

Update

Equities - China

September 16th, 2013



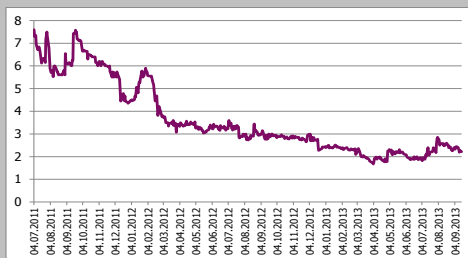
China Specialty Glass AG

Rating:	Buy
Risk:	Medium
Current Price:	EUR 2.21
Price Target:	EUR 7.50
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 3.1 - 1.62
Market Capitalisation:	EUR 41.06m
Shares Outstanding:	17.7m
Free Float:	20.4%

Price Graph



Date and Time of Prices
September, 16th 2013 10:00 (CET)

Dipl. Volkswirt Raimund Saier, CEFA, Analyst
VEM Aktienbank AG
089 30903 4881
r.saier@vem-aktienbank.de

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

6M 2013 results: In line with expectations

The company has announced its 6m 2013 results, which were in line with expectations. Sales grew by a good 36% to EUR 65.8m compared to last year's 6m. Bank security glass grew the strongest with 50% to EUR 29.9m, followed by construction glass (+16.2% to EUR 13.8m) and automotive glass (+10% to EUR 22.1m).

On a product level the company had big success with its latest innovation: intruder resistant glass. It is similar to bulletproof glass but undergoes a chemical tempering process before the lamination step.

Margins development is still very promising. H1 2013 gross profit margin remained stable with 47.9%. EBIT margin expanded to 40.7% equal to an operating profit of EUR 26.8m. In H1 2013 net profit has reached EUR 20.3m, which is equal to a very good profit margin of 30.8%.

Cash level remains high. Current cash position (June 30th, 2013) is EUR 115.8m.

We leave our estimates unchanged

We believe that the second half of 2013 should be similarly successful as the first and see no sense in changing our future financial estimates. The growth drivers stay intact. We expect additional sales growth coming from new products like intruder resistant glass, an ongoing expansion to additional regions in China as well as capacity increases due to a new production site being productive short-term.

For the full year 2013 we expect sales of EUR 147.6m, a plus of 30% compared to fiscal year 2012. The company calculates with a growth of 40%. But we like to stay more conservative. For 2014 we calculate with a 15% sales growth to EUR 170.1m.

On the profit side we expect 2013 EBIT to come in at EUR 37.5m which is equal to an operating profit margin of 25.4%. 2013 net profit should be EUR 26.6m, a net margin of 18%.

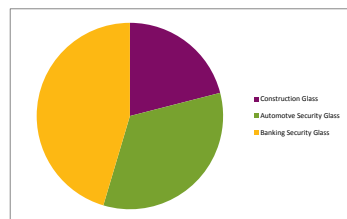
Margins should slow down a bit in 2014. Consequently, we are calculating with a 2014 EBIT of EUR 39.0m, equal to an operating profit of 23.0%. Net profit should be EUR 27.6m (net profit margin: 16.2%).

Leaving price target at EUR 7.50 - BUY

We are sticking to our price target of EUR 7.50.

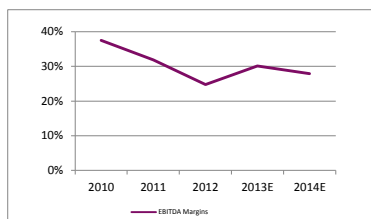
We have used a DCF model and a peer group analysis to come to our fair value. The company is still undervalued and we recommend BUYING the stock.

Sales Distribution in H1 2013



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						Cash Flow Statement							
	2010	2011	2012	2013E	2014E	in m EUR							
in m EUR													
Sales	69,56	76,88	113,70	147,63	170,10	Net Income				26,57	27,63		
Percentage change in %		11%	48%	30%	15%	Amortisation				3,62	5,01		
EBITDA	26,07	24,47	28,16	44,40	47,48	Changes in Working Capital				-14,92	-5,63		
in % to Sales	37,5%	31,8%	24,8%	30,1%	27,9%	Cash flow from operative Business				29,22	15,27	27,02	
EBIT	26,11	24,30	23,38	37,53	39,04	Capex				-10,64	-24,48	-26,93	
in % to Sales	37,5%	31,6%	20,6%	25,4%	23,0%	Financial Investments				12,18	0,00	0,00	
Net Profit	22,11	20,81	16,34	26,57	27,63	Free Cash Flow				30,75	-9,21	0,09	
in % to Sales	31,8%	27,1%	14,4%	18,0%	16,2%	Cash beginning of the year				56,57	87,33	78,11	
shares outstanding (in m)			17,70	17,70	17,70	Cash end of the year				87,33	78,11	78,20	
EPS (reported)			0,92	1,50	1,56								
Balance Sheet						Key Figures							
	2010	2011	2012	2013E	2014E	in m EUR							
in m EUR													
Assets	7,70	48,61	56,22	77,08	99,00	P/E				1,5	1,5		
Trade Receivables	12,73	15,52	23,82	40,45	46,60	P/Sales				0,3	0,2		
Inventories	1,59	2,43	2,40	2,26	2,92	P/B				0,4	0,3		
Cash	37,91	56,57	84,41	75,20	75,29	ROE				18,9%	16,4%		
Equities	49,81	99,03	114,85	140,81	168,44	ROIC				13,6%	12,3%		
LT Financial Liabilities	1,81	15,81	41,29	41,29	41,29	Equity Ratio				72%	75%		
LT Trade Liabilities	5,00	8,04	9,11	11,30	12,49								
Taxes	1,31	0,85	1,47	0,85	0,85								
						Tax Rate				30%	30%		

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
30.7.2013	EUR 2.26	Buy	EUR 7.50

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Company

China Specialty Glass

Disclosure

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10. 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.
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Authors of this financial analysis:

Raimund Saier, Diplom Volkswirt, CEFA, M.A.

Company responsible for the preparation and communication of this financial analysis:

VEM Aktienbank AG, Prannerstr. 8, 80333 Munich („VEM“)

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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.

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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):

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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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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 : 16.09.2013

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.