

Recommendation:
BUY (BUY)

Risk:
Medium (Medium)

Price Target:
EUR 7.00 (6.53)

24 January 2011

KWG doubles its FY 2010 guidance

Strong value creation in the portfolio

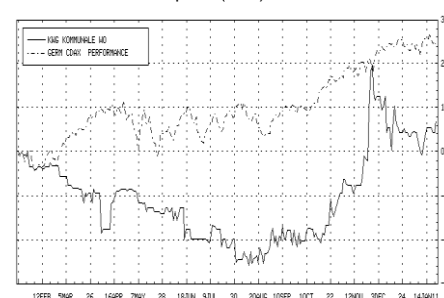
- Today, KWG Kommunale Wohnen AG (KWG) significantly revised up its net profit guidance from November 2010. The new guidance amounts to approx. EUR 8m. This is twice the old guidance of at least EUR 4m and would be an increase of 140% in net profit y-o-y
- The upbeat new guidance is based on property valuation gains due to the investments and redevelopments undertaken in the portfolio by which vacancies were reduced and rents increased. As a result, net rents went up by more than 2.5% throughout the portfolio and the vacancy rate declined by 5% in the core portfolio. In addition, the vacancy rate in the investment portfolio could also be reduced. The property management which has been internalised for a large part of the portfolio in 2010 supported the positive development.
- For the first time, KWG released a net rental income figure of EUR 13.4m as guidance for FY 2010 which gives more transparency. We stick to our FY 2010E gross rental estimate of EUR 20.8m.
- In the current year, the management will continue the value-adding strategy based on investments and redevelopments and expects to increase the profit in FY 2011 in comparison to FY 2010.
- We are positively surprised by the strong new guidance and adjust our net profit estimate FY 2010 to EUR 8m which translates into an EPS of EUR 0.81. Although the new guidance is based on property valuation gains that are non-cash profits, it gives us a good impression of the value that is created in the portfolio of KWG and which is NAV enhancing. We reiterate our BUY recommendation and raise our price target from EUR 6.53 per share to EUR 7.00 per share.

Key data

FY 12/31, EUR m	2007	2008	2009	2010E	2011E	2012E
Sales	3.0	13.7	19.8	20.8	23.0	25.9
EBIT	3.4	5.4	9.0	15.9	14.7	17.6
Net result	3.1	0.8	3.3	8.0	7.7	10.7
EPS	0.66	0.10	0.38	0.81	0.72	0.99
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Gross margin	83.9%	79.3%	70.5%	78.2%	78.0%	80.0%
EBIT margin	39.1%	22.3%	36.4%	51.1%	51.3%	55.8%
ROE	12.3%	1.6%	5.5%	11.4%	9.4%	11.7%
ROA	5.4%	3.6%	2.8%	7.8%	6.6%	7.5%
LTV	71.1%	68.4%	67.3%	65.1%	63.4%	61.8%
Price / NAV	0.87	0.80	0.72	0.71	0.65	0.58
EV/EBIT	27.4	28.6	29.8	10.3	11.1	9.3
P/E	8.5	50.7	22.4	6.4	7.3	5.2

Source: KWG Kommunale Wohnen AG, CBS Research AG

Share price (dark) vs. CDAX



Source: CBS Research AG, Bloomberg, KWG

Change	2010E		2011E		2012E	
	new	old	new	old	new	old
Sales	-	20.8	-	23.0	-	25.9
EBIT	15.9	11.0	-	14.7	-	17.6
EPS	0.81	0.39	-	0.72	-	0.99

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):	5.20
Shares outstanding (m):	10.8
Market capitalisation (EUR m):	56.2
Enterprise value (EUR m):	163.4
Ø daily trading volume (3 m., no. of shares):	12,502

Performance data:

High 52 weeks (EUR):	6.08
Low 52 weeks (EUR):	3.60
Absolute performance (12 months):	7.2%
Relative performance vs. CDAX:	
1 month	3.4%
3 months	12.5%
6 months	19.2%
12 months	-13.8%

Shareholders:

Core investors	65.0%
Free float	35.0%

Financial calendar:

FY 2010 figures	May 2011
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BUY: The expected performance of the share price is above +10%.

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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
14 April 2010	BUY	EUR 4.13	EUR 6.53
16 August 2010	BUY	EUR 3.79	EUR 6.53
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

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