

Recommendation:
BUY (BUY)

Risk:
Medium (Medium) Price Target:
EUR 7.00 (7.00)

09 November 2011

Good 9M figures, lift in occupancy target

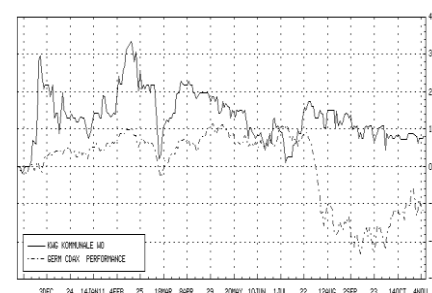
- Yesterday, KWG Kommunale Wohnen AG (KWG) published good 9M 2011 key figures which confirm the positive trend that was observable in the first half year. Sales increased to EUR 15.8m (PY: EUR 14.5m, +9.0%) and net rental income came in higher at EUR 10.9m (PY: EUR 9.9m, +11%). Net income jumped to EUR 4.5m (PY: 0.4m, +1,025%).
- 3Q sales amounted to EUR 5.7m (PY: EUR 4.7m, +21.3%) and net income returned to positive territory to EUR 1.2m (PY: -0.1m).
- The key portfolio figures have improved as well. Vacancy rate in the core portfolio decreased to 3.9% (PY: 6.1%, 2Q 2011: 4.8%) and average rent for new letting increased to EUR 5.30 from EUR 5.06 per m². Therefore the average rent per m² in the portfolio went up but was not disclosed. In 1H it was EUR 5.14 in the core portfolio.
- For the first time KWG released an FFO figure which came in at EUR 1.1m for 9M (PY: 0.8m, +37.5%). We expect FFO to further increase until year end notwithstanding possible further capex for refurbishment which amounted to EUR 6.6m in the first nine months. As the refurbished properties are supposed to stay in the portfolio, the core property portfolio should expand until year end. The core property portfolio amounted to 64.3% of the total portfolio as of 30 June.
- The management is lifting its vacancy rate guidance for the core property portfolio to < 3% for the end of FY 2011E from previously < 5%. It is also increasing its net rental income guidance for this year to EUR 15m from EUR 14m previously. The company expects net income to remain at similar levels as in FY 2010 which came to EUR 8.5m due to refurbishment expenses.
- KWG is right on track with its value creation strategy. We feel comfortable with our earnings estimates and confirm our BUY recommendation with an unchanged PT of EUR 7.00 per share.

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 | 8.6 | 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% | 12.0% | 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 | 0.75 | 0.72 | 0.71 | 0.61 | 0.54 |
| EV/EBIT | 27.4 | 28.2 | 60.8 | 10.0 | 11.4 | 9.9 |
| P/E | 8.5 | 48.0 | -91.7 | 5.9 | 6.2 | 4.8 |

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 | - | 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): | 4.93 |
| Shares outstanding (m): | 10.8 |
| Market capitalisation (EUR m): | 53.2 |
| Enterprise value (EUR m): | 177.5 |
| Ø daily trading volume (3 m., no. of shares): | 3,754 |

Performance data:

| | |
|-----------------------------------|-------|
| High 52 weeks (EUR): | 6.20 |
| Low 52 weeks (EUR): | 4.50 |
| Absolute performance (12 months): | 8.4% |
| Relative performance vs. CDAX: | |
| 1 month | -5.2% |
| 3 months | -6.0% |
| 6 months | 17.3% |
| 12 months | 21.9% |

Shareholders:

| | |
|----------------|-------|
| Core investors | 65.0% |
| Free float | 35.0% |

Financial calendar:

n.a. n.a.

