

Report

Equities | China | Manufacturing
August 20th, 2012

China Specialty Glass AG

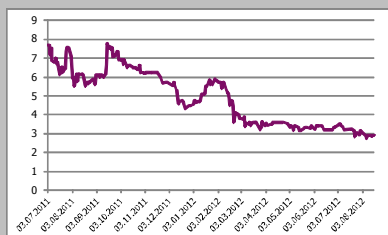


Rating: Buy
Risk: High
Price: EUR 2.80
Fair Value: EUR 6.80
Sector: Manufacturing
Reuters: 8GSG.DE
Bloomberg: 8GSG GR
Home Page: www.csg-ag.de
Fiscal ,Year End: December

Trading Data:

High –Low 52w (EUR): 7.70 – 2.7
Market Cap (in EUR m): 49.6
Shares Outst. (in m): 17.7
Free Float: 20.4%

Price Chart:



Financial Calendar:

August 30th, 2012: H1 2012

Date and time of Prices:
August 20th, 2012, 09:30 CET
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Attention is drawn to the disclaimer and other information on page 27

Unbreakable

China Specialty Glass AG went public in July 2011 and is focusing on producing and distributing security glass for the banking, automobile and construction industry. The company reported satisfying Q1 2012 results. Sales gained 10.7% to EUR 18.2m, net profit reached EUR 5.2m. Net margins are with 28.7% still exceptionally high, but are lower than in the comparable quarter last year.

A much acclaimed distribution agreement with a subsidiary of the French Saint Gobain was stopped beginning 2012, causing some general insecurity and impairment costs in 2011. Consequently, the stock price fell. Now, settlement has been reached. No additional charges will arise in 2012.

Our fair value per share is EUR 6.8, which is equal to a total company value of EUR 120.9m.

Main Points

- › The company is building a new construction site in Chengdu, which should help to expand the business to the Northern and Western part of China. Newly hired salespeople should support this.
- › Enforced Research & Development efforts will lead to new product launches. First successful developments can already be reported in the construction segment.
- › Major risks lay in possible wage increases and in a general slowdown of the Chinese economy, what would lead to a lower demand for China Specialty Glass products.

Financials

For 2012 we expect a sales growth of 26.7% to EUR 97.5m compared to 2011. 2012 net profit should be EUR 26.7m, equal to a net profit margin of 27.4%. For 2013 we calculate with a sales growth of 13.5% to EUR 110.6m and a net margin of 27.0%.

Valuation

To calculate the company value we have used a DCF model and combined it with a peer group analysis. Both methods are equally weighted. Due to the high risk exposure of the company, we have used a WACC of 15.0%, when calculating the fair DCF value.

(in EUR m)	2010	2011	2012E	2013E
Sales	69.56	76.88	97.45	110.61
Growth rates		10.5%	26.7%	13.5%
EBIT Margins	37.5%	31.9%	36.1%	35.4%
Net Profit	22.11	20.84	26.66	29.85
EPS		0.00	1.51	1.69
P/Sales			0.51	0.45
P/E			1.9	1.7
P/B			0.50	0.39

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Executive Summary

- China Specialty Glass AG is focusing on producing and distributing specialty glass for the banking, automobile and construction industry. The operating company – Hing Wah Glass Industry - was founded 1994 and has its main production site and offices in Guangzhou/China. The company has currently 538 employees.
- The German AG has its headquarter in Grünwald/Bavaria and is listed at the "Entry Standard" of the Frankfurt Stock Exchange in Germany since July 2011.
- Products are so far solely sold in China and can be classified into three categories: security glass (sales allocation Q1 2012: 36%), banking security glass (Q1 2012: 48%) and construction glass (Q1 2012: 16%). Main product characteristics and advantages are the high resistance (bulletproof, unbreakable, fire resistant etc.), the very high quality and the ability to produce individually with client focused designs.
- China Specialty Glass AG is the market leader in its field. In 2011 the company had a 60.7% market share in banking security glass and a 52.3% market share in automotive glass.
- We see the major company risk in a slowdown of the Chinese economy and consequently in a decrease in product demand. Additionally, there is the risk that the upcoming future regional expansion plan might be unsuccessful and new products might not meet customers' demand. Last but not least, the company is highly dependent on the development of glass prices, as it is purchasing flat glass as a raw material. A price increase would consequently reduce margins.
- A partnership with a subsidiary of the French "Saint Gobain Glass France" was terminated beginning 2011. Starting with high hopes, separation ended with an impairment loss in 2011 and some other related costs, which was hurting the company. No additional charges will rise in 2012.
- Main growth drivers will be an increase in production capacity and consequently the ability to produce at higher volumes. The company has already opened partially a new and modern production site in Chengdu, Sichuan. This should support China Specialty Glass AG to expand regionally to other Chinese provinces. New sales representatives should help to expand into new areas. Additionally, we expect growth coming from new product launches as well as new applications.
- We expect the company to continue its growth path in the coming years. For fiscal year 2012 we calculate with a sales growth of 26.7% resulting in sales of EUR 97.5m. Net margins should be 27.4%. In 2013 sales growth should be 13.5% with a net margin of 27.0%.
- Combining a DCF Model with a peer group analysis our fair valuation of the company is EUR 120.9m or EUR 6.8 per share.

SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • The company has a dominant market position in its segment. • High efficiency and high technology standards lead to above average margins. • New production site will make vertical expansion possible. • Diversified customer base makes the company independent from a single client. 	<ul style="list-style-type: none"> • General wage increases might put pressure on profit margins. • Business model is capital intensive as machines are expensive. • Order visibility is low in general. • Company is dependent on pricing development of flat glass.
Opportunities	Risks
<ul style="list-style-type: none"> • Company is investing quite substantially in research of developing new products. • The company plans to expand into new regions in China and also - in the long-run - abroad. • We expect the company to expand vertically into new markets. 	<ul style="list-style-type: none"> • The competitive environment is increasing, internationally as well as in China. • New construction or renovation of bank branches might slow down, reducing the demand for security glass. • Economic slowdown in China would generally decrease product demand.

Short to Mid-term Catalysts

We expect news-flow to increase in the next couple of months as the company puts more emphasis on Investors Relations.

China Specialty Glass AG

Valuation

We calculate the fair value of China Specialty Glass AG by combining a Discounted Cash Flow Model with a Peer group analysis.

We have weighted the peer group analysis with 50% and the DCF Model with 50%. The combination of the two analysis methods resulted in a fair value of EUR 120.9m, which is equal to a value of EUR 6.8 per share.

Our recommendation is a speculative BUY.

Blended Valuation of China Specialty Glass AG

Method in EUR	Fair Value m	Fair Value per share	Weight	Blended m	Blended per share
Peer Group Analysis	119.6	6.8	50%	120.9	6.8
DCF Model	122.2	6.9	50%		

Source: VEM Aktienbank AG

Discounted Cash flow Model

We have used the Free Cash Flow to Equity (FCFE) in order to calculate the DCF value of the equity of China Specialty Glass AG. We calculate with a long-term growth rate of 2.5%. Due to the high risk of the company our WACC is 15%. Using the DCF method our fair value of the company is EUR 122.2, which corresponds to value per share of EUR 6.9.

DCF Model

(in EUR m)	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Net Income	26.66	29.85	31.82	33.64	35.18	30.19	18.84
(+) Depreciation and Amortisation	1.93	5.67	6.26	6.85	7.46	12.88	13.40
(-) Cash flow from working capital	(1.20)	(0.14)	(3.46)	(3.32)	(3.48)	(3.69)	(3.84)
(-) Capital Expenditure	(58.04)	(14.51)	(15.24)	(16.00)	(16.80)	(12.88)	(13.40)
(-) Net Debt repayments	-	-	-	-	-	-	-
FCFE	(30.66)	20.86	19.39	21.17	22.37	26.51	15.01
FCFE adjusted for valuation date	(30.66)	20.86	19.39	21.17	22.37	26.51	15.01
PV of cash flows	(29.03)	17.18	13.88	13.18	12.11	12.48	6.14
Sum of PV - First Phase	2.02						
Sum of PV - Second Phase	43.92						
Terminal Value growth Rate	2.5%						
Terminal Value	123.05						
PV of Terminal Value	50.37						
PV of FCFE	96.31						
(+) Cash	25.91						
Target Value	122.22						

China Specialty Glass AG

Summary of DCF Valuation	Value	% of Total
PV of First Stage	2.02	1.7%
PV Second Stage	43.92	35.9%
PV of Terminal Value	50.37	41.2%
Cash	25.91	21.2%
Target Price	122.22	100.0%

Cost of Equity	
Cost of Equity	15.00%
Beta	1.45
Risk Premium	7.0%
Risk Free rate	3.0%

Source: VEM Aktienbank AG

Sensitivity Analysis

Our sensitivity analysis shows valuations under various assumptions.

Company Value in EUR m							Value per Share in EUR						
Lt. Growth Rate	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	Lt. Growth Rate	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
WACC							WACC						
9.0%	196.2	204.1	213.1	223.4	235.5	249.8	9.0%	11.1	11.5	12.0	12.6	13.3	14.1
9.5%	185.4	192.2	199.8	208.6	218.7	230.5	9.5%	10.5	10.9	11.3	11.8	12.4	13.0
10.0%	175.7	181.6	188.2	195.7	204.2	214.1	10.0%	9.9	10.3	10.6	11.1	11.5	12.1
10.5%	167.1	172.2	177.9	184.4	191.7	200.0	10.5%	9.4	9.7	10.1	10.4	10.8	11.3
11.0%	159.2	163.7	168.7	174.3	180.6	187.7	11.0%	9.0	9.3	9.5	9.8	10.2	10.6
11.5%	152.1	156.1	160.5	165.4	170.8	177.0	11.5%	8.6	8.8	9.1	9.3	9.7	10.0
12.0%	145.7	149.2	153.1	157.3	162.1	167.4	12.0%	8.2	8.4	8.6	8.9	9.2	9.5
12.5%	139.7	142.9	146.3	150.1	154.3	158.9	12.5%	7.9	8.1	8.3	8.5	8.7	9.0
13.0%	134.3	137.1	140.1	143.5	147.2	151.3	13.0%	7.6	7.7	7.9	8.1	8.3	8.5
13.5%	129.2	131.7	134.5	137.5	140.8	144.4	13.5%	7.3	7.4	7.6	7.8	8.0	8.2
14.0%	124.5	126.8	129.3	132.0	134.9	138.1	14.0%	7.0	7.2	7.3	7.5	7.6	7.8
14.5%	120.2	122.3	124.5	126.9	129.5	132.4	14.5%	6.8	6.9	7.0	7.2	7.3	7.5
15.0%	116.2	118.0	120.1	122.2	124.6	127.1	15.0%	6.6	6.7	6.8	6.9	7.0	7.2
15.5%	112.4	114.1	115.9	117.9	120.0	122.3	15.5%	6.4	6.4	6.5	6.7	6.8	6.9
16.0%	108.9	110.4	112.1	113.9	115.8	117.9	16.0%	6.2	6.2	6.3	6.4	6.5	6.7

Source: Reuters, VEM Aktienbank AG

Peer Group Analysis

In our peer group we have decided to include mainly Chinese companies selling glass related products. We have chosen as well one German company: Gerresheimer AG.

