

# KWG Kommunale Wohnen

**Buy** (unchanged) **Target: Euro 7.50** (old: Euro 7.00)



Der Spezialist für Finanzaktien

10 | Jan | 11

<b>Price (Euro)</b>	<b>5.10</b>			
52 weeks range	6.08 / 3.60			
<b>Key Data</b>				
Segment	Open Market (Entry Standard)			
ISIN	DE0005227342			
WKN	522734			
Reuters	BIWG.DE			
Bloomberg	BIW GY			
Reporting Standard	IFRS			
IPO	2001			
Ø Daily Turnover in € (3M)	11,551			
Market Cap (EUR million)	55.1			
Number of shares (million)	10.8			
Free Float	41.0%			
Free Float MCap (million)	22.6			
CAGR pre tax profits 09-12e	46.7%			
<b>Multiples</b>				
	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
MarketCap/ Sales	2.3	2.3	2.3	1.7
<b>PE-Ratio</b>	<b>15.1</b>	<b>13.4</b>	<b>5.5</b>	<b>6.5</b>
<b>Dynamic PE-Ratio</b>	<b>0.32</b>	<b>0.29</b>	<b>0.12</b>	<b>0.14</b>
Dividend Yield	0.0%	0.0%	0.0%	0.0%
<b>Price-to-Book ratio</b>	<b>77.4%</b>	<b>80.0%</b>	<b>71.8%</b>	<b>64.7%</b>
<b>Key Data per Share (Euro)</b>				
	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
<b>Earnings per Share (EPS)</b>	<b>0.34</b>	<b>0.38</b>	<b>0.93</b>	<b>0.78</b>
Dividends per Share (DPS)	0.00	0.00	0.00	0.00
Book Value per Share (BVPS)	6.59	6.37	7.10	7.88
<b>Financial Data (Euro '000)</b>				
	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
<b>Revenues (rental income)</b>	<b>19,759</b>	<b>20,253</b>	<b>23,320</b>	<b>24,968</b>
net revaluation result	4,184	4,058	8,950	6,444
Total operating income	23,943	24,311	32,270	31,412
Operating profit (EBITDA)	9,132	10,541	17,950	16,562
<b>Operating Profit (EBIT)</b>	<b>9,029</b>	<b>10,440</b>	<b>17,833</b>	<b>16,438</b>
<b>Pre-tax profit (EBT)</b>	<b>3,233</b>	<b>4,708</b>	<b>11,523</b>	<b>10,208</b>
<b>Net profit (after minorities)</b>	<b>3,320</b>	<b>4,104</b>	<b>10,330</b>	<b>8,694</b>
Adjusted Shareholders' Equity	64,735	68,840	79,170	87,863
RoE after tax	5.5%	6.1%	14.0%	10.4%
<b>Financial Calendar</b>				
2010 annual report			May 2011	
1Q 2011			May 2011	
AGM			June 2011	
2Q 2011			August 2011	
<b>Main Shareholders</b>				
group of core shareholders			59%	
<b>Analysts</b>				
	<b>André Hüsemann, CREA</b>			
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## 2 good news: Fresh capital backs KWG's mid-term growth and 500 new high-yielding flats

**On 3 December** Hamburg-based residential player KWG announced the successful placement of a 10% capital increase. According to the company 982,248 new shares were issued to national and international investors for an issue price of Euro 5.15 per share which is a total transaction volume of some Euro 5m. The capital increase was executed within the framework of a private placement and without subscription rights for the existing shareholders. Therefore free float increased from 35% to about 41%.

The NAV discount was relatively small 22% compared to Euro 6.63 Euro after 1H 2010 and the company also stated a very high investor's demand for the new shares. With this capital increase KWG received Euro 5m fresh equity capital. In our view that should be enough for about 700 – 900 new flats.

