

25 | Aug | 11

<b>Price (Euro)</b>	<b>5.16</b>			
52 weeks range	6.20 / 3.83			
<b>Key Data</b>				
Country	Germany			
Industry	Real Estate			
Segment	Open Market (Entry Standard)			
ISIN	DE0005227342			
WKN	522734			
Reuters	BIWG.DE			
Bloomberg	BIW GY			
Internet	www.kwg-ag.de			
Reporting Standard	IFRS			
Fiscal Year	31/12			
Ø Daily Turnover in € (3M)	4,382			
Market Cap (EUR million)	55.7			
Number of shares (million)	10.8			
Free Float	35.0%			
Free Float MCap (million)	19.5			
CAGR pre tax profits 09-12e	48.6%			
<b>Multiples</b>				
	<b>2010</b>	<b>2011e</b>	<b>2012e</b>	<b>2013e</b>
MarketCap/ Sales	2.3	1.9	1.8	1.7
<b>PE-Ratio</b>	<b>5.9</b>	<b>6.1</b>	<b>6.0</b>	<b>5.2</b>
<b>Dynamic PE-Ratio</b>	<b>0.12</b>	<b>0.13</b>	<b>0.12</b>	<b>0.11</b>
Dividend Yield	0.0%	0.0%	3.3%	4.8%
<b>Price-to-Book ratio</b>	<b>71.4%</b>	<b>63.9%</b>	<b>57.7%</b>	<b>52.0%</b>
<b>Key Data per Share (Euro)</b>				
	<b>2010</b>	<b>2011e</b>	<b>2012e</b>	<b>2013e</b>
<b>Earnings per Share (EPS)</b>	<b>0.87</b>	<b>0.84</b>	<b>0.86</b>	<b>0.99</b>
Dividends per Share (DPS)	0.00	0.00	0.17	0.25
Book Value per Share (BVPS)	7.23	8.07	8.94	9.93
<b>Financial Data (Euro '000)</b>				
	<b>2010</b>	<b>2011e</b>	<b>2012e</b>	<b>2013e</b>
<b>Revenues (rental income)</b>	<b>19,765</b>	<b>23,500</b>	<b>26,085</b>	<b>27,650</b>
Net revaluation result	9,865	8,000	6,100	6,500
Total operating income	29,630	31,500	32,185	34,150
Operating profit (EBITDA)	16,756	16,620	16,842	18,585
<b>Operating Profit (EBIT)</b>	<b>16,584</b>	<b>16,471</b>	<b>16,663</b>	<b>18,365</b>
<b>Pre-tax profit (EBT)</b>	<b>10,743</b>	<b>10,160</b>	<b>10,611</b>	<b>12,365</b>
<b>Net profit (after minorities)</b>	<b>8,585</b>	<b>9,104</b>	<b>9,327</b>	<b>10,674</b>
Adjusted Shareholders' Equity	78,099	87,203	96,530	107,204
<b>RoE after tax</b>	<b>12.0%</b>	<b>11.0%</b>	<b>10.2%</b>	<b>10.5%</b>
<b>Financial Calendar</b>				
SRC Forum Financials & Real Estate		7 Sept. 2011		
3Q Report		November 2011		
<b>Main Shareholders</b>				
Group of core shareholders		65%		
<b>Analysts</b>				
	<b>André Hüsemann, CREA</b>			
	<b>Stefan Scharff, CREA</b>			
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### Higher rents and higher occupancy boost the net profit to Euro 3.4m in 1H 2011 – Buy affirmed

Today, Hamburg-based residential player KWG published its semi-annual report for 2011. While new lettings rose by about 30 % compared to 1H 2010, the firm was able to increase the average rent per sqm by more than 3% to Euro 5.14 at the same time. In addition to that, vacancy within the core portfolio shrunk to now 4.8%. This led to double-digit sales revenues of Euro 10.1m after Euro 9.8m in the corresponding period last year. Despite the comprehensive refurbishment activity, KWG was able to improve its equity ratio as well to 37.1% as of 30 June 11, also due to valuation gains on refurbished projects that amounted to Euro 3.7m and were in line with our projections.