We have used the Price to Earnings Ratios and the EV to EBITDA ratios of the companies to compare China Specialty Glass AG with its Peer Group. As companies trading at Chinese stock markets tend to be valued higher than the ones trading at the German Stock Exchange, we have included a 60% discount to the fair peer valuations when calculating a fair price for the stock of China Specialty Glass AG.

Under a peer group analysis China Specialty Glass AG has a fair value of EUR 119.6m, equal to a value per share of EUR 6.8.

China Specialty Glass AG

Valuation of China Specialty Glass AG via a Peer Group Analysis

in EUR m	2012E	2013E
P/E	402.4	367.0
EV/EBITDA	197.3	229.8
Average	299.8	298.4
Weight	50%	50%
Discount	60%	
Total	Total	Per share
	119.6	6.8

Source: VEM Aktienbank AG

Valuation of selected companies of the Peer Group

Company	Country	2012E				2013E			
		P/E	P/S	EV/EBIT	EV/EBITDA	P/E	P/S	EV/EBIT	EV/EBITDA
CSG Holding	CHN	8.7	1.0	11.0		6.0	0.8	10.6	
Fuyao Glass Industry	CHN	8.2	1.4	7.1	5.3	7.1	1.2	7.3	5.0
Gerresheimer	D	15.1	1.0	12.6	7.3	13.0	0.9	10.8	6.8
Shandong Jinjing Science and Technology	CHN	29.9	1.5	11.8	5.3	12.3	1.2	11.5	5.1
Average		17.7	1.3	10.5	6.0	10.8	1.1	9.9	5.6
Median		15.1	1.4	11.8	5.3	12.3	1.2	10.8	5.1

Source: Reuters, VEM Aktienbank AG

Operational Figures of selected companies of the Peer Group

in local currency m	Country	2011				2012E				2013E			
		Growth	Sales	Margin	EBITDA	Growth	Sales	Margin	EBITDA	Growth	Sales	Margin	EBITDA
		Earnings		EBIT		Earnings		EBIT		Earnings		EBIT	
CSG Holding	CHN	18.3%	9.2%	21.3%		-31.0%	-2.9%	29.0%		44.9%	22.2%	24.6%	
Fuyao Glass Industry	CHN	-4.7%	27.2%	23.9%	31.3%	13.6%	11.9%	23.5%	31.6%	15.2%	12.8%	20.4%	29.8%
Gerresheimer	D	-7.0%	7.1%	10.8%	19.9%	11.9%	9.1%	11.2%	19.3%	16.1%	6.0%	12.3%	19.5%
Shandong Jinjing Science and Technology	CHN	-25.0%	10.6%	16.9%	34.1%	-41.7%	11.0%	15.5%	34.7%	142.9%	30.1%	12.2%	27.4%
Average		-4.6%	13.5%	18.2%	28.4%	-11.8%	7.3%	19.8%	28.5%	54.8%	17.8%	17.4%	25.6%

Source: Reuters, VEM Aktienbank AG

Description of Peer Group Companies

CSG Holding (Market Cap: RMB 8881m)

The company is engaged in the manufacture and sale of glass, as well as solar energy industry. The company's flat glass segment primarily provides float glass, special glass, quartz sands and others; the engineering glass segment mainly provides environmental protection and energy-saving low emissivity coated glass; the fine glass segment

China Specialty Glass AG

mainly offers colored filters, screening glass and others; the solar energy segment mainly offers high purity polysilicon materials, as well as solar batteries and modules.

The company distributes its products in domestic markets and to overseas markets, including Hong Kong, Europe, North America and Australia.

Fuyao Glass Industry (Market Cap: RMB 15042m)

The company is principally engaged in manufacture and distribution of automotive, decoration and industrial glass.

The company also provides glass installation and after-sales services. The company provides float glass, including ultra thin glass, thin glass, transparent glass and color glass, as well as glass plastic binding assemblies, plastic and rubber products, among others. It distributes its products in domestic and to overseas markets, including North America and Asia-Pacific region. Through its subsidiaries, the Company is involved in the manufacture and distribution of automotive glass, float glass and specialty glass, among others.

Gerresheimer AG (Market Cap: EUR 1203m)

Gerresheimer AG is a Germany-based holding company and manufacturer of specialty products made of glass and plastic for the pharmaceutical and healthcare industries. The Company operates four business divisions: Tubular Glass, Molded Glass, Plastic Systems, and Life Science Research.

The Tubular Glass division produces glass tubes converted to primary packaging. The Molded Glass division produces glass primary packaging for pharmaceuticals, cosmetics products and specialty beverages and foods. The Plastic Systems division produces customer-specific plastic systems for pharmaceuticals, diagnostics and medical technologies, and plastic containers mainly as primary packaging for pharmaceuticals and healthcare. The Life Science Research division is focused primarily on specific tubular glass products and paste mould products for research and development in the pharmaceutical and life sciences industry and for general laboratory use and offers beakers, bottles and flasks, among others.

Shandong Jinjing Science & Technology Stock (Market Cap: RMB 5946m)

The company is principally engaged in the manufacture and distribution of glass products and pure caustic soda products.

The Company provides glass products, including float glass, super white glass, power-saving glass, solar energy glass and color glass products, among others, as well as pure caustic soda. The Company distributes its products in domestic and overseas markets.

