

Update

Equities - China

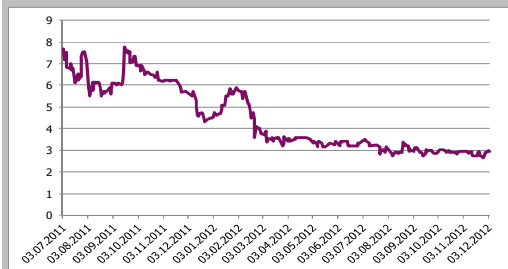
December 4th, 2012

Rating:	Buy
Risk:	Medium
Current Price:	EUR 2.98
Price Target (new):	EUR 5.40
Price Target (old):	EUR 6.80
Potential:	45%
Sector:	Manufacturing
Reuters Code:	8GSG.DE
Bloomberg Code:	8GSG GR
Internet Page:	www.csg-ag.de
Fiscal Year Ending:	December

Trading Data

Price High/Low 52w:	EUR 6.00 - 2.66
Market Capitalisation:	EUR 51.51m
Shares Outstanding:	17.7m
Free Float:	20.4%

Price Graph



Date and Time of Prices
December, 4th 2012 10:00 (CET)

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



China Specialty Glass AG

9M 2012 results: Mainly in line with expectations

The company has announced its 9m 2012 results, which were in line with expectations. Sales grew by a good 44.8% to EUR 80.2m compared to last years 9m. Especially Q3 2012 was strong. During this period the company sold 397,795 sqm of glass, which is 49.1% more than in the comparable quarter last year and resulted in total sales of EUR 31.8m (+53.6% compared to Q3 2011). The strongest growth was generated in construction glass, which grew by 103% in Q3 2012 to EUR 6.7m.

Profits were weaker than expected; mainly due to extraordinary high due diligence and banking related expenses of EUR 2.6m, which brought 9m 2012 administrative expenses to a level of EUR 6.9m connected to a Credit Swiss loan. The company received a new banking loan of around EUR 33.2m in order to finance the expansion of the new production site in Chengdu/Sichuan Province.

Consequently, operating profits came in lower than expected. Q3 2012 EBIT was EUR 23.5m, which is equal to an EBIT margin of a still very good 29.3%. 9m 2012 net margins were 23.6%, an increase of 1.5% compared to the comparable 9m last year. Net profit was EUR 20.9m.

We stick to our sale estimates but reduce our profit expectations slightly

The company has a sales target of EUR 100m for the full year 2012 and seems to be quite comfortable reaching it. Orders seem to be good and the Chinese economy should grow at a slow pace supporting the growth.

We prefer to stay somewhat conservative and stick to our sales target of EUR 97.45m for 2012 and EUR 110.6m for 2013, a plus of 14%. Main growth drivers will be an expansion of the national as well as international distribution network, new product developments as well as capacity expansions due to the opening of the new product lines in Sichuan plus efficiency gains in Guangzhou.

On the profit side we have been too aggressive and mainly underestimated the general administrative costs. Consequently, we are reducing our EBIT estimate for fiscal year 2012 from EUR 35.2m to EUR 30.6m. This will result in an operating profit margin estimate of 31.4% (old 36.1%). 2012 net profit should come in at EUR 22.9m, which is equal to a net profit margin of 23.5%.

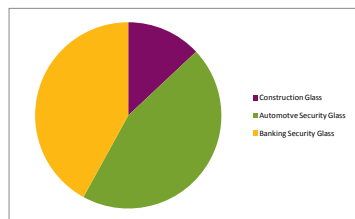
For fiscal year 2013 we expect sales to grow by 14% to EUR 110.6m. EBIT should be EUR 33.3m, equal to an EBIT margin of 30.6%.

Reduction of our price target to EUR 5.40

We are reducing our price target from EUR 6.80 to EUR 5.40, mainly due to a lower fair value reached through our peer group analysis and weaker margins outlook. We have used a DCF model and a peer group analysis to come to our price target.

