

Update

Equities - China

October 01, 2012

Rating: **Buy**
Risk: High
Current Price: EUR 22.26
Price Target: EUR 35.96

Sector: Software

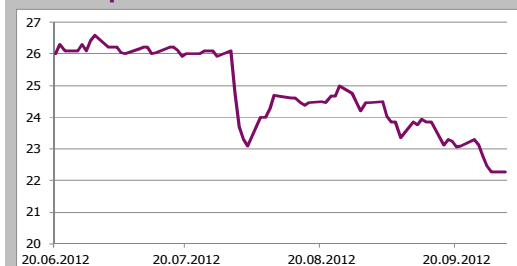
Reuters Code:
Bloomberg Code: VWA GR

Internet Page: www.vsg-group.de
Fiscal Year Ending: December

Trading Data

Price High/Low 52w: EUR 27.07 - 22.26
Market Capitalisation: EUR 91.3m
Shares Outstanding: 4.103m
Free Float: 2.5%

Price Graph



Financial Calendar

until June 2013

Annual Report 2012

Date and Time of Prices

October 01, 2012 10:00 (CET)

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Please take a note of the Disclaimer and other Information on Page 3



VSG Vange Software Group AG

Strong H1 2012 results

Yesterday, Vange Software Group published its **unaudited** first half year 2012 results. Sales grew by very strong 60% to EUR 26.7m compared to the comparable period last year. All business units performed well. We are particularly pleased with the high growth rate of the subscription based model unit. There, H1 2012 sales grew by 83% to EUR 3.27m compared to H1 2011. Now, the subscription based model unit represents 12.3% of total sales (H1 2011: 10.7%). We expect the strong growth in this unit to continue, which should give Vange Software Group AG a higher sales predictability in the longer run. Subscription based contracts are characterized by a longer term duration and by constant periodical money flows.

Main responsible for the strong sales growth in general were higher contract tickets with existing clients and a general customer increase:

	June, 30th 2011	June, 30th 2012
Standard Fee Model:	47 clients	53 clients
Software Licence:	53 clients	72 clients

We are as well satisfied with the earnings results. Profit before taxes was EUR 11.94m in H1 2012, which is equal to an EBIT margin of 44.7%. H1 2012 net profit was EUR 8,55m, a net profit margin of 33.1%. Costs seem to be well under control, expansion did not hurt margins neither did IPO expenses. Last but not least we are pleased with the development of the operative cash-flow, which was at a level of EUR 13.45m at June, 30th 2012 (June, 30th 2011: EUR 7.94m). Total Cash in bank after H1 2012 was a very good EUR 32.4m.

We leave our estimates unchanged

Despite some challenges in the second half of 2012, we are confident that growth will continue. The main growth drivers should stay intact: We believe in a continuous strong growth of the subscription based model unit, successful strategic acquisitions, innovative new future products through new R&D centres in Fuzhou and Xiamen as well as new client gains through a new sales centre in Beijing.

We leave our estimates for 2012 and 2013 unchanged. As the company just generated new cash in the amount of EUR 2.6m through the IPO, our pre IPO model, published in June 2012, just needed a slight adjustment.

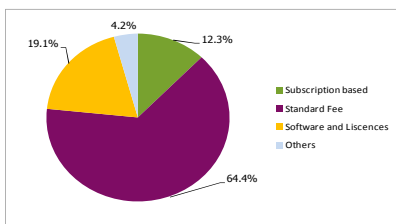
For the full year 2012 we expect sales to grow by 24% to EUR 50.72m. Operating profit should be EUR 22.94m, equal to a operating profit margin of 45.2%. For fiscal year 2013, sales should be EUR 63.34m, a growth of 25% compared to 2012. Margins should be stable and remain at high levels. Cash should increase to EUR 42m by the end of fiscal year 2012.

Price target EUR 35.96 - Recommendation BUY

Our price target is EUR 35.96 per share. We have used a DCF model and a peer group analysis to come to our price target.

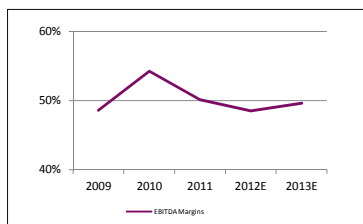
We recommend mainly investors prepared to take risk to purchase stocks of VSG Vange Software Group.

Sales Allocation by Product Group (H1 2012)



Source: VSG Vange Software Group AG, VEM Aktienbank AG

EBITDA Margins Trends



Source: VSG Vange Software Group AG, VEM Aktienbank AG

Company Profile

VSG Vange Software Group AG is a software and IT solutions provider of housing finance information systems and HR solutions in China. The company's registered office in Switzerland but Vange is operational solely in China. Main operation center is in the City of Fuzhou, Fujian Province. Subsidiaries are based in Xiamen and Nanchang. The company was founded in 2003 and currently has more than 300 employees. VSG Vange Software Group AG holds more than 30 software copyrights.

