 by more than 10% of the S&P 500 over the next 12-18 months and believe the stock could decline in value.

## Disclosures

The ratings reflect the opinion of the individual analyst and are subject to change at any time.

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