Valuation gains were being recognized throughout all regions. Net profit for the first six months of the year amounted to Euro 3.4m after only Euro 0.5m in 1H 2010, or Euro 0.31 per share (1H 2010: Euro 0.05).

KWG was able to maintain its pace of expansion with total assets up by 7.1% to Euro 202m as of 30 June 2011, not including the acquisition of 422 residential units located in Delmenhorst (Lower Saxony) which will become effective as of 2H.

According to the management, there is a high flow of potential deals being screened at the moment. Therefore, we expect KWG to successfully continue its growth story throughout 2H 2011 and 2012 as well. With the favourable 1H numbers, we see the company fully on track to meet our full year estimates. The firm's strategy to build up a long-term buy-and-hold portfolio by acquiring objects that lack maintenance and have a high vacancy for cheap and then quickly conduct the refurbishments needed was proven right by the 1H figures. Particularly the increased rents for the properties located in Berlin and the state of North Rhine-Westphalia as well as the sound growth of new lettings show the further potential to come within the second half of the fiscal year.

With NNNAV per share up 17.4% on a y-o-y basis to now Euro 7.64, not incorporating the ongoing expansion of the portfolio, our current target price of Euro 7.50 per share seems quite cautious as we expect NNNAV to further climb in the second half of 2011.

As KWG is fully in line with our projections, we expect the firm to outperform its 2010 net profit and more or less stick to our previous earnings forecast. We therefore confirm both our Euro 7.50 target price and our Buy rating for the share.

## Company Profile

### KWG Kommunale Wohnen AG

<b>Industry:</b>	Real Estate	<b>Management Board of KWG Kommunale Wohnen</b>
<b>Sub-segment:</b>	Residential RE	Stavros Efremidis
<b>Country:</b>	Germany	Torsten P. Hoffmann
<b>Headquarter:</b>	Hamburg	
<b>Foundation:</b>	2001	<b>Supervisory Board of KWG Kommunale Wohnen</b>
<b>Employees:</b>	50	Prof. Dr. Peer Witten (Chairman)
		Franz-Josef Gesinn
<b>IR Contact</b>		Thies-Martin Brandt
Jutta Rehfeld		Björn Engholm
		Hans-Michael Porwoll
		Patrik Zeigherman

### Strategy

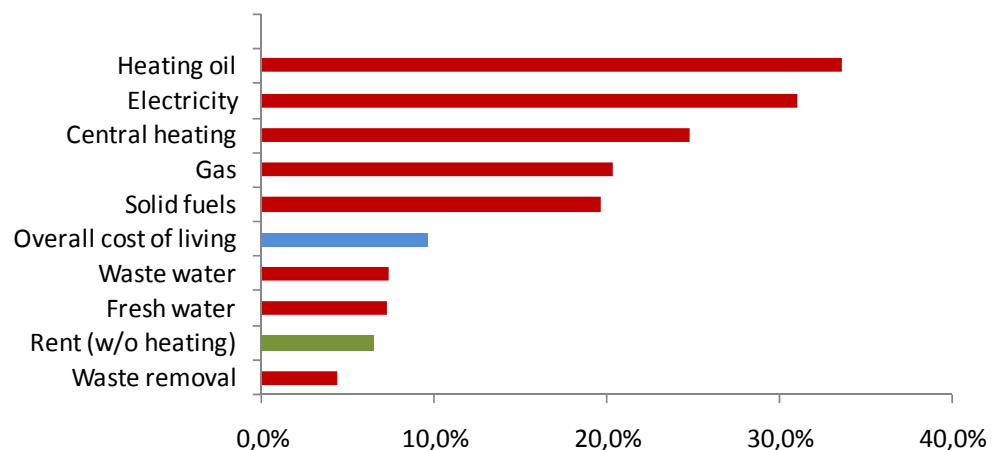
KWGs business strategy is to exploit upcoming opportunities in the field of residential real estate portfolios in Germany. The focus here is on poorly managed, aged portfolios from municipalities. Over the past years, the company has established a sound network in the German residential real estate market and beyond. In addition to comprehensive refurbishments, KWG has set up a proprietary property management platform that allows for significantly lower costs of management.