Financials

Fiscal Year Ending December 31

Profit & Loss	2009	2010	2011	2012E	2013E	Cash Flow Statement	2010	2011	2012E	2013E
in m EUR										
Sales	12.69	22.04	40.94	50.72	63.34	Net Income	8.70	14.30	17.42	21.74
Percentage change in %		74%	86%	24%	25%	Amortisation			1.69	2.78
EBITDA	6.17	11.96	20.53	24.62	31.43	Changes in Working Capital			0.95	-1.38
in % to Sales	48.6%	54.3%	50.2%	48.5%	49.6%	Cash flow from operative Business	9.93	13.08	20.06	23.14
EBIT	5.94	11.67	19.60	22.94	28.65	Capex	-3.35	-5.15	-8.00	-13.00
in % to Sales	46.8%	53.0%	47.9%	45.2%	45.2%	Financial Investments	8.62	0.08	2.59	-0.10
Net Profit	5.22	8.70	14.30	17.42	21.74	Free Cash Flow	15.20	8.01	14.64	10.04
in % to Sales	41.2%	39.5%	34.9%	34.3%	34.3%	Cash beginning of the year	1.82	17.62	27.51	42.15
shares outstanding (in m)			4.00	4.10	4.10	Translation Effects	0.60	1.87	0.00	0.00
EPS (reported)				4.25	5.30	Cash end of the year	17.62	27.51	42.15	52.19

Balance Sheet	2009	2010	2011	2012E	2013E	Key Figures	2012E	2013E
in m EUR								
Assets	1.63	5.05	10.24	16.55	26.78	P/E	5.2	4.2
Trade Receivables	6.40	8.13	13.64	16.78	20.92	P/S	1.8	1.4
Inventories	0.01	0.00	0.00	0.01	0.01			
Cash	1.82	17.62	27.51	42.15	52.19			
Equities	7.84	17.12	43.98	63.99	85.64	ROE	27.2%	25.4%
Provisions						ROIC	23.1%	21.8%
Liabilities	1.90	13.58	7.32	11.42	14.18	Equity Ratio	85%	86%
Tax Liabilities	0.10	0.10	0.08	0.08	0.08			
						Tax Rate	25%	25%

Source: VSG Vange Software Group AG, VEM Aktienbank AG

SWOT Analysis

Strengths

The company is a market leader in its field giving it a competitive advantage over its rivals.

The company is an early software adopter and has an excellent existing product portfolio.

VSG Vange Software Group AG spends a substantial proportion of money in Research & Development.

The management team is characterized by long-term experience.

Weaknesses

The majority of sales is still generated with the standard fee model, which is characterized by lower margins.

The company has to deal with a limited and slow-growing client base.

VSG Vange Software Group AG has so far no experience in expanding to other provinces, which might lead to operational difficulties.

Opportunities

In the future, Vange tries to sell an increasing portion of software via a subscription based model, which should support margins.

Personal income increases and ongoing urbanization trends in China will increase demand for housing in the long run.

The company will extend its product line, which should increase the amount of potential clients.

Threats

Economic slowdown and consequently a weakening of the housing market could lead to a lower demand for VSG Vange Software Group's software products.

Company is still dependent on winning new deals with a limited amount of existing clients.

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Summary of VEM's recommendations over the last 12 month concerning the securities of the company being subject of this analysis

<u>Date of publication</u>	<u>Share Price at this date</u>	<u>Recommendation</u>	<u>New Fair Value (at date of publication)</u>
05.06.2012	IPO	BUY	EUR 165m (total value)

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<u>Company</u>	<u>Disclosure</u>
Vange Software Group AG	3 - 5 - 7 - 8 - 9 - 10 - 11 - 12

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- The persons and/or enterprises mentioned above have acted as investment bank or selling agent in connection with initial public offering of the issuer that is, or whose financial instruments are, the subject of this financial analysis, in the way of a public offering.
- The persons and/or enterprises mentioned above have, within the past 12 month, been party to an agreement on provision of investment banking services with the issuer that is, or whose financial instruments are, the subject of this financial analysis, or have received services or a promise to perform under the terms of such an agreement during the same period.
- The persons and/or enterprises mentioned above expect or aim, within the next 3 month, for fees, allowances or payments of any other kind for investment banking services from the issuer that is, or whose financial instruments are, the subject of this financial analysis.
- The persons and/or enterprises mentioned above have entered into an agreement on the preparation of this financial agreement with the issuer that is, or whose financial instruments are, the subject of this financial analysis.
- Prior to its first publication, this financial analysis has been made available to the issuer that is, or whose financial instruments are, the subject of this financial analysis.
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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:

The valuations underlying the ratings of the securities analysed by VEM are based on generally accepted and widely used methods of fundamental valuation, such as DCF model, Peer group comparison, NAV valuation and - where applicable - a Sum-of-the-parts model.

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BUY: The expected return (composed of the projected change of the share price and the anticipated dividend yield) is at least + 10 %.

HOLD: The expected return (composed of the projected change of the share price and the anticipated dividend yield) ranges from - 10 % and + 10 %.

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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VEM is evaluating its ratings on a quarterly basis. The evaluation for the last quarter compares VEM's recommendations "Buy", "Hold", and "Sell" in total with VEM's recommendations "Buy", "Hold", and "Sell" for companies to which VEM has delivered significant investment banking services during the last 12 month. To view this evaluation, please visit www.vem-aktienbank.de.

Additional important information:

Date of first publication of this analysis by VEM : October 1st, 2012

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

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