Author: **Manuel Martin, CEFA (Analyst)**

Close Brothers Seydler Research AG

Phone: +49 (0) 69-977 84 56 0

Email: research@cbseydlerresearch.ag

www.cbseydlerresearch.ag

KWG Kommunale Wohnen AG

Profit and loss comparison

| | IFRS | EURm | 3Q 2010 | 3Q 2011 | change | % change | 9M 2010 | 9M 2011 | change | % change |
|--|------|------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------|
| Sales | | | 4.67 | 5.67 | 1.00 | 21.3% | 14.50 | 15.80 | 1.30 | 9.0% |
| Net income attributable to shareholders | | | -0.13 | 1.15 | 1.28 | n.m. | 0.40 | 4.50 | 4.10 | 1,025.0% |

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 | 0.0 | 0.0 | 0.0 |
| Net income attributable to shareholders | | | 3.1 | 0.8 | 3.3 | 8.6 | 8.6 | 11.0 |
| in % of total revenues | | | 37.1% | 3.7% | 13.9% | 28.9% | 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

Research



Schillerstrasse 27 - 29
60313 Frankfurt am Main

Phone: +49 (0)69 – 977 8456-0

| | | | |
|--------------------------------------|--|-------------------|---|
| Roger Peeters Member of the Board | +49 (0)69 -977 8456- 12 Roger.Peeters@cbseydlerresearch.ag | Kristina Kardum | +49 (0)69 -977 8456- 21 Kristina.Kardum@cbseydlerresearch.ag |
| Martin Decot | +49 (0)69 -977 8456- 13 Martin.Decot@cbseydlerresearch.ag | Anna von Klopmann | +49 (0)69 -977 8456- 10 Anna.Klopmann@cbseydlerresearch.ag |
| Igor Kim | +49 (0)69 -977 8456- 15 Igor.Kim@cbseydlerresearch.ag | Ralf Marinoni | +49 (0)69 -977 8456- 17 Ralf.Marinoni@cbseydlerresearch.ag |
| Gennadij Kremer | +49 (0)69 – 977 8456- 23 Gennadij.Kremer@cbseydlerresearch.ag | Felix Parmantier | +49 (0)69 -977 8456- 22 Felix.Parmantier@cbseydlerresearch.ag |
| Manuel Martin | +49 (0)69 -977 8456- 16 Manuel.Martin@cbseydlerresearch.ag | Veysel Taze | +49 (0)69 -977 8456- 18 Veysel.Taze@cbseydlerresearch.ag |
| Marcus Silbe | +49 (0)69 -977 8456- 14 Marcus.Silbe@cbseydlerresearch.ag | Ivo Višić | +49 (0)69 -977 8456- 19 Ivo.Visic@cbseydlerresearch.ag |

Institutional Sales



Schillerstrasse 27 – 29
60313 Frankfurt am Main

Phone: +49 (0)69 – 9 20 54-400

| | | | |
|--|--|--|--|
| Raimar Bock Head of Sales | +49 (0)69 -9 20 54-115 Raimar.Bock@cbseydler.com | Sule Erkan (Sales-Support) | +49 (0)69 -9 20 54-107 Sule.Erkan@cbseydler.com |
| Rüdiger Eich (Germany, Switzerland) | +49 (0)69 -9 20 54-119 Ruediger.Eich@cbseydler.com | Klaus Korzilius (Benelux, Germany) | +49 (0)69 -9 20 54-114 Klaus.Korzilius@cbseydler.com |
| Ulf Homeyer (Germany, Switzerland) | +49 (0)69 -9 20 54-111 Ulf.Homeyer@cbseydler.com | Markus Laifle (Execution) | +49 (0)69 -9 20 54-120 Markus.Laifle@cbseydler.com |
| Stefan Krewinkel (Execution, UK) | +49 (0)69 -9 20 54-118 Stefan.Krewinkel@cbseydler.com | Thomas Rosen (Germany, Switzerland) | +49 (0)69 -9 20 54-112 Thomas.Rosen@cbseydler.com |
| Bruno de Lencquesaing (Benelux, France) | +49 (0)69 -9 20 54-116 Bruno.deLencquesaing@cbseydler.com | Janine Theobald (Austria, Germany) | +49 (0)69 -9 20 54-106 Janine.Theobald@cbseydler.com |
| Christopher Seedorf (Sales-Support) | +49 (0)69 -9 20 54-110 Christopher.Seedorf@cbseydler.com | Bas-Jan Walhof (Benelux) | +49 (0)69 -9 20 54-105 Bas-Jan.Walhof@cbseydler.com |

