

KWG Kommunale Wohnen

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



26 | Jan | 11

■ **Price (Euro)** **5.45**
52 weeks range 6.08 / 3.60

■ **Key Data**

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)	58.9
Number of shares (million)	10.8
Free Float	41.0%
Free Float MCap (million)	24.1
CAGR pre tax profits 09-12e	46.7%

■ Multiples	2009	2010e	2011e	2012e
MarketCap/ Sales	2.4	2.5	2.1	1.8
PE-Ratio	16.1	7.2	5.9	7.0
Dynamic PE-Ratio	0.35	0.15	0.13	0.15
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Price-to-Book ratio	82.7%	80.8%	73.0%	66.1%

■ Key Data per Share (Euro)	2009	2010e	2011e	2012e
Earnings per Share (EPS)	0.34	0.76	0.93	0.78
Dividends per Share (DPS)	0.00	0.00	0.00	0.00
Book Value per Share (BVPS)	6.59	6.75	7.47	8.25

■ Financial Data (Euro '000)	2009	2010e	2011e	2012e
Revenues (rental income)	19,759	20,253	23,320	24,968
net revaluation result	4,184	8,200	8,950	6,444
Total operating income	23,943	28,453	32,270	31,412
Operating profit (EBITDA)	9,132	14,683	17,950	16,562
Operating Profit (EBIT)	9,029	14,581	17,833	16,438
Pre-tax profit (EBT)	3,233	8,849	11,523	10,208
Net profit (after minorities)	3,320	8,171	10,330	8,694
Adjusted Shareholders' Equity	64,735	72,906	83,236	91,930
RoE after tax	5.5%	11.9%	13.2%	9.9%

■ **Financial Calendar**

2010 annual report	May 2011
1Q 2011	May 2011
AGM	June 2011
2Q 2011	August 2011

■ **Main Shareholders**

group of core shareholders 59%

■ **Analysts**

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KWG doubled our 2010 net profit expectation and gave guidance for profits to rise in 2011

On Monday 24 January residential player KWG surprised the market with a very positive news.

The company again lifted its net profit guidance for 2010 after KWG has already done so on 4 November.

After the former projection in the November press release was a Euro 4m net profit, the new projection is to deliver Euro 8m net profit which is quite high compared to Euro 3.3m in 2009.

As we already stated with our recent update on 10 January the company is in a good shape with a steep rise in rental income (net rent per sqm rose 2.5%) and with a significant reduction in vacancy for both portfolios (core and investment portfolio).

We lift our projection for 2010 revaluation gains from Euro 4.1m to Euro 8.2m. Accordingly we also lift our 2010 net profit projection now from Euro 4.1m to Euro 8.2m.

Despite the high revaluation gains for 2010, we leave our 2011 projection for revaluation gains unchanged at approx Euro 9m. The reason is the good progress in rental income and the declining vacancy which we expect to continue in the new year. We also assume some revaluation potential to come from the new Bremen / Celle portfolio of 500 flats, which was acquired end of December for a very good 9.4% initial yield and will foster balance sheet and profits from 2011 on.

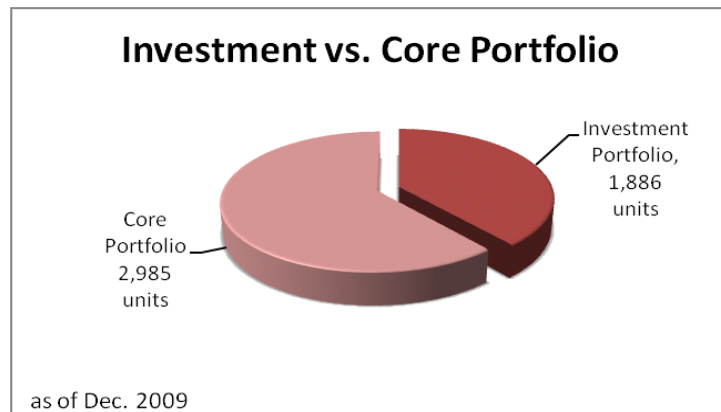
As we already marked in our last update from 10 January, we expect the share to continue its positive trend and feel fully confirmed with the higher net profit for 2010. We also like the new company guidance for 2011 as the company stated to deliver a higher net profit than in the previous year again. We stick to our 2011 net profit projection of Euro 10.3m (+26%).