China Specialty Glass AG

Profile: Unbreakable

Overview

China Specialty Glass - a company focusing on the production and distribution of specialty glass in China - is a German AG headquartered in Grünwald near Munich. The German entity was founded in 2010 and went public in July 2011. China Specialty Glass AG is listed at the German Entry Standard at the Frankfurt Stock Exchange. Its current market capitalization is EUR 56.6m.

The operational entity of the group is Guangzhou Hing Wah Glass Industry Co. Ltd. and was founded in 1994. It is a 100% daughter of Hing Wah Holdings (Hong Kong) Ltd., which is fully owned by the German entity. The Chinese headquarter and main production site is in Guangzhou/China in South China.

Company structure



Source: China Specialty Glass AG

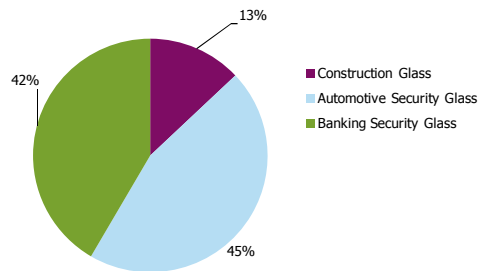
Currently, the company employs 538 people and is focusing on producing specialty glass in two categories:

- Security glass for the banking and automotive industry
- High quality glass for the construction industry

In fiscal year 2011, 87% of total sales was generated with security glass, 13% with high quality glass. Total 2011 sales have reached EUR 76.9m gaining 10.5% compared to 2010, net profit margin was 27.1%.

China Specialty Glass AG

Sales allocation by product group in 2011



Source: China Specialty Glass AG

Segments

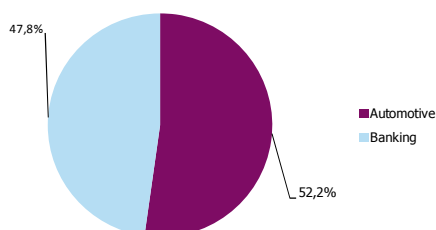
Security Glass

The majority of sales – 87% of total sales in 2011 - are generated with security glass. 2011 total security glass sales were EUR 67m, a growth of 8.1% compared to 2010. Main characteristics of the security glass are its bullet-proof and intruder resistance.

The glass is sold to the banking and to the automotive industry in China. Automotive contributed to 52% of total 2011 sales, banking to 48%. Allocation has been relatively stable over the last years. Major customers in the banking industry are among others the Bank of China, HSBC, China Construction Bank and Citibank. The glass is mainly used as separation glass for service counters and indoor separation walls.

Top customers in the automotive industry are Chinese manufacturers like DIMA, Double Star and others. Clients of the final product are mainly banks (e.g. money transporters), police departments or wealthy private clients.

Sales allocation 2011 of Security Glass

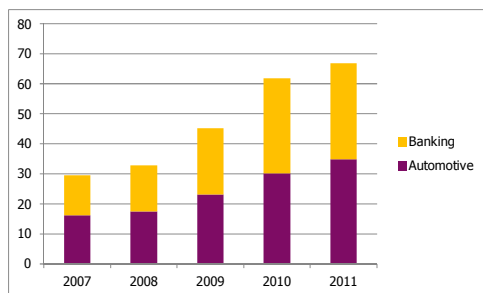


Source: China Specialty Glass AG

China Specialty Glass AG

Security glass sales in general have been characterized by above average growth in last couple of years. Five Year annual growth rate was 25.2%.

Security Glass Sales Development in EUR m



Source: China Specialty Glass AG

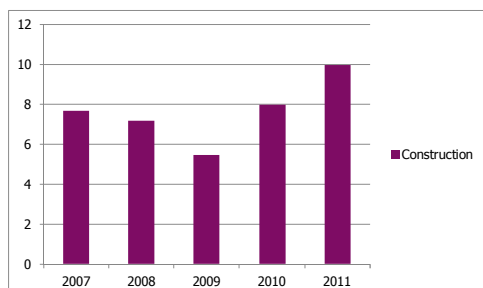
Construction Glass

In 2011 13% of sales were generated by construction glass, equal to EUR 9.9m in total sales.

2011 sales of construction glass grew by 25% compared to 2010, showing the high and increasing demand for this product. The company sells several kinds of specialty glasses to the construction industry: *tempered glass*, which is tougher and consequently safer than normal glass, *laminated glass*, which holds together when shattered, *fire resistant glass* and *electric controlled color changing glass*.

The products are used as windows, doors, separation walls or glass furniture etc.

Construction Glass Sales Development



Source: China Specialty Glass AG

China Specialty Glass AG

The Production Process

The production process involves several phases.

It starts with normal flat glass, which is purchased by Chinese Specialty Glass AG.

Phases of the Production Process



Source: China Specialty Glass AG

The first three processes are obligatory for all manufactured specialty glasses:

- Shaping –the flat glass is cut to its demanded shape and size.
- Edge Smoothing – Glass edges are smoothened.
- Cleaning: a cleaning machine removes all the dust and dirt from the surface of the glass.

The next phases depend on which end product is going to be finally produced:

- Polycarbonate Coating: glass is coated with polycarbonate to make it more resistant against high temperature and physical impact.
- Terminal/Chemical Tempering: glass is heated and then cooled down to make it tougher.
- Head Bending: glass is bended to its designated form.
- Resin Injection: a fire resistant chemical resin is injected between glass layers.

Images from the Guangzhou Production Factory



China Specialty Glass AG



Source: Raimund Saier

The competitive environment

The Chinese specialty glass competitive environment is quite fragmented and China Specialty Glass AG holds the dominant market position in its niche.