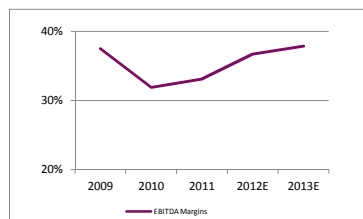
Nevertheless the company is still undervalued and we recommend BUYING the stock.

Sales Distribution in 2011



Source: China Specialty Glass AG, VEM Aktienbank AG

EBITDA Margins Trends



Source: China Specialty Glass AG, VEM Aktienbank AG

Company Profile

China Specialty Glass - a company focusing on the production and distribution of specialty glass in China - is a German AG headquartered in Munich. China Specialty Glass AG is listed at the German Entry Standard at the Frankfurt Stock Exchange. The Chinese headquarter and main production site is in Guangzhou/China. The company 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 2011, 87% of total sales was generated with security glass, 13% with high quality glass.

Financials

Fiscal Year Ending December 31

Profit & Loss	2010	2011	2012E	2013E	2014E	Cash Flow Statement	2012E	2013E	2014E
in m EUR						in m EUR			
Sales	69,56	76,88	97,45	110,61	123,90	Net Income		25,65	27,51
Percentage change in %		11%	27%	14%	12%	Amortisation		3,48	7,12
EBITDA	26,07	24,51	32,25	40,61	46,88	Changes in Working Capital		-0,14	-3,46
in % to Sales	37,5%	31,9%	33,1%	36,7%	37,8%	Cash flow from operative Business	23,67	28,99	31,17
EBIT	26,11	24,33	30,60	33,87	36,34	Capex	-25,24	-58,04	-40,63
in % to Sales	37,5%	31,6%	31,4%	30,6%	29,3%	Financial Investments	18,20	0,00	0,00
Net Profit	22,11	20,84	22,95	25,65	27,51	Free Cash Flow	16,63	-29,05	-9,46
in % to Sales	31,8%	27,1%	23,5%	23,2%	22,2%				
shares outstanding (in m)			17,70	17,70	17,70	Cash beginning of the year	56,57	73,20	44,15
EPS (reported)			1,30	1,45	1,55	Cash end of the year	73,20	44,15	34,69
Balance Sheet	2010	2011	2012E	2013E	2014E	Key Figures	2012E	2013E	
in m EUR									
Assets	7,70	36,23	59,54	114,10	147,61	P/E		2,2	1,9
Trade Receivables	12,73	28,05	29,37	30,30	33,94	P/Sales		0,5	0,4
Inventories	1,59	2,43	1,43	1,63	2,05	P/B		0,5	0,4
Cash	37,91	56,57	73,20	44,15	34,69				
Equities	49,81	99,07	122,02	147,67	175,18	ROE	18,8%	17,4%	
LT Financial Liabilities	1,81	15,81	34,00	34,00	34,00	ROIC	14,0%	13,5%	
LT Trade Liabilities	5,00	8,04	7,15	8,14	8,74	Equity Ratio	74%	77%	
Taxes	1,31	0,85	0,85	0,85	0,85				
						Tax Rate	25%	25%	

China Specialty Glass AG, VEM Aktienbank AG

SWOT Analysis

Strengths

- 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.

Weaknesses

- 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

- 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.

Threats

- 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.

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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

Date of publication	Share Price at this date	Recommendation	New Fair Value (at date of publication)
20.8.2012	EUR 2.80	Buy	EUR 6.80

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Company	Disclosure
China Specialty Glass	3 - 5 - 11 - 13

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- The persons and/or enterprises mentioned above own a short position in shares of the issuer that is, or whose financial instruments are, the subject of this financial analysis, of at least 1 percent of the share capital.
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- 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.
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- 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.
- The persons and/or members of the management board of the enterprises mentioned above are members of the management or supervisory board of 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. VEM applies an absolute equity rating system with 3 grades. Each grade complies with following expectations (Ratings refer to time period of 6 months):

- 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.

Quarterly summary:

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 : 04.12.2012

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.