All those measures result in decreasing vacancies and rising rents within the acquired portfolios. As KWG usually does not pay for the vacant portion of the properties, the company can create significant upside within a fairly short span of time. Another important aspect that the firm's strategy incorporates is the use of refurbishment measures that enhance the energy-efficiency of the properties.

### Surging energy costs benefit KWG's strategy

A major trend that benefits KWG's strategy of refurbishments is the surge in heating/energy costs. Below you can see that the so-called "second rent", meaning the sum of additional costs of living, increased significantly stronger within the last five years than the rent without heating cost.

### Price development of Rents and Energy Prices (2005 - 2010)



Source: Stat. Bundesamt

## SWOT – Analysis

### Strengths

- Management and core investors (in particular Ehlerding family) have a broad and long-term experience in the German real estate market.
- Excellent network and relationships combined with a proven track record will enhance further deal flow with municipalities.
- High yielding residential portfolio in fundamentally solid regions with a proven track record for rental success and attractive acquisitions.
- Strong equity ratio of 37.1% as of 30 June and comfortable cash position with c. 3.6m at the moment.
- Very good inner-city locations like for instance in Bochum and Gelsenkirchen and properties in booming markets with enormous rent upside like Berlin

### Weaknesses

- Small market capitalization of the company leads to limited visibility at investors with high investment volume. But market cap already strongly went up in the last years to now about Euro 57m.
- Low trading volume of the stock, and therefore reserve of investors that fear liquidity.

### Opportunities

- Positive cash earnings property portfolio with further upside potential as KWG continued to improve both average rents per sqm (5.14 Euro/sqm for new lets) as well as occupancy (4.8% for the core-portfolio)
- Proven track record makes municipalities confident for further deals with KWG as reliable partner. This gives the chance for off-market transactions.
- The market for deals with municipalities has some future potential, due to the tight financial conditions of most German municipalities. This should increase the willingness of municipalities to sell their housing companies/portfolios.
- The change into the Entry Standard will lead to higher visibility and broader potential investor base. The next step would be the change into the Prime Standard to further enhance the company's visibility and investor base.
- KWG started to set up its own property management in 2010. From 1Q 2011 on, more than 90% of all rental units are managed by KWG itself. This measure is lowering the cost base (€0.2m p.a.) and will also lead to a better tenant structure and improved rental success.

### Threats

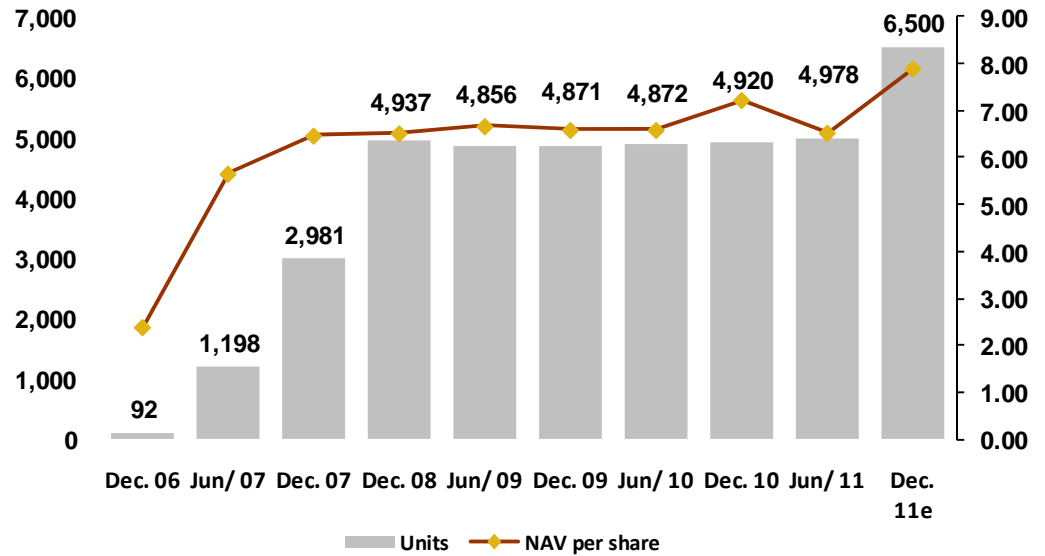
- Funding of acquisitions and refurbishment projects could become problematic if the current financial market turmoil worsens. But there are no significant re-financing needs for the remainder of the year and the equity ratio is still excellent.
- Typical risks of purchasing properties (higher costs than originally planned).