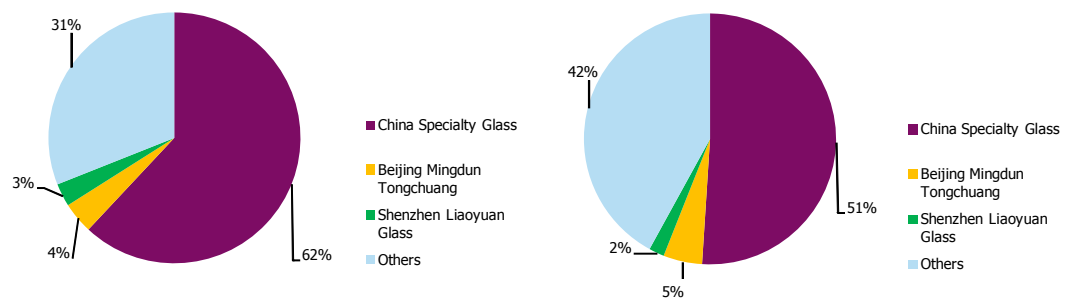
Respect Market Research (RMR) calculated that China Specialty Glass AG had a 62% market share of security glass in 2011 in terms of output and a 51% market share in terms of 2011 revenues.

The closest two competitors are "Beijing Mingdun Tongchuang" and "Shenzhen Liaoyuan Glass".

In regards to production lines: China Specialty Glass AG runs five lines as the closet two competitors run only two.

China Specialty Glass AG

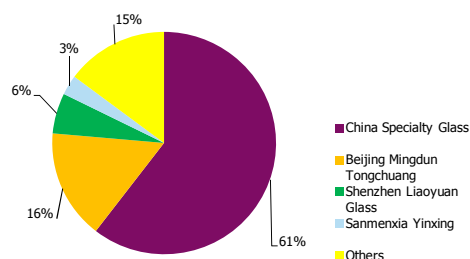
Total Market Share by Production (left) by Revenues (right)



Source: Respect Marketing Research Report, 2012

In banking security glass China Specialty Glass AG has a 60.7% market share in China. Biggest competitor is Beijing Mingdun Gongchuang with a market share of 15.9% of banking security glass market in China.

Market Share of Banking Security Glass

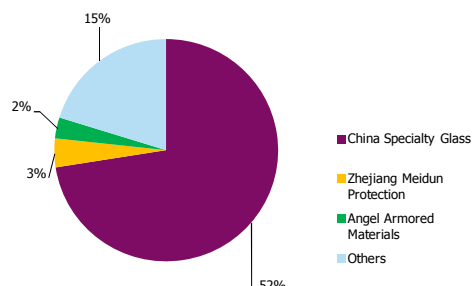


Source: Respect Marketing Research Report, 2012

In regards to auto security glass, which is generally quite fragmented, China Specialty Glass AG has a 52.3% market share in China. Biggest competitor is Zhejinang Meidun Protection with a market share of 3% of the automotive security glass market in China.

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Market Share of Automotive Security Glass



Source: Respect Marketing Research Report, 2012

The Management

The top management of China Specialty Glass AG is characterized by long-term experience and a deep knowledge of the Chinese glass industry.

Nang Heung Sze is the Chief Executive Officer of the company. He is the founder and head of Hing Glass Industry Co. in Guangzhou, which is the operative unit of China Specialty Glass AG. He has more than 25 years of experience in the production of security glass as well as the management of related companies. Nang Heung Sze holds several degrees; among them is an honorary doctor from the Hong Kong Academy of Science.

Chun Li Shi is the Chief Operating Officer and General Manager of Hing Wah Glass Industry Co since 2001. Prior to that, he has worked in leading positions for several security glass companies and other related industries. Chun Li Shi holds a Management Diploma from the Management Development Institute in Singapore and a MBA from the Hong Kong Open University.

Chin Hsiang Michael Lee is the Chief Financial Officer of China Specialty Glass since October 2010. He has 20 years of experience as a Senior Business Manager, auditor and accountant. Among others he worked at KPMG in Los Angeles, USA. He was a Director at PwC in China. Chin Hsiang holds a Master of Science in Accounting from the University of Southern California and is a member of AICPA in California.

The Equity Structure

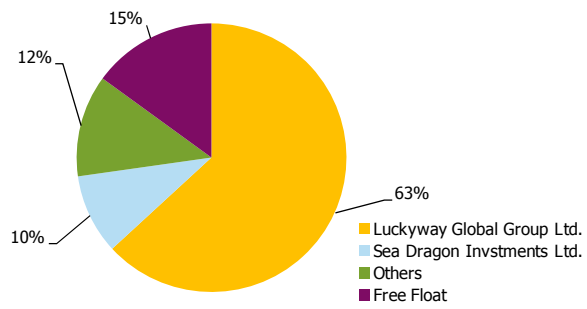
The company is listed at the Entry Standard of the Frankfurt Stock Exchange. The successful IPO was in July 2011.

Major shareholder is Luckyway Global Group Ltd. with a share of 63.2%, which is in the hands of the CEO Nang Heung Sze.

15% of total shares are free float.

China Specialty Glass AG

Shareholding structure



Source: China Specialty Glass AG

The Risk Factors

Although we believe in the long-term future success of China Specialty Glass AG, the company is exposed to certain risks, which might jeopardize the future growth potential of the company:

- An **economic downturn** might have a negative effect on the Chinese construction industry as well as on car sales and consequently the demand for specialty glass in China.
- We see an **expansion risk** as the company plans expanding to so far not exposed regions.
- China shifts slowly away from being a low wage and low production costs country. Consequently, China Specialty Glass' margins might come under pressure, when the company will be faced by **increasing wages**.
- Currently, the new construction facility is not finished yet. Any **opening delays** might lead to a cancelation of orders and therefore to a sales slowdown.