Company Profile

KWG Kommunale Wohnen AG

Industry:	Real Estate	Management Board of KWG Kommunale Wohnen
Sub-segment:	Residential RE	Stavros Efremidis
Country:	Germany	Torsten P. Hoffmann
Headquarter:	Hamburg	Supervisory Board of KWG Kommunale Wohnen
Foundation:	2001	Prof. Dr. Peer Witten (Chairman)
Employees:	36	Franz-Josef Gesinn
IR Contact		Thies-Martin Brandt
Jutta Rehfeld		Björn Engholm
		Hans-Michael Porwoll
		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 5k units with a space of 285k 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 c. 60% 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. At present the portfolio can be divided into a core and an investment portion, with a vacancy rate of 6.5% and 33.8% respectively.



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 within 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
Revenues	3,019	13,706	19,759	20,253	23,320	24,968	8.1%
<i>└ thereof rental income residential</i>	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	8,200	8,950	6,444	
Total operating income	8,685	24,112	23,943	28,453	32,270	31,412	
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	
Operating profit (EBITDA)	3,425	5,421	9,132	14,683	17,950	16,562	22.0%
Amortization of intangible assets and depreciation of property, plant and equipment and investment properties	-31	-49	-103	-101	-117	-125	
Operating profit (EBIT)	3,394	5,372	9,029	14,581	17,833	16,438	22.1%
<i>EBIT margin</i>	39.1%	22.3%	37.7%	51.2%	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	
Pre-tax Profit (EBT)	2,639	969	3,233	8,849	11,523	10,208	46.7%
tax expenses and other expenses	456	-197	87	-664	-1,152	-1,429	
<i>Tax rate</i>	-17.3%	20.3%	15.8%	7.5%	10.0%	14.0%	
Minorities	0	0	0	-15	-40	-85	
Net Profit after minorities	3,095	772	3,320	8,171	10,330	8,694	37.8%
Number of shares (at year-end)	4,696	7,490	9,822	10,805	11,150	11,150	
Earnings per share (Euro)	0.66	0.10	0.34	0.76	0.93	0.78	
Dividends per Share (DPS) in Euro	0.00	0.00	0.00	0.00	0.00	0.00	
Book Value per Share (BVPS) in Euro	8.41	7.50	6.59	6.75	7.47	8.25	
Adjusted Shareholders' Equity							
without minorities	39,474	56,143	64,735	72,906	83,236	91,930	12.4%
RoE after Tax	5.6%	1.6%	5.5%	11.9%	13.2%	9.9%	
Key ratios & figures	2007	2008	2009	2010e	2011e	2012e	
Growth rates in %							
Revenues	n.s.	354.0%	44.2%	2.5%	15.1%	7.1%	
EBITDA	n.s.	58.3%	68.5%	60.8%	22.3%	-7.7%	
EBIT	n.s.	58.3%	68.1%	61.5%	22.3%	-7.8%	
EBT	n.s.	-63.3%	233.6%	173.7%	30.2%	-11.4%	
Net profit after minorities	n.s.	-75.1%	329.9%	146.1%	26.4%	-15.8%	
Margins in %							
EBITDA	39.4%	22.5%	38.1%	51.6%	55.6%	52.7%	
EBIT	39.1%	22.3%	37.7%	51.2%	55.3%	52.3%	
EBT	87.4%	7.1%	16.4%	43.7%	49.4%	40.9%	
Expense ratios in %							
Personnel costs quote	6.9%	5.7%	6.2%	6.3%	5.9%	6.1%	
Cost of material to sales	16.1%	20.7%	30.6%	22.7%	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%	7.5%	10.0%	14.0%	
Profitability in %							
net profit to sales ratio	102.5%	5.6%	16.8%	40.3%	44.3%	34.8%	
return on equity (ROE) after tax	5.6%	1.6%	5.5%	11.9%	13.2%	9.9%	
Valuation							
PE-ratio	8.27	52.87	16.12	7.21	5.88	6.99	
Price/BVpS	8.41	7.50	6.59	6.75	7.47	8.25	
Dividend yield in %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	

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Rating Chronicle	Date	rating	former share price	former target
KWG	10. Jan 11	Buy	5.10 €	7.50 €
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 25 January 2011. KWG mandated SRC Research for mentoring the KWG share.

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