

Recommendation:
BUY (BUY)

Risk:
Medium (Medium)

Price Target:
EUR 7.00 (7.00)

26 August 2011

Solid 1H 2011 figures

- KWG Kommunale Wohnen AG (KWG) released solid 1H 2011 figures. Sales improved to EUR 10.13m (PY EUR 9.83m, +3.1%). Total revenues climbed to EUR 14.39m (PY EUR 10.04m, +43.3%) supported by investment property revaluation gains of EUR 3.67 (PY EUR 0). EBIT strongly went up to EUR 7.24m (PY EUR 3.80m, +90.4%) and net income was boosted to EUR 3.35m (PY EUR 0.53m, +535.3%).
- The vacancy rate in the core portfolio declined from 6.4% as at end of December 2010 to 4.8% while the average rent per m² increased from EUR 4.80 to EUR 5.14.
- Vacancies could be decreased and rents could be increased due to the good work in portfolio management and the renovation work. These were the main drivers of the EUR 3.67m revaluation gains which were basically generated by the whole portfolio and in particular in the region of North Rhine-Westphalia and Berlin.
- The value of the investment property portfolio increased by 7% to EUR 201.9m from EUR 188.6m as at 31 December, thereof EUR 9.69m stemming from property purchases and renovation investments and EUR 3.67m from revaluation gains.
- The equity ratio and the LTV remained almost unchanged at healthy levels of 37.1% and 63.3% respectively. The balance sheet NAV per share climbed to EUR 7.54 (EUR 7.23 as at 31 December 2010).
- KWG reiterated its intention to continue with its value creation and to grow through acquisitions. We keep our earnings estimates unchanged as a further acceleration in rental revenues and additional revaluation gains should be expected in 2H and next year. We confirm our BUY recommendation with an unchanged PT of EUR 7.00 per share. We think that the stock is undervalued at a discount of 32% to its NAV per share of EUR 7.54.

Key data

FY 12/31, EUR m	2007	2008	2009	2010	2011E	2012E
Sales	3.0	13.7	19.8	19.8	22.0	25.9
EBIT	3.4	5.4	9.0	16.6	15.6	17.9
Net result	3.1	0.8	3.3	8.5	8.6	11.0
EPS	0.66	0.10	0.38	0.87	0.80	1.02
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Gross margin	83.1%	76.1%	69.4%	79.0%	78.2%	80.2%
EBIT margin	40.9%	25.7%	37.7%	56.0%	53.9%	56.3%
ROE	12.3%	1.6%	5.5%	11.9%	10.5%	12.0%
ROA	5.4%	3.6%	1.4%	8.4%	7.2%	7.7%
LTV	71.1%	68.4%	67.3%	63.1%	63.1%	61.5%
Price / NAV	0.87	0.79	0.72	0.71	0.64	0.57
EV/EBIT	27.4	28.5	60.8	10.0	10.6	9.3
P/E	8.5	50.2	-91.7	6.0	6.5	5.0

Source: KWG Kommunale Wohnen AG, CBS Research AG

Share price (dark) vs. CDAX



Source: CBS Research AG, Bloomberg, KWG

Change	2010		2011E		2012E	
	new	old	new	old	new	old
Sales	-	19.8	22.0	23.0	-	25.9
EBIT	-	16.6	-	15.6	-	17.9
EPS	-	0.87	-	0.80	-	1.02

www.kwg-ag.de

Sector: Real Estate

WKN: 522734

ISIN: DE0005227342

Reuters: BIWG.DE

Bloomberg: BIW GY

Short company profile:

The business of KWG comprises the acquisition and long-term holding of German residential real estate, either directly or through the acquisition of companies, particularly municipal and cooperative housing companies.

Share data:

Share price (EUR, latest closing price):	5.15
Shares outstanding (m):	10.8
Market capitalisation (EUR m):	55.7
Enterprise value (EUR m):	166.1
Ø daily trading volume (3 m., no. of shares):	7,623

Performance data:

High 52 weeks (EUR):	6.20
Low 52 weeks (EUR):	3.83
Absolute performance (12 months):	38.4%
Relative performance vs. CDAX:	
1 month	32.9%
3 months	29.6%
6 months	19.3%
12 months	47.0%

Shareholders:

Core investors	65.0%
Free float	35.0%

Financial calendar:

n.a. n.a.