China Specialty Glass AG

The Growth Drivers

The future success of the company is very much dependent on the development of certain factors. They are of macroeconomic, sector- as well as company-specific nature. We believe that an optimal combination of our defined drivers will lead to a successful business development in the coming years.

We have defined the following growth drivers for China Specialty Glass AG:

Expansion in China

Despite its dominant position in its field, the company still has a lot of room to expand. Currently, China Specialty Glass AG is mainly active in South East China. We expect this to change over the next periods. The combination of hiring new sales representatives and opening a new production site further north will enable the company to expand to areas in the Western, Central as well as Eastern part of China. Additionally - but more in the long-run - we see the potential that China Specialty Glass AG will expand to areas outside China. Targets will be neighboring Asian countries.

Expansion Plan (China)



Source: China Specialty Glass AG

Increase in Production Capacity and Efficiency

With the money raised through the successful IPO in July 2011 the company is currently building a new production site in Chengdu in the Sichuan Province. This facility will not only substantially increase the capacity of China Specialty Glass AG, but will also help the firm to get more efficient due to very modern facilities. During Q2 2012 the first phase of the site in Sichuan went already into operation.

Consequently, the capacity to produce lamination glass has increased by 34% to almost 1.4m square meters. The production capacity of thermal tempering glass has increased by 89% to 2.33m square meters. 100 new employees will be hired in the first phase.

China Specialty Glass AG

Additionally, the company plans to modernize and improve the automation of the current production site in the Guangzhou. This should mainly help to increase in efficiency and to decrease labor costs.

Last but not least, we expect the company to acquire small competitors which will support the company in expanding regionally.

New Production Facility in Chengdu, Sichuan



Source: China Specialty Glass AG

New Product Development

The company is increasingly focusing on Research & Development in order to launch new and high margin products. The company will set up a separate R&D center in Guangzhou and will hire new research staff in order to develop and finally launch innovative products.

We expect electronic-controlled color changing glass for the construction segment to gain a higher importance in the future. Additionally, the company works on new intruder resistant glass products for the automotive industry. Tests from OEMs are already concluded. We expect strong sales in the future.

Ongoing construction Activities

The company success for its building as well as banking products is dependent on construction activities in China. Historically, growth has been very strong.

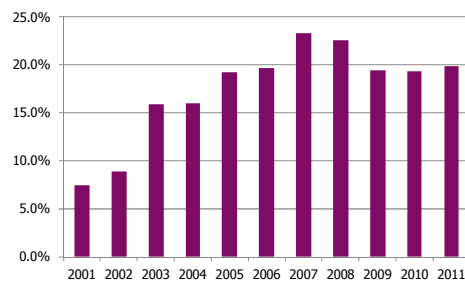
Between 2000 and 2011 the GDP of the construction industry grew annually by 17.4%, representing 6.8% of the country's total GDP in 2011.

Although this strong growth might not be sustainable in the long run, the urbanization trend in China will continue leading to construction growth. It is expected that 762m Chinese will live in urban areas by 2015.

China Specialty Glass AG

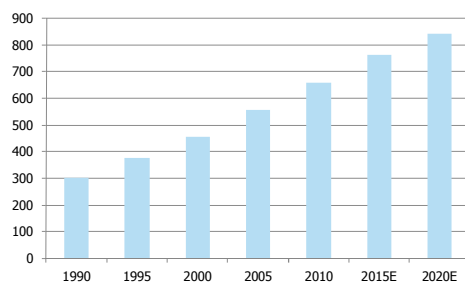
For the future, we do not expect double digit construction growth rates, rather high single digit. But this is still strong enough to lead to high demand for China Specialty Glass AG products.

Construction Growth in China in %



Source: CEIC

Chinese living in Urban Areas in m



Source: United Nations

Financials

Satisfying first quarter 2012 results

On May 30th, 2012 China Specialty Glass AG has reported its first quarter 2012 results. They came in as expected. Sales gained 11% to EUR 18.2m compared to Q1 2011. Security banking glass sales were strong with a growth of +35.4% in Q2 2012 compared to the comparable quarter last year to EUR 8.8m. Sales growth of +40% in construction glass was even higher and reached EUR 2.8m.

Relatively weak were sales in automotive security glass losing -16.5% (EUR 6.6m) compared to sales in Q1 2011.

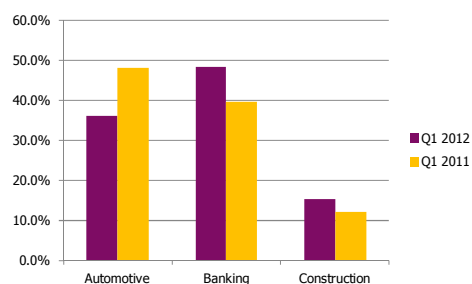
Gross margins could be slightly expanded to 46.7% (Q1 2011: 46.2%). Increase is mainly due to higher proportion of construction glass in combination, where gross margins could be expanded from 30% in Q1 2011 to 42.6% in Q1 2012.

Sales and Cross Margins Q1 2012

	Q1 2012	Q1 2011
Automotive Security Glass		
Sales in EUR m	6.6	7.9
Sales Growth	-16.5%	
Gross Profit Margin	53.0%	54.4%
Banking Security Glass		
Sales in EUR m	8.8	6.5
Sales Growth	35.4%	
Gross Profit Margin	43.2%	41.5%
Construction Glass		
Sales in EUR m	2.8	2
Sales Growth	40.0%	
Gross Profit Margin	42.6%	30.0%
Total		
Sales in EUR m	18.2	16.4
Sales Growth	11.0%	
Gross Profit Margin	46.7%	46.2%

Source: China Specialty Glass AG

Sales Allocation Q1 2012



Source: China Specialty Glass AG

China Specialty Glass AG

Sales allocation has shifted in Q2 2012. Now, banking security glass is responsible for almost 50% of total sales, followed by automotive and construction. EBIT and net margins were coming down. In Q1 2012 operating margins reached 34.6% equal to an EBIT of EUR 6.3m. Net profits have been EUR 5.2m, resulting in a net profit margin of 28.7%. Decrease in margins could be attributed to an increase in operating expenses and financial costs.