Disclaimer and statement according to § 34b German Securities Trading Act (“Wertpapierhandelsgesetz”) in combination with the provisions on financial analysis (“Finanzanalyseverordnung” FinAnV)

This report has been prepared independently of the company analysed by Close Brothers Seydler Research AG and/ or its cooperation partners and the analyst(s) mentioned on the front page (hereafter all are jointly and/or individually called the ‘author’). None of Close Brothers Seydler Research AG, Close Brothers Seydler Bank AG or its cooperation partners, the Company or its shareholders has independently verified any of the information given in this document.

Section 34b of the German Securities Trading Act in combination with the FinAnV requires an enterprise preparing a security analysis to point out possible conflicts of interest with respect to the company that is the subject of the analysis.

Close Brothers Seydler Research AG is a majority owned subsidiary of Close Brothers Seydler Bank AG (hereafter ‘CBS’). However, Close Brothers Seydler Research AG (hereafter ‘CBSR’) provides its research work independent from CBS. CBS is offering a wide range of Services not only including investment banking services and liquidity providing services (designated sponsoring). CBS or CBSR may possess relations to the covered companies as follows (additional information and disclosures will be made available upon request):

- a. CBS holds more than 5% interest in the capital stock of the company that is subject of the analysis.
- b. CBS was a participant in the management of a (co)consortium in a selling agent function for the issuance of financial instruments, which themselves or their issuer is the subject of this financial analysis within the last twelve months.
- c. CBS has provided investment banking and/or consulting services during the last 12 months for the company analysed for which compensation has been or will be paid for.
- d. CBS acts as designated sponsor for the company’s securities on the basis of an existing designated sponsorship contract. The services include the provision of bid and ask offers. Due to the designated sponsoring service agreement CBS may regularly possess shares of the company and receives a compensation and/ or provision for its services.
- e. The designated sponsor service agreement includes a contractually agreed provision for research services.
- f. CBSR and the analysed company have a contractual agreement about the preparation of research reports. CBSR receives a compensation in return.
- g. CBS has a significant financial interest in relation to the company that is subject of this analysis.

In this report, the following conflicts of interests are given at the time, when the report has been published: d, f

CBS and/or its employees or clients may take positions in, and may make purchases and/ or sales as principal or agent in the securities or related financial instruments discussed in this analysis. CBS may provide investment banking, consulting, and/ or other services to and/ or serve as directors of the companies referred to in this analysis. No part of the authors compensation was, is or will be directly or indirectly related to the recommendations or views expressed.

Recommendation System:

Close Brothers Seydler Research AG uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 6 months:

BUY: The expected performance of the share price is above +10%.

HOLD: The expected performance of the share price is between 0% and +10%.

SELL: The expected performance of the share price is below 0%.

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 |

| | | | |
|------------------|-----|----------|----------|
| 09 November 2011 | BUY | EUR 4.93 | EUR 7.00 |
|------------------|-----|----------|----------|

Risk-scaling System:

Close Brothers Seydler Research AG uses a 3-level risk-scaling system. The ratings pertain to a time horizon of up to 6 months:

LOW: The volatility is expected to be lower than the volatility of the benchmark

MEDIUM: The volatility is expected to be equal to the volatility of the benchmark

HIGH: The volatility is expected to be higher than the volatility of the benchmark

The following valuation methods are used when valuing companies: Multiplier models (price/earnings, price/cash flow, price/book value, EV/Sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer group comparisons, historical valuation approaches, discounting models (DCF, DDM), break-up value approaches or asset valuation approaches. The valuation models are dependent upon macroeconomic measures such as interest, currencies, raw materials and assumptions concerning the economy. In addition, market moods influence the valuation of companies.

The figures taken from the income statement, the cash flow statement and the balance sheet upon which the evaluation of companies is based are estimates referring to given dates and therefore subject to risks.

These may change at any time without prior notice.