**The second news was on 20 December** as KWG announced the purchase of 500 flats located in Bremen (440) and Celle (66) where the company already owns 300 flats. The deal price was Euro 16m translating into a low multiple of only 10.6X net cold rent and a very high initial yield of 9.4%. With regards to an interest rate of 3.6% to 3.8% for the loan (85% of the deal is on debt base) and 1.6% to 1.8% for the property management there is a huge value accretion as there is a margin of about 4%. This translates into additional cash flow for KWG of Euro 0.6m per year. For the 15% equity party of this transaction (Euro 2.4m) KWG offered the seller KWG shares valued at 7.00 Euros which is near to NAV per share at year-end 2010. That means there was no dilution for the existing shareholders at all.

**To sum up the news flow was very positive.** KWG has bought 500 flats in cities where the firm is already represented with no extra costs for the own property management. The price was very reasonable offering a very good future cash flow contribution and thus is value accretive. And there was no dilution for existing shareholders. With the new fresh equity money of Euro 5m the company is able to further expand the portfolio from 5,300 to more than 6,000 flats soon. Keep in mind that we expect the company to have a comfortable cash position of now more than Euro 9m.

**We strongly lift now our rental income and earnings forecast for 2011 and 2012.** For 2011e net income we lift forecast from Euro 9.0m to Euro 10.3m and for 2012 from 6.9m to 8.7m. We raise our target price from Euro 7.00 to Euro 7.50.

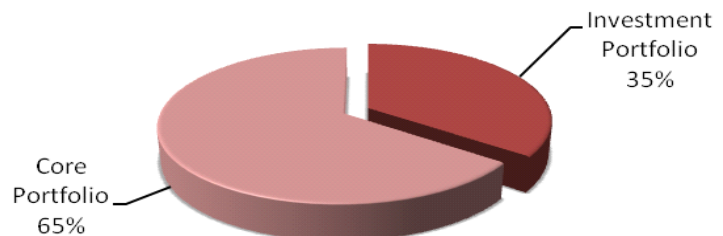
## Company Profile

### 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>Supervisory Board of KWG Kommunale Wohnen</b>
<b>Foundation:</b>	2006	Prof. Dr. Peer Witten (Chairman)
<b>Employees:</b>	36	Franz-Josef Gesinn                      Thies-Martin Brandt
<b>IR Contact</b>		Björn Engholm                              Hans-Michael Porwoll
Jutta Rehfeld		Patrik Zeigherman

KWG Kommunale Wohnen AG (KWG) is a long-term oriented owner and manager of German residential properties, with a value-add approach. The company has a portfolio of about 5.3k units with a space of more than 300k sqm in Germany. The investment focus is on neglected portfolios in fundamentally good regions, which offer relatively low prices per square meter (currently the average price per sqm in KWG's portfolio is at Euro 600 ) and low buying multipliers (initial multiplier: 11.6). The sub-portfolios of Saxony (39%) and NRW (21%) represent more than 50% of the portfolio. On the upside the invested locations show a solid local economy and a stable population, ensuring a constant tenant demand. Indeed, these circumstances can mostly be found in so-called B- and C- locations where KWG is represented mainly. In terms of vacancy KWG regards a moderate or even middle level of vacancies at the time of purchase as an opportunity to increase the cash flow through proactive asset management. Here a major factor of success is to make the properties more attractive, thus increasing tenant satisfaction and reducing fluctuation. Therefore the acquired portfolios usually show an investment backlog and vacancy to work on. Currently the portfolio can be divided into core and an investment portion, with a vacancy rate of some 6% and 34% respectively.

### Investment vs. Core Portfolio



Bearing in mind, that the transaction prices are usually dependent on rental income multiplied with the market factor, KWG usually does not pay any multiple for vacancy at acquisition but has the potential upside through reducing vacancy and enhancing value. This is the main trigger of the company. The company generates value in its portfolio by purchasing at attractive prices on the one hand, and then developing and improving the individual properties. Due to its active asset management KWG was quite successful with its portfolio in the past. Originally KWG was created from the shell of the former Carthago Biotech AG. In mid 2006, the company have been structured to change its field of business and renamed as KWG Kommunale Wohnen AG. The company commenced business operations in August 2006 and has meanwhile a team of experienced real estate and financial experts of 36 people .