## P&amp;L KWG Kommunale Wohnen AG

31/12 IFRS (Euro '000)	2010	2011e	2012e	2013e
<b>Revenues</b>	<b>19,765</b>	<b>23,500</b>	<b>26,085</b>	<b>27,650</b>
└ thereof rental income from properties	19,765	23,320	25,824	27,374
└ thereof rental income without costs of material	13,529	16,740	18,781	19,908
other oper. income (mainly net revaluation result)	9,865	8,000	6,100	6,500
<b>Total operating income</b>	<b>29,630</b>	<b>31,500</b>	<b>32,185</b>	<b>34,150</b>
Expenses for investment properties	-2,999	-3,500	-3,800	-3,900
Cost of material	-6,236	-6,580	-7,043	-7,466
Personnel expenses	-1,773	-2,000	-2,000	-2,100
Other operating expenses	-1,866	-2,800	-2,500	-2,100
<b>Operating profit (EBITDA)</b>	<b>16,756</b>	<b>16,620</b>	<b>16,842</b>	<b>18,585</b>
<i>EBITDA margin</i>	<i>84.8%</i>	<i>70.7%</i>	<i>64.6%</i>	<i>67.2%</i>
Amortization of intangible assets and depreciation of property, plant and equipment and investment properties	-173	-150	-180	-220
<b>Operating profit (EBIT)</b>	<b>16,584</b>	<b>16,471</b>	<b>16,663</b>	<b>18,365</b>
<i>EBIT margin</i>	<i>56.0%</i>	<i>52.3%</i>	<i>51.8%</i>	<i>53.8%</i>
Income from securities in financial assets	0	50	50	50
Other interest and similar income	26	320	450	600
Interest and similar expenditure	-5,861	-6,634	-6,500	-6,600
Minority interests of other shareholders	-6	-47	-52	-50
<b>Pre-tax Profit (EBT)</b>	<b>10,743</b>	<b>10,160</b>	<b>10,611</b>	<b>12,365</b>
<i>EBT margin</i>	<i>54.4%</i>	<i>43.2%</i>	<i>40.7%</i>	<i>44.7%</i>
tax expenses and other expenses	-2,158	-1,016	-1,199	-1,607
<i>Tax rate</i>	<i>7.5%</i>	<i>10.0%</i>	<i>11.3%</i>	<i>13.0%</i>
Minorities	0	-40	-85	-84
<b>Net Profit after minorities</b>	<b>8,585</b>	<b>9,104</b>	<b>9,327</b>	<b>10,674</b>
<i>Return on sales</i>	<i>43.4%</i>	<i>38.7%</i>	<i>35.8%</i>	<i>38.6%</i>
Number of shares (at year-end)	10,800	10,800	10,800	10,800
<b>Earnings per share (Euro)</b>	<b>0.87</b>	<b>0.84</b>	<b>0.86</b>	<b>0.99</b>
Dividends per Share (DPS) in Euro	0.00	0.00	0.17	0.25
<b>Book Value per Share (BVPS) in Euro</b>	<b>7.23</b>	<b>8.07</b>	<b>8.94</b>	<b>9.93</b>
<b>Adjusted Shareholders' Equity</b>				
minorities		without		
RoE after Tax	12.0%	11.0%	10.2%	10.5%
	78,099	87,203	96,530	107,204
	12.0%	11.0%	10.2%	10.5%
<b>Key ratios &amp; figures</b>	<b>2010</b>	<b>2011e</b>	<b>2012e</b>	<b>2013e</b>
<b>Growth rates in %</b>				
Revenues	0.0%	18.9%	11.0%	6.0%
EBITDA	83.5%	-0.8%	1.3%	10.3%
EBIT	83.7%	-0.7%	1.2%	10.2%
EBT	232.2%	-5.4%	4.4%	16.5%
Net profit after minorities	158.5%	6.0%	2.4%	14.4%
<b>Margins in %</b>				
EBITDA	56.6%	52.8%	52.3%	54.4%
EBIT	56.0%	52.3%	51.8%	53.8%
EBT	54.4%	43.2%	40.7%	44.7%
<b>Expense ratios in %</b>				
Personnel costs quote	6.0%	6.3%	6.2%	6.1%
Cost of material to sales	21.0%	20.9%	21.9%	21.9%
Depreciation to sales	0.6%	0.5%	0.6%	0.6%
Tax rate	7.5%	10.0%	11.3%	13.0%
<b>Profitability in %</b>				
Net profit to sales ratio	43.4%	38.7%	35.8%	38.6%
Return on equity (ROE) after tax	12.0%	11.0%	10.2%	10.5%
<b>Valuation</b>				
PE-ratio	5.30	5.47	5.34	4.66
Price/BVpS	7.23	8.07	8.94	9.93
Dividend yield in %	0.0%	0.0%	3.7%	5.4%
EV/ Sales	1.68	1.58	1.55	1.46
EV/ EBITDA	2.97	3.00	2.96	2.68

