

Recommendation:
BUY (BUY)

Risk:
Medium (Medium)

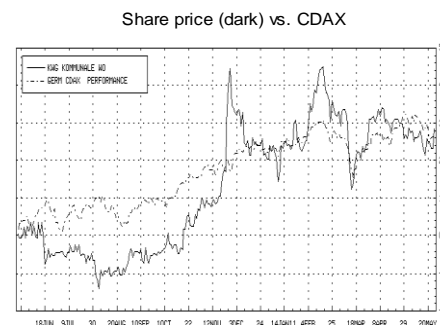
Price Target:
EUR 7.00 (7.00)

27 May 2011

FY 2010 with a strong performance y-o-y

High revaluation gains through modernisation

- KWG Kommunale Wohnen AG (KWG) recently released FY 2010 figures. Sales remained unchanged y-o-y at EUR 19.8m which was below our FY 2010E estimate of EUR 20.8m. The investment properties revaluation gain was very strong with EUR 9.6m (PY EUR 4.0m) and resulted from the renovation measures in Celle and Gelsenkirchen. COGS of EUR 6.2m was 21% lower than last year. The earnings improved significantly due to the revaluation gain. EBT was boosted by 232% from EUR 3.2m last year to EUR 10.7m and net profit went up by 157% to EUR 8.5m (PY EUR 3.3m).
- Main focus in the portfolio for FY 2010 was the energy saving renovation of more than 300 units in Celle and Gelsenkirchen where KWG invested EUR 6.7m. The vacancy rate in the core portfolio declined from 7% last year to 6.4% while the average rent per m² increased from EUR 4.66 to EUR 4.80.
- The good FY 2010 result improved the balance sheet ratios such as the equity ratio that increased to 38.1% (PY 34.5%) and the LTV that declined to 63.1% (PY 67.3%). The NAV per share climbed to EUR 7.23 (PY EUR 6.59).
- 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.
- Although sales were below our estimate, the net result was slightly above our expectations. We increase our EPS estimates for FY 2011E and FY 2012E considering the lower than expected administration costs in FY 2010. Thereby we reiterate our BUY recommendation with an unchanged PT of EUR 7.00 per share. We think that the stock is undervalued at a discount of 28% to its NAV per share of EUR 7.23.



Source: CBS Research AG, Bloomberg, KWG

Change	2010		2011E		2012E	
	new	old	new	old	new	old
Sales	-	19.8	-	23.0	-	25.9
EBIT	-	16.6	15.6	14.7	17.9	17.6
EPS	-	0.87	0.80	0.72	1.02	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):	5.25
Shares outstanding (m):	10.8
Market capitalisation (EUR m):	56.7
Enterprise value (EUR m):	167.1
Ø daily trading volume (3 m., no. of shares):	5,333

Performance data:

High 52 weeks (EUR):	6.20
Low 52 weeks (EUR):	3.60
Absolute performance (12 months):	23.8%
Relative performance vs. CDAX:	
1 month	-0.9%
3 months	-8.7%
6 months	-15.0%
12 months	0.8%

Shareholders:

Core investors	65.0%
Free float	35.0%

Financial calendar:

1Q 2011 figures	June 2011
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Key data

FY 12/31, EUR m	2007	2008	2009	2010	2011E	2012E
Sales	3.0	13.7	19.8	19.8	23.0	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%	56.2%
ROE	12.3%	1.6%	5.5%	11.9%	10.5%	11.9%
ROA	5.4%	3.6%	1.4%	8.3%	7.1%	7.6%
LTV	71.1%	68.4%	67.3%	63.1%	63.4%	61.8%
Price / NAV	0.87	0.79	0.69	0.68	0.64	0.57
EV/EBIT	27.4	28.6	60.8	10.0	10.7	9.3
P/E	8.5	50.4	-91.7	6.0	6.5	5.1

Source: KWG Kommunale Wohnen AG, CBS Research AG

KWG Kommunale Wohnen AG

Profit and loss y/y comparison

	IFRS	EURm	2H 2009	2H 2010	change	% change	2009	2010	change	% change
Sales			6.05	9.94	3.89	64.2%	19.76	19.76	0.01	0.0%
Revaluation result from investment properties			1.87	0.00	-1.87	-100.0%	3.96	9.60	5.64	142.4%
Other operating income			0.22	0.05	-0.18	n.m.	0.22	0.26	0.04	17.4%
Total revenues			8.14	9.99	1.84	22.6%	23.94	29.63	5.69	23.7%
COGS			-2.34	-3.09	-0.75	32.1%	-7.34	-6.24	1.10	-15.0%
as % of total revenues			-28.7%	-31.0%			-30.6%	-21.0%		
Gross income			0.67	16.50	15.83	2362.4%	16.61	23.39	6.79	40.9%
Other operating expenses			2.95	-1.01	-3.96	-134.1%	-2.33	-1.87	0.47	20.1%
EBIT			3.66	12.78	9.12	249.5%	9.03	16.58	7.55	83.6%
as % of total revenues			44.9%	128.0%			37.7%	56.0%		
Financial result			-1.39	-2.92	-1.52	-109.4%	-5.80	-5.84	-0.05	-0.8%
EBT			2.26	9.87	7.60	335.7%	3.23	10.74	7.51	232.1%
as % of total revenues			27.8%	98.8%			13.5%	36.3%		
Net income attributable to shareholders			2.55	8.00	5.46	214.2%	3.32	8.53	5.21	157.0%
as % of total revenues			31.3%	80.2%			13.9%	28.8%		
Shares outstanding (in millions)			8.6	9.8			8.6	9.9		
Earnings per share (EUR)			0.30	0.81	0.52	174.5%	0.38	0.87	0.48	124.9%

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	23.0	25.9
YoY growth			-	354.0%	44.2%	0.0%	16.4%	12.4%
Revaluation result from investment properties			2.6	3.0	4.0	9.6	5.6	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%	54.0%	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%	56.2%
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%	32.8%	37.3%
Taxes			0.5	-0.2	0.1	-2.2	-0.8	-0.9
as % of EBT			17.3%	-20.3%	2.7%	-20.1%	-8.9%	-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%	29.9%	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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Date	Recommendation	Price at change date	Price target
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
27 May 2011	BUY	EUR 5.25	EUR 7.00

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