Source: Company Data, SRC Research

## SWOT – Analysis

### Strengths

- Management and core investors (in particular Ehlerding family) have a broad and long-term experience in the German real estate arena
- 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 new acquisitions like in Dec. 2010
- Strong equity ratio of 35% as of June 2010 and comfortable cash at now c. 9m
- Very good inner-city locations like for instance in Bochum and Gelsenkirchen

### 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 year from Euro 40m to now about Euro 55m or even above.
- Low trading volume of the stock, and therefore reserve of investors that fear illiquidity. But after new capital increase free float slightly went up to 41%.

### Opportunities

- Positive cash earnings property portfolio with further upside potential as KWG for instance already rented > 50 flats from its newest Celle refurbishment activities for more than Euro 6.00 per sqm (from Euro 4.35 before)
- 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 weak general economic conditions and the mostly lower tax income. This should increase the willingness to sell municipal housing companies.
- The recent 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, which would foster the company visibility and investor base
- KWG started to set up its own property management in 2010. From 1Q 2011 on even more than 90% of all rental units will be managed by KWG itself. This will lead to a reduced cost base (€ 0.2m p.a.) and also to a better tenant structure and improved rental success.

### Threats

- Funding of acquisitions and refurbishment projects could become problematic if the financial market crisis re-emerges. But there are no significant refinancing needs until the year 2012 and the equity position was just now fostered by the capital increase of approx. 1 million new shares in December 2010.
- Typical risks of purchasing properties (higher costs than originally planned).

**KWG Kommunale Wohnen AG**

31/12 IFRS (Euro '000)

	2007	2008	2009	2010e	2011e	2012e	CAGR '09e - '12e
<b>Revenues</b>	<b>3,019</b>	<b>13,706</b>	<b>19,759</b>	<b>20,253</b>	<b>23,320</b>	<b>24,968</b>	<b>8.1%</b>
↳ thereof rental income residential	3,019	13,706	19,759	20,253	23,320	24,968	
other oper. income (mainly net revaluation result)	5,666	10,406	4,184	4,058	8,950	6,444	
<b>Total operating income</b>	<b>8,685</b>	<b>24,112</b>	<b>23,943</b>	<b>24,311</b>	<b>32,270</b>	<b>31,412</b>	
Expenses for investment properties	-396	-3,856	-3,653	-3,099	-3,830	-4,120	
Cost of material	-1,398	-4,995	-7,336	-6,456	-6,197	-6,321	
Personnel expenses	-598	-1,377	-1,488	-1,786	-1,893	-1,912	
Other operating expenses	-2,867	-8,463	-2,334	-2,430	-2,400	-2,497	
<b>Operating profit (EBITDA)</b>	<b>3,425</b>	<b>5,421</b>	<b>9,132</b>	<b>10,541</b>	<b>17,950</b>	<b>16,562</b>	<b>22.0%</b>
Amortization of intangible assets and depreciation of property, plant and equipment and investment properties	-31	-49	-103	-101	-117	-125	
<b>Operating profit (EBIT)</b>	<b>3,394</b>	<b>5,372</b>	<b>9,029</b>	<b>10,440</b>	<b>17,833</b>	<b>16,438</b>	<b>22.1%</b>
<i>EBIT margin</i>	39.1%	22.3%	37.7%	42.9%	55.3%	52.3%	
Income from securities in financial assets	0	68	0	15	50	50	
Other interest and similar income	310	432	72	45	320	450	
Interest and similar expenditure	-1,065	-4,897	-5,865	-5,770	-6,634	-6,680	
Minority interests of other shareholders	0	-6	-3	-22	-47	-50	
<b>Pre-tax Profit (EBT)</b>	<b>2,639</b>	<b>969</b>	<b>3,233</b>	<b>4,708</b>	<b>11,523</b>	<b>10,208</b>	<b>46.7%</b>
tax expenses and other expenses	456	-197	87	-588	-1,152	-1,429	
<i>Tax rate</i>	-17.3%	20.3%	15.8%	12.5%	10.0%	14.0%	
Minorities	0	0	0	-15	-40	-85	
<b>Net Profit after minorities</b>	<b>3,095</b>	<b>772</b>	<b>3,320</b>	<b>4,104</b>	<b>10,330</b>	<b>8,694</b>	<b>37.8%</b>
Number of shares (at year-end)	4,696	7,490	9,822	10,805	11,150	11,150	
<b>Earnings per share (Euro)</b>	<b>0.66</b>	<b>0.10</b>	<b>0.34</b>	<b>0.38</b>	<b>0.93</b>	<b>0.78</b>	
Dividends per Share (DPS) in Euro	0.00	0.00	0.00	0.00	0.00	0.00	
<b>Book Value per Share (BVPS) in Euro</b>	<b>8.41</b>	<b>7.50</b>	<b>6.59</b>	<b>6.37</b>	<b>7.10</b>	<b>7.88</b>	

