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)
Financials

Fiscal Year Ending December 31

<table>
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<tbody>
<tr>
<td>Sales</td>
<td>60,56</td>
<td>76,88</td>
<td>113,70</td>
<td>159,30</td>
<td>204,08</td>
<td>Net Income</td>
<td>48,18</td>
<td>62,58</td>
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<tr>
<td>Percentage change in %</td>
<td>11%</td>
<td>48%</td>
<td>40%</td>
<td>28%</td>
<td>Amortisation</td>
<td>3,62</td>
<td>5,01</td>
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<tr>
<td>EBITDA</td>
<td>28,07</td>
<td>24,47</td>
<td>38,16</td>
<td>64,72</td>
<td>133,63</td>
<td>Changes in Working Capital</td>
<td>-8,85</td>
<td>-21,62</td>
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<tr>
<td>in % to Sales</td>
<td>37,1%</td>
<td>31,8%</td>
<td>28,0%</td>
<td>40,0%</td>
<td>41,0%</td>
<td>Cash Flow from operative Business</td>
<td>29,22</td>
<td>43,75</td>
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<tr>
<td>EBIT</td>
<td>26,11</td>
<td>24,30</td>
<td>22,38</td>
<td>57,94</td>
<td>75,20</td>
<td>Capex</td>
<td>-10,64</td>
<td>-24,48</td>
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<tr>
<td>in % to Sales</td>
<td>37,5%</td>
<td>31,6%</td>
<td>20,6%</td>
<td>36,3%</td>
<td>38,8%</td>
<td>Financial Investments</td>
<td>12,18</td>
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<tr>
<td>Net Profit</td>
<td>22,11</td>
<td>20,81</td>
<td>16,34</td>
<td>48,18</td>
<td>62,58</td>
<td>Free Cash Flow</td>
<td>30,75</td>
<td>19,27</td>
<td></td>
</tr>
<tr>
<td>in % to Sales</td>
<td>31,8%</td>
<td>27,1%</td>
<td>14,9%</td>
<td>30,5%</td>
<td>30,7%</td>
<td>Share of Sales</td>
<td>31,2%</td>
<td>28,7%</td>
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<td>shares outstanding (in m)</td>
<td>17,70</td>
<td>17,70</td>
<td>17,70</td>
<td>17,70</td>
<td>Cash beginning of the year</td>
<td>56,57</td>
<td>87,33</td>
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<td>EPS (reported)</td>
<td>0,92</td>
<td>2,72</td>
<td>3,54</td>
<td>Cash end of the year</td>
<td>87,32</td>
<td>106,59</td>
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Balance Sheet

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<th>2014E</th>
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<td>Assets</td>
<td>7,70</td>
<td>48,61</td>
<td>56,22</td>
<td>77,08</td>
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<td>Trade Receivables</td>
<td>12,73</td>
<td>15,12</td>
<td>23,82</td>
<td>43,64</td>
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<td>Inventories</td>
<td>1,59</td>
<td>2,43</td>
<td>2,49</td>
<td>2,12</td>
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<tr>
<td>Cash</td>
<td>37,91</td>
<td>56,57</td>
<td>84,41</td>
<td>103,68</td>
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<tr>
<td>LT Financial Liabilities</td>
<td>1,81</td>
<td>15,81</td>
<td>41,29</td>
<td>41,29</td>
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<tr>
<td>LT Trade Liabilities</td>
<td>5,00</td>
<td>8,04</td>
<td>9,11</td>
<td>21,23</td>
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<tr>
<td>Taxes</td>
<td>2,11</td>
<td>3,86</td>
<td>1,47</td>
<td>0,85</td>
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Key Figures

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<th>2013E</th>
<th>2014E</th>
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<td>P/E</td>
<td>0,8</td>
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<td>P/Sales</td>
<td>0,3</td>
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<tr>
<td>P/B</td>
<td>0,4</td>
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<td>ROE</td>
<td>29,7%</td>
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<tr>
<td>ROIC</td>
<td>27,8%</td>
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<tr>
<td>Equity Ratio</td>
<td>72%</td>
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<tr>
<td>Tax Rate</td>
<td>17%</td>
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</table>

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.

China Specialty Glass AG - 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 headquarters 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, 58% of total sales was generated with security glass, 13% with high quality glass.

Source: China Specialty Glass AG, VEM Aktienbank AG
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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:

<table>
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<tr>
<th>Date of publication</th>
<th>Share Price at this date</th>
<th>Recommendation</th>
<th>New Fair Value (at date of publication)</th>
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<tr>
<td>20.8.2012</td>
<td>EUR 2.60</td>
<td>Buy</td>
<td>EUR 6.80</td>
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<tr>
<td>13.05.2013</td>
<td>EUR 2.23</td>
<td>Buy</td>
<td>EUR 7.50</td>
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Summary of VEM’s recommendations for China Specialty Glass (CN59) over the last 12 month:

Company: China Specialty Glass

Disclosure: 3 - 5 - 11 - 13

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11. The persons and/or enterprises mentioned above have provided services 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 publicly 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 lower 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" to total in 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: 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.