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KWG Kommunale Wohnen AG
Profit and loss comparison

	IFRS	EURm	1H 2010	1H 2011	change	% change
Sales			9.83	10.13	0.30	3.1%
Revaluation result from investment properties			0.00	3.67	3.67	n.m.
Other operating income			0.21	0.59	0.37	n.m.
Total revenues			10.04	14.39	4.34	43.3%
COGS			-3.14	-3.17	-0.02	0.8%
as % of total revenues			-31.3%	-22.0%		
Gross income			6.90	11.22	4.32	62.6%
Other operating expenses			-0.86	-1.47	-0.61	-70.4%
EBIT			3.80	7.24	3.44	90.4%
as % of total revenues			37.9%	50.3%		
Financial result			-2.93	-3.03	-0.10	-3.5%
EBT			0.88	4.21	3.33	380.6%
as % of total revenues			8.7%	29.3%		
Net income attributable to shareholders			0.53	3.35	2.82	535.3%
as % of total revenues			5.2%	23.3%		
Shares outstanding (in millions)			9.8	10.8		
Earnings per share (EUR)			0.05	0.31	0.26	477.6%

Source: CBS Research AG; KWG Kommunale Wohnen AG

KWG Kommunale Wohnen AG
Profit and loss account

	IFRS	EURm	2007	2008	2009	2010	2011E	2012E
Sales			3.0	13.7	19.8	19.8	22.0	25.9
YoY growth			-	354.0%	44.2%	0.0%	11.4%	17.6%
Revaluation result from investment properties			2.6	3.0	4.0	9.6	6.6	5.7
Other operating income			2.7	4.2	0.2	0.3	0.3	0.3
Total revenues			8.3	20.9	23.9	29.6	28.9	31.9
COGS			-1.4	-5.0	-7.3	-6.2	-6.3	-6.3
in % of total revenues			-16.9%	-23.9%	-30.6%	-21.0%	-21.8%	-19.8%
Gross income			6.9	15.9	16.6	23.4	22.6	25.6
in % of total revenues			83.1%	76.1%	69.4%	79.0%	78.2%	80.2%
Personnel expenses			-0.6	-1.4	-1.5	-1.8	-1.8	-1.0
in % of total revenues			-7.2%	-6.6%	-6.2%	-6.0%	-6.2%	-3.1%
Expenditure on investment properties			-0.4	-3.9	-3.7	-3.0	-3.2	-4.2
in % of total revenues			-4.8%	-18.4%	-15.3%	-10.1%	-11.1%	-13.2%
Other operating expenses			-2.5	-5.3	-2.3	-1.9	-2.0	-2.4
in % of total revenues			-29.9%	-25.2%	-9.7%	-6.3%	-6.9%	-7.5%
EBITDA			3.4	5.4	9.1	16.8	15.6	18.0
in % of total revenues			41.3%	25.9%	38.1%	56.5%	54.1%	56.4%
Depreciation and amortisation			0.0	0.0	-0.1	-0.2	0.0	0.0
EBIT			3.4	5.4	9.0	16.6	15.6	17.9
in % of total revenues			40.9%	25.7%	37.7%	56.0%	53.9%	56.3%
Financial result			-0.8	-4.4	-5.8	-5.8	-6.1	-6.0
EBT			2.6	1.0	3.2	10.7	9.5	11.9
in % of total revenues			31.8%	4.6%	13.5%	36.3%	32.9%	37.3%
Taxes			0.5	-0.2	0.1	-2.2	-0.9	-0.9
as % of EBT			17.3%	-20.3%	2.7%	-20.1%	-9.4%	-7.2%
Net income including minorities			3.1	0.8	3.3	8.6	8.6	11.0
Minority interests			0.0	0.0	0.0	-0.1	0.0	0.0
Net income attributable to shareholders			3.1	0.8	3.3	8.5	8.6	11.0
in % of total revenues			37.1%	3.7%	13.9%	28.8%	29.8%	34.6%
Shares outstanding (in millions)			4.7	7.5	8.6	9.9	10.8	10.8
Earnings per share (EUR)			0.66	0.10	0.38	0.87	0.80	1.02

Source: CBS Research AG, KWG Kommunale Wohnen AG

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Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
10 November 2010	BUY	EUR 4.60	EUR 6.53
21 December 2010	BUY	EUR 5.23	EUR 6.53
24 January 2011	BUY	EUR 5.20	EUR 7.00
27 May 2011	BUY	EUR 5.25	EUR 7.00
26 August 2011	BUY	EUR 5.15	EUR 7.00

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