Margins Development Q1 2012

	Q1 2012	Q1 2011
Gross Margins	46.7%	46.2%
EBIT Margins	34.6%	37.8%
Net Margins	28.7%	31.7%

Source: China Specialty Glass AG

27% sales growth in 2012 expected - Margins should come down slightly

We expect the company to continue its growth in the future. For fiscal year 2012 we expect sales to reach EUR 97.5m which is equal to an annual sales growth rate of 27%. We expect the construction as well as the banking segment being mainly responsible for the growth. In fiscal year 2013 sales should reach EUR 110.6m, equal to a growth rate of 13.5%.

Sales growth Development



Source: VEM Aktienbank AG

For the full year 2012 we calculate with a net profit margin of 27.4%, equal to EUR 26.7m.

Sales growth Development

in EUR m	2010	2011	2012E	2013E	2014E	2015E	2016E
Gross Profit	31.5	35.1	45.2	51.2	56.0	60.8	65.5
Gross Margins	45.2%	45.6%	46.4%	46.3%	45.2%	44.2%	43.1%
EBIT	26.1	24.5	35.2	39.1	41.7	44.2	46.2
EBIT Margins	37.5%	31.9%	36.1%	35.4%	33.7%	32.1%	30.4%
Net Profit	22.1	20.8	26.7	29.9	31.8	33.6	35.2
Net Margins	31.8%	27.1%	27.4%	27.0%	25.7%	24.4%	23.2%

Source: VEM Aktienbank AG

Appendix – Financial Reports

Profit and Loss Statement

in EUR m	2010	2011	2012E	2013E	2014E	2015E	2016E
Sales	69.564	76.884	97.5	110.6	123.9	137.7	151.9
Growth in %		10.5%	26.7%	13.5%	12.0%	11.2%	10.3%
Total	69.564	76.884	97.5	110.6	123.9	137.7	151.9
Growth in %		10.5%	26.7%	13.5%	12.0%	11.2%	10.3%
Costs of Goods Sold	-38.111	-41.823	-52.2	-59.4	-67.9	-76.9	-86.4
in % of Sales	54.8%	54.4%	53.6%	53.7%	54.8%	55.8%	56.9%
Gross Profit	31.453	35.061	45.2	51.2	56.0	60.8	65.5
Gross Margins	45.2%	45.6%	46.4%	46.3%	45.2%	44.2%	43.1%
Selling & Distribution Expenses	-2.277	-3.166	-4.4	-5.2	-6.1	-7.0	-8.1
in % of Sales	3.3%	4.1%	4.5%	4.7%	4.9%	5.1%	5.3%
Administration Costs	-1.2	-5.6	-2.9	-3.5	-4.2	-5.0	-5.8
in % of Sales	1.8%	7.3%	3.0%	3.2%	3.4%	3.6%	3.8%
Research & Development	-1.878	-1.908	-2.7	-3.3	-4.0	-4.7	-5.5
in % of Sales	2.7%	2.5%	2.8%	3.0%	3.2%	3.4%	3.6%
EBIT	26.054	24.491	35.193	39.117	41.745	44.169	46.228
EBIT Margins	37%	32%	36.1%	35.4%	33.7%	32.1%	30.4%
Depreciation	0.018	0.018	1.9	5.7	6.3	6.9	7.5
EBITDA	26.072	24.509	37.1	44.8	48.0	51.0	53.7
EBITDA Margins	0.375	0.319	38.1%	40.5%	38.7%	37.0%	35.3%
Financial Income	0.060	-0.161	0.4	0.4	0.4	0.4	0.4
EBT	26.114	24.330	35.5	39.5	42.1	44.5	46.6
EBT Margins	0.375	0.316	36.5%	35.7%	34.0%	32.3%	30.7%
Taxes	-4.006	-3.486	-8.9	-9.9	-10.5	-11.1	-11.6
Tax rate	15.3%	14.3%	25.0%	25.0%	25.0%	25.0%	25.0%
Net Profit	22.108	20.844	26.7	29.9	31.8	33.6	35.2
Net Margins	31.8%	27.1%	27.4%	27.0%	25.7%	24.4%	23.2%
Dividends	0.000	0.000	0.0	0.0	0.0	0.0	0.0
Currency Differences	3.571	6.028	0.0	0.0	0.0	0.0	0.0
Net Profit (after currency)	25.679	26.872	26.7	29.9	31.8	33.6	35.2
Net profit growth		0.046	-0.8%	12.0%	6.6%	5.7%	4.6%
EPS			1.51	1.69	1.80	1.90	1.99
Number of Shares in m			17.7	17.7	17.7	17.7	17.7