The opinions and forecasts contained in this report are those of the author alone. Material sources of information for preparing this report are publications in domestic and foreign media such as information services (including but not limited to Reuters, VWD, Bloomberg, DPA-AFX), business press (including but not limited to Börsenzeitung, Handelsblatt, Frankfurter Allgemeine Zeitung, Financial Times), professional publications, published statistics, rating agencies as well as publications of the analysed issuers. Furthermore, discussions were held with the management for the purpose of preparing the analysis. Potentially parts of the analysis have been provided to the issuer prior to going to press; no significant changes were made afterwards, however. Any information in this report is based on data considered to be reliable, but no representations or guarantees are made by the author with regard to the accuracy or completeness of the data. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. Possible errors or incompleteness of the information do not constitute grounds for liability, neither with regard to indirect nor to direct or consequential damages. The views presented on the covered company accurately reflect the personal views of the author. All employees of the author's company who are involved with the preparation and/or the offering of financial analyzes are subject to internal compliance regulations.

The report is for information purposes, it is not intended to be and should not be construed as a recommendation, offer or solicitation to acquire, or dispose of, any of the securities mentioned in this report. Any reference to past performance should not be taken as indication of future performance. The author does not accept any liability whatsoever for any direct or consequential loss arising from any use of material contained in this report. The report is confidential and it is submitted to selected recipients only. The report is prepared for professional investors only and it is not intended for private investors. Consequently, it should not be distributed to any such persons. Also, the report may be communicated electronically before physical copies are available. It may not be reproduced (in whole or in part) to any other investment firm or any other individual person without the prior written approval from the author. The author is not registered in the United Kingdom nor with any U.S. regulatory body.

It has not been determined in advance whether and in what intervals this report will be updated. Unless otherwise stated current prices refer to the closing price of the previous trading day. Any reference to past performance should not be taken as indication of future performance. The author maintains the right to change his opinions without notice, i.e. the opinions given reflect the author's judgment on the date of this report.

This analysis is intended to provide information to assist institutional investors in making their own investment decisions, not to provide investment advice to any specific investor.

By accepting this report the recipient accepts that the above restrictions are binding. German law shall be applicable and court of jurisdiction for all disputes shall be Frankfurt am Main (Germany).

This report should be made available in the United States solely to investors that are (i) "major US institutional investors" (within the meaning of SEC Rule 15a-6 and applicable interpretations relating thereto) that are also "qualified institutional buyers" (QIBs) within the meaning of SEC Rule 144A promulgated by the United States Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Securities Act") or (ii) investors that are not "US Persons" within the meaning of Regulation S under the Securities Act and applicable interpretations relating thereto. The offer or sale of certain securities in the United States may be made to QIBs in reliance on Rule 144A. Such securities may include those offered and sold outside the United States in transactions intended to be exempt from registration pursuant to Regulation S. This report does not constitute in any way an offer or a solicitation of interest in any securities to be offered or sold pursuant to Regulation S. Any such securities may not be offered or sold to US Persons at this time and may be resold to US Persons only if such securities are registered under the Securities Act of 1933, as amended, and applicable state securities laws, or pursuant to an exemption from registration.

This publication is for distribution in or from the United Kingdom only to persons who are authorised persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom or any order made there under or to investment professionals as defined in Section 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and is not intended to be distributed or passed on, directly or indirectly, to any other class of persons.

This publication is for distribution in Canada only to pension funds, mutual funds, banks, asset managers and insurance companies.

The distribution of this publication in other jurisdictions may be restricted by law, and persons into whose possession this publication comes should inform themselves about, and observe, any such restrictions. In particular this publication may not be sent into or distributed, directly or indirectly, in Japan or to any resident thereof.

Responsible Supervisory Authority:

Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin, Federal Financial Supervisory Authority)

Graurheindorferstraße 108

53117 Bonn

and

Lurgiallee 12

60439 Frankfurt

 Close Brothers Seydler
Research AG

Schillerstrasse 27 - 29

60313 Frankfurt am Main

www.cbseydlerresearch.ag

Tel.: 0049 - (0)69 - 97 78 45 60