**Adjusted Shareholders' Equity**

without minorities	<b>39,474</b>	<b>56,143</b>	<b>64,735</b>	<b>68,840</b>	<b>79,170</b>	<b>87,863</b>	<b>10.7%</b>
RoE after Tax	5.6%	1.6%	5.5%	6.1%	14.0%	10.4%	

**Key ratios & figures**

	2007	2008	2009	2010e	2011e	2012e
<b>Growth rates in %</b>						
Revenues	n.s.	354.0%	44.2%	2.5%	15.1%	7.1%
EBITDA	n.s.	58.3%	68.5%	15.4%	70.3%	-7.7%
EBIT	n.s.	58.3%	68.1%	15.6%	70.8%	-7.8%
EBT	n.s.	-63.3%	233.6%	45.6%	144.8%	-11.4%
Net profit after minorities	n.s.	-75.1%	329.9%	23.6%	151.7%	-15.8%

**Margins in %**

EBITDA	39.4%	22.5%	38.1%	43.4%	55.6%	52.7%
EBIT	39.1%	22.3%	37.7%	42.9%	55.3%	52.3%
EBT	87.4%	7.1%	16.4%	23.2%	49.4%	40.9%

**Expense ratios in %**

Personnel costs quote	6.9%	5.7%	6.2%	7.3%	5.9%	6.1%
Cost of material to sales	16.1%	20.7%	30.6%	26.6%	19.2%	20.1%
Depreciation to sales	0.4%	0.2%	0.4%	0.4%	0.4%	0.4%
Tax rate	-17.3%	20.3%	15.8%	12.5%	10.0%	14.0%

**Profitability in %**

net profit to sales ratio	102.5%	5.6%	16.8%	20.3%	44.3%	34.8%
return on equity (ROE) after tax	5.6%	1.6%	5.5%	6.1%	14.0%	10.4%

**Valuation**

PE-ratio	7.74	49.47	15.09	13.43	5.50	6.54
Price/BVpS	8.41	7.50	6.59	6.37	7.10	7.88
Dividend yield in %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV/ Sales	6.34	2.28	2.30	2.27	1.71	1.75
EV/ EBITDA	16.08	10.16	6.03	5.23	3.07	3.33

**Data per share**

Number of shares in k	4,696	7,490	9,822	10,805	11,150	11,150
EpS	0.66	0.10	0.34	0.38	0.93	0.78
DpS	0.00	0.00	0.00	0.00	0.00	0.00
BVpS	8.41	7.50	6.59	6.37	7.10	7.88

## SRC Research

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Rating Chronicle	Date	rating	former share price	former target
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 7 January 2011. KWG mandated SRC Research for mentoring the KWG share.

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