

# Update

## Equities - China

November 29th, 2013

Rating:	<b>Buy</b>
Risk:	Medium
Current Price:	EUR 2.55
New Price Target:	EUR 8.70
Old 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 3.02 - 1.61
Market Capitalisation:	EUR 43.8m
Shares Outstanding:	17.7m
Free Float:	20.4%

### Price Graph



**Date and Time of Prices**  
**November, 29th 2013 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 2013 results: Very good

The company has announced very promising 9m 2013 results, which beat our expectations.

Sales grew by a good 35,8% to EUR 108.8m compared to last years EUR 80.2m. Financial Institution security glass grew with 50.6% to EUR 49.7m the strongest, followed by construction glass (+49.3% to EUR 22.7m) and automotive glass (+14.1% to EUR 22.7m). Its latest innovation - intruder resistant glass - still showed very strong success.

Margins are still very good, thanks to lower raw material prices. In 9M 2013 gross profit margins could be extended to 48.5% compared to 46.8% in 9M 2012. 9M 2013 EBIT margins have reached a 40.7% representing an operating profit of EUR 44.3m. Net profit came in at a very promising EUR 33.9m, equal to a net margin of 31.1%.

Cash remains very high with EUR 115.1m (September 30th, 2013).

### Our Site visit in Guangzhou

We just came back from a site visit to the Guangzhou factory and could visualize the quality and productivity of the business. Machines were almost utilised to full capacity, business looked strong (see pictures on page 2). Management is upbeat and very confident to reach its targets for 2013 and the coming years.

Continued strong growth should mainly come from new and existing clients - the company has just won an order from the Chinese Ministry of Public Security to supply exclusively security glass features for public police cars. The contract is worth EUR 10m annually and might be renewed next year.

Additionally, expansion of the production capacity is on time. The new Sichuan plant Phase I is finished and in production. The management expects a sales contribution between EUR 25m and 30m in 2013 coming from Sichuan. The completion of Sichuans Phase II and Phase III in the coming years will support the expected strong future growth. It is likely that the existing plant in Guangzhou might be shut down and relocated to a more suburban area. We actually like this idea, as it would give the company the chance to increase in efficiency. Existing machines need to be replaced anyway in the coming years.

With a current cash position of EUR 115m the company has sufficient money to finance a new plant in Guangzhou as well as the Sichuan plant. Additionally, the management was talking about the likelihood to acquire a film/layer company to decrease the dependency from its suppliers. We find this a good and logical idea.

Future growth should be driven by existing and new products like intruder resistant glass, expansion to additional regions in China as well as capacity increases due to a new production site.

## Sales and Earnings estimates increase

We have been too conservative with our sales and earnings estimates for this and the coming years. For the full year 2013 we are now estimating a growth of 40% compared to 2012 to EUR 159,3m. For 2014 we like to stay on the "conservative" side and estimate a sales growth of 28% to EUR 204m.

On the profit side we now expect 2013 EBIT to come in at EUR 57.84m which is equal to an operating profit margin of 36.3%. The company calculates with an 2013 EBIT margin of 40%. For 2014 we are estimating an operating profit of EUR 75.2m, equal to an EBIT margin of 36.8%.

## Increase of price target to 8.70

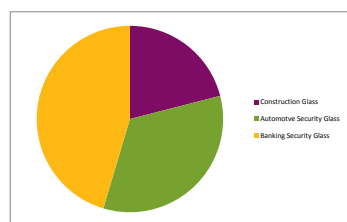
Due to a better outlook and mainly a more favourable peer group valuation we are increasing our price target from EUR 7.50 to EUR 8.70.

The company is still amazingly undervalued and we recommend BUYING the stock.

## Pictures from the Guangzhou Factory (November 2013)

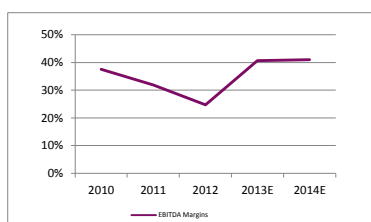


## Sales Distribution in 9M 2013



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	2010	2011	2012	2013E	2014E	Cash Flow Statement	2012	2013E	2014E
in m EUR						in m EUR			
Sales	69,56	76,88	113,70	159,30	204,08	Net Income		48,18	62,58
Percentage change in %		11%	48%	40%	28%	Amortisation		3,62	5,01
EBITDA	26,07	24,47	28,16	64,72	83,63	Changes in Working Capital		-8,05	-21,62
in % to Sales	37,5%	31,8%	24,8%	40,6%	41,0%	Cash flow from operative Business	29,22	43,75	45,98
EBIT	26,11	24,30	23,38	57,84	75,20	Capex	-10,64	-24,48	-44,07
in % to Sales	37,5%	31,6%	20,6%	36,3%	36,8%	Financial Investments	12,18	0,00	0,00
Net Profit	22,11	20,81	16,34	48,18	62,58	Free Cash Flow	30,75	19,27	1,91
in % to Sales	31,8%	27,1%	14,4%	30,2%	30,7%				
shares outstanding (in m)			17,70	17,70	17,70	Cash beginning of the year	56,57	87,33	106,59
EPS (reported)			0,92	2,72	3,54	Cash end of the year	87,33	106,59	108,50
Balance Sheet	2010	2011	2012	2013E	2014E	Key Figures	2013E	2014E	
in m EUR									
Assets	7,70	48,61	56,22	77,08	116,14	P/E	0,8	0,7	
Trade Receivables	12,73	15,52	23,82	43,64	55,91	P/Sales	0,3	0,2	
Inventories	1,59	2,43	2,40	2,12	2,98	P/B	0,4	0,3	
Cash	37,91	56,57	84,41	103,68	105,59				
Equities	49,81	99,03	114,85	162,42	225,01	ROE	29,7%	27,8%	
LT Financial Liabilities	1,81	15,81	41,29	41,29	41,29	ROIC	21,2%	22,3%	
LT Trade Liabilities	5,00	8,04	9,11	21,23	12,74	Equity Ratio	72%	80%	
Taxes	1,31	0,85	1,47	0,85	0,85				
						Tax Rate	17%	17%	

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**

<b>Date of publication</b>	<b>Share Price at this date</b>	<b>Recommendation</b>	<b>New Fair Value (at date of publication)</b>
20.8.2012	EUR 2.80	Buy	EUR 6.80
13.09.2013	EUR 2.32	Buy	EUR 7.50

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<b>Company</b>	<b>Disclosure</b>
China Specialty Glass	3 - 5 - 11 - 13

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9. 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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12. 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. 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](http://www.vem-aktienbank.de).

**Additional important information:**

**Date of first publication of this analysis by VEM : 29.11.2013**

**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.