Source: China Specialty Glass AG, VEM Aktienbank AG

China Specialty Glass AG

Balance Sheet

(in EUR m)	2010	2011	2012E	2013E	2014E	2015E	2016E
Assets							
Fixed Assets	3.76	28.87	84.99	93.83	102.81	111.96	121.29
Intangible Assets	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Other Lt. Assets	3.92	7.35	7.35	7.35	7.35	7.35	7.35
Long Term Assets	7.70	36.23	92.35	101.19	110.17	119.31	128.65
Inventories	1.59	2.43	1.43	1.63	2.05	2.53	3.08
Trade Receivables from Operations	12.73	28.05	29.37	30.30	33.94	37.73	41.62
Others	0.44	0.48	0.48	0.48	0.48	0.48	0.48
Cash	37.91	56.57	25.91	46.77	66.16	87.33	109.71
Current Assets	52.67	87.53	57.19	79.18	102.63	128.07	154.88
TOTAL	60.37	123.77	149.54	180.37	212.80	247.38	283.53
Liabilities and Stockholder's Equity							
Equity	49.81	99.07	125.73	155.58	187.40	221.04	256.23
Subscribed Capital	15.05	17.70	17.70	17.70	17.70	17.70	17.70
Capital Reserves	-	19.74	19.74	19.74	19.74	19.74	19.74
Retained Earnings	30.52	51.36	78.02	107.87	139.69	173.33	208.51
Foreign currency Translation	4.25	10.27	10.27	10.27	10.27	10.27	10.27
Liabilities	10.56	24.69	23.80	24.79	25.39	26.34	27.30
Long-term Financial Liabilities	1.81	15.81	15.81	15.81	15.81	15.81	15.81
Long-term Trade Liabilities	5.00	8.04	7.15	8.14	8.74	9.69	10.65
Short term Liabilities from Companies	2.44						
Taxes	1.31	0.85	0.85	0.85	0.85	0.85	0.85
TOTAL	60.37	123.77	149.53	180.37	212.80	247.38	283.53

Source: China Specialty Glass AG, VEM Aktienbank AG

Cash flow Statement

(in EUR m)	2010	2011	2012E	2013E	2014E	2015E	2016E
Net Income			26.66	29.85	31.82	33.64	35.18
Depreciation			1.93	5.67	6.26	6.85	7.46
Changes in Provisions			0.00	0.00	0.00	0.00	0.00
Changes in Receivables and other assets			-0.32	-1.13	-4.06	-4.27	-4.44
Changes in Liabilities and others			-0.89	0.99	0.60	0.95	0.96
Cash flow from Operating Activities	18.50	8.44	27.38	35.37	34.62	37.17	39.17
Purchase of intangible Assets and Fixed Assets	-0.78	-25.24	-58.04	-14.51	-15.24	-16.00	-16.80
Cash flow from investing Activities	-0.78	-25.24	-58.04	-14.51	-15.24	-16.00	-16.80
Cash Proceeds from equity sources			0.00	0.00	0.00	0.00	0.00
Dividends			0.00	0.00	0.00	0.00	0.00
Changes of Bank Liabilities			0.00	0.00	0.00	0.00	0.00
Cash flow from Financing Activities	0.85	32.62	0.00	0.00	0.00	0.00	0.00
Cash flow for the Year	18.57	15.83	-30.66	20.86	19.39	21.17	22.37
Cash Balance at the Beginning of the Year	16.81	37.91	56.57	25.91	46.77	66.16	87.33
Effects of currency translations	2.53	2.83					
Cash Balance at the End of the Year	37.91	56.57	25.91	46.77	66.16	87.33	109.71

Source: China Specialty Glass AG, VEM Aktienbank AG

China Specialty Glass AG

Key Figures

	2011	2012E	2013E	2014E
Growth				
Sales	10.5%	26.7%	13.5%	12.0%
EBITDA	-6.0%	51.4%	20.7%	7.2%
EBIT	-6.0%	43.7%	11.2%	6.7%
Net Profit	-5.7%	27.9%	12.0%	6.6%
Margins				
Gross Margin	45.6%	46.4%	46.3%	45.2%
EBITDA Margin	31.9%	38.1%	40.5%	38.7%
EBIT Margin	31.9%	36.1%	35.4%	33.7%
EBT Margin	31.6%	36.5%	35.7%	34.0%
Net Margin	27.1%	27.4%	27.0%	25.7%
Balance Sheet Ratios				
ROE		21.2%	19.2%	17.0%
ROIC		17.8%	16.5%	15.0%
ROCE		23.5%	21.7%	19.6%
Equity Ratio		84.1%	86.3%	88.1%
Per Share				
EPS		1.51	1.69	1.80
Book Value		5.60	7.10	8.79
Market Measures				
P/Sales		0.6	0.5	0.5
P/Earnings		2.1	1.9	1.8
P/Book value		0.6	0.5	0.4
Dividend Yield		0.0%	0.0%	0.0%

Source: VEM Aktienbank AG

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Date of publication	Share Price at this date	Recommendation	New Fair Value (at date of publication)
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<u>Company</u>	<u>Disclosure</u>
China Specialty Glass AG	3 – 5 – 11 – 12 - 13

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Details of material sources of information:

This financial analysis is based on public available information (Company presentations, Annual Reports, Quarterly Reports, Press Information, prospectus, ad-hoc announcements etc.). Moreover, management interviews for more detailed information about the current business development were held with the company.

Summary of the valuation methods and principles applied in the preparation of the financial analysis:

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SELL: The expected return (composed of the projected change of the share price and the anticipated dividend yield) is worse than – 10 %.

For further important details concerning the valuation methods applied in the preparation of this analysis, the meaning of the specific investment recommendation (including the recommended investment period, the risks associated with the investment and the sensitivity of the valuation parameters) please see the Section "Valuation" in this analysis.

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Additional important information:

Date of first publication of this analysis by VEM:

Date and Time of relevant Share Price (see first page): 20.08.2012

A schedule for an update of this Analysis is not appointed yet. VEM reserves the right to update any individual analysis without prior notice.