Source: Company reports, SRC estimates

### Portfolio Overview

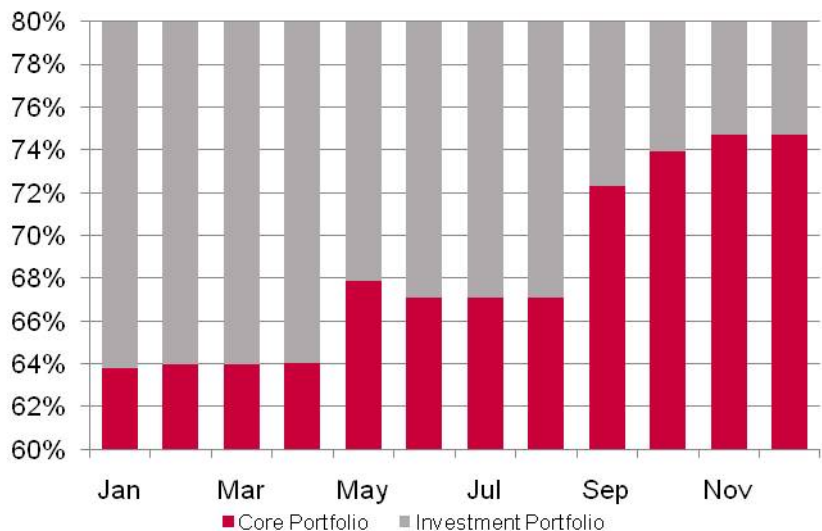


Source: KWG reports, SRC estimates

KWG has a portfolio of about 289.371 sqm as of 30 June 2011 with an average vacancy of now only 4.8% on their core-portfolio. Not included herein are the properties currently undergoing refurbishment, as they are not on the market within that period of time.

With 4,933 residential units and only some 45 retail units, Kommunale Wohnen has a clear focus on residential portfolios in northern Germany. Over the past years, the group was able to create a solid track record regarding portfolio deals with German municipalities which is a significant competitive advantage in the sourcing process of new deals at the moment.

As the vast majority of German municipalities have serious financial issues, more and more public real estate holdings will be either closed or entirely sold to private investors. Therefore, having the right network and a proven track record in successfully conducting refurbishments is quintessential in order to become the partner of choice here.



Source: KWG company presentation 2011

## SRC Research

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<b>Rating Chronicle</b>	<b>Date</b>	<b>rating</b>	<b>former share price</b>	<b>former target</b>
KWG	12. Jul 11	Buy	4.61 €	7.50 €
KWG	19. May 11	Buy	5.30 €	7.50 €
KWG	26. Jan 11	Buy	5.45 €	7.50 €
KWG	10. Jan 11	Buy	5.10 €	7.50 €
KWG	5. Nov 10	Buy	4.67 €	7.00 €
KWG	13. Aug 10	Buy	3.70 €	6.50 €
KWG	19. Apr 10	Buy	4.45 €	6.50 €

#### Please note:

The KWG share price mentioned in this report is from closing of 24 August 2011. KWG mandated SRC Research for mentoring the KWG share.

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