

KWG Kommunale Wohnen

Buy (unchanged) **Target: Euro 8.00** (unchanged)



Der Spezialist für Finanzaktien

15 | May | 12

■ **Price (Euro)** **5.00**
52 weeks range 5.80 / 4.49

■ Key Data

Country	Germany
Industry	Real Estate
Segment	Open Market (Entry Standard)
ISIN	DE0005227342
WKN	522734
Reuters	BIWG.DE
Bloomberg	BIW GY
Internet	www.kwg-ag.de
Reporting Standard	IFRS
Fiscal Year	31/12
Ø Daily Turnover in € (3M)	4,382
Market Cap (EUR million)	72.0
Number of shares (million)	14.4
Free Float	35%
Free Float MCap (million)	25.2
CAGR pre tax profits 09-12e	26.4%

■ Multiples	2011	2012e	2013e	2014e
MarketCap/ Sales	2.8	2.6	2.3	2.0
PE-Ratio	5.6	5.6	4.4	3.6
Dynamic PE-Ratio	0.21	0.21	0.17	0.14
Dividend Yield	0.0%	3.0%	4.0%	5.0%
Price-to-Book ratio	60.0%	56.2%	52.6%	49.8%

■ Key Data per Share (Euro)	2011	2012e	2013e	2014e
Earnings per Share (EPS)	0.89	0.90	1.13	1.39
Dividends per Share (DPS)	0.00	0.15	0.20	0.25
NAV per share	8.33	8.90	9.50	10.05

■ Financial Data (Euro '000)	2011	2012e	2013e	2014e
Revenues (rental income)	21,659	27,750	30,525	35,104
Net Revaluation Gains	8,535	12,060	10,080	9,590
Total operating income	25,265	28,090	30,875	35,469
Operating profit (EBITDA)	9,824	10,970	16,475	21,119
Operating Profit (EBIT)	18,359	23,030	26,556	30,709
Pre-tax profit (EBT)	11,940	16,316	19,886	24,109
Net profit (after minorities)	9,819	14,286	17,936	22,034
Adjusted Shareholders' Equity	91,494	112,780	123,716	145,750
RoE after tax	11.6%	14.0%	15.2%	16.4%

■ Financial Calendar

AGM	31 Jul 2012
1H 2012	9 Aug 2012
SRC Forum Financials & Real Estate	12 Sep 2012

■ Main Shareholders

Group of core shareholders	65%
----------------------------	-----

■ Analysts

Stefan Scharff, CREA
Denis Kuhn

E-Mail	scharff@src-research.de kuhn@src-research.de
Internet	www.src-research.de

KWG well on track to meet our 2012 forecasts after successful 1Q – Buy confirmed

On Thursday May 10, KWG published some key figures for 1Q 2012. Total revenues, representing gross rental income, grew by about 18% from Euro 4.9m in 1Q 2011 to Euro 5.9m. Even more important, Net Cold Rents came in at Euro 4.1m, confirming our estimates. EBIT increased by about 15% to Euro 2.2m and FFO soared by about 75% to 0.7m for the first three months of the year. Net profit (without revaluation gains) amounted to Euro 0.3m for the first quarter.

Those figures do not reflect the acquisition of the BWAG portfolio on which we commented on March 7. The 1,400 units located in Wuppertal represent about 90k sqm and will contribute another Euro 4.8m of net cold rent per year. After announcing the BWAG-takeover with a 77%-stake in March, KWG aims on a further increase of its share and expects a FFO contribution of about Euro 1m for 2012 already. Taking KWG's Euro 16m to 17m yearly Net Cold Rents per year without BWAG as a basis, our estimate of about Euro 20m Net Cold Rent for this year seems rather conservative with regards to the BWAG contribution.

Moreover the management has confirmed that it continues to look for upcoming opportunities to further expand the portfolio via attractive acquisitions. In order to have sufficient liquidity for opportunistic growth, the group successfully conducted a capital increase in March with Euro 19m gross proceeds. In addition, the group will be able to free up cash via increasing LTV in the BWAG portfolio, which is currently at only 20%. Therefore, we see KWG in an excellent position to exploit upcoming opportunities in the German residential real estate market. Due to the comprehensive refurbishments and the resulting increases in occupancy and average rents as well as some positive "lucky buy" revaluations, we also expect revaluation gains well in excess of Euro 12m for 2012. Regarding profitability, we forecast a RoE of about 15% for the next years.

KWG is well on track to meet our 2012 forecast. With the higher equity ratio and rising cash flows, KWG is in an excellent position to exploit upcoming opportunities and further grow its portfolio. We confirm both our Buy rating and our TP of € 8.00!

Strengths

SWOT – Analysis

- Management and core investors (in particular the 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. The BWAG deal confirmed the group's capabilities to source and close attractive deals on an ongoing basis.
- High yielding residential portfolio in fundamentally solid regions with a proven track record for rental success and attractive acquisitions.
- Strong equity ratio of about 38% as of 1Q 2012 which will grow further after the successful capital increase in March. After the BWAG deal, there is even more financial flexibility to further grow the portfolio due to the strong BWAG balance sheet (only 20% LTV on IFRS values).
- Buy discipline, proven in several deals, showed the ability to buy at very attractive prices and to pay with own shares near to NAV values to avoid dilution of existing shareholders.

Weaknesses

- Small market cap of the company leads to lower visibility at investors with high investment volume. But market cap already increased with a rising portfolio size and a higher number of shares of now 14.4m shares after the successful capital increase.
- Relatively low liquidity in the KWG share due to market cap and free float.

Opportunities

- Rising cash earnings with further upside as KWG already achieved significant improvements regarding both rents and occupancy rates via comprehensive refurbishment measures in 2011.
- 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 financial conditions of most municipalities. This should increase the willingness to sell municipal housing companies.
- Excellent liquidity situation after the successful capital increase in March and the BWAG-deal which will free up even more cash in the mid-term. This liquidity may be a crucial competitive advantage in future acquisitions.

Threats

- Funding of acquisitions and refurbishment projects could become problematic when economic conditions worsen significantly.
- Typical risks of property deals such as refurbishment costs getting out of hand. By now, on the other hand, a large share of properties is fully refurbished which implies lower CAPEX-needs in the future.

P&L KWG Kommunale Wohnen AG

31/12 IFRS (Euro '000)	2008	2009	2010	2011	2012e	2013e	2014e	CAGR '11e - '14e
Revenues	13,706	19,759	19,765	21,659	27,750	30,525	35,104	17.5%
↳ thereof rental income from properties	8,711	19,759	19,765	18,053	27,280	30,220	34,753	
↳ thereof rental income without costs of material	3,716	12,423	13,529	11,040	19,660	23,720	28,353	
other oper. Income	4,211	224	263	3,606	340	350	365	
Total operating income	17,917	19,983	20,028	25,265	28,090	30,875	35,469	
Expenses for investment properties	-3,856	-3,653	-2,999	-3,351	-4,550	-3,300	-3,200	
Cost of material	-4,995	-7,336	-6,236	-7,013	-7,620	-6,500	-6,400	
Net operating income (NOI)	4,855	8,770	10,530	11,295	15,580	20,725	25,504	
NOI-margin	35.4%	44.4%	53.3%	52.1%	56.1%	67.9%	72.7%	
Personnel expenses	-1,377	-1,488	-1,773	-2,323	-2,450	-2,500	-2,650	
Other operating expenses	-5,284	-2,334	-1,866	-2,754	-2,500	-2,100	-2,100	
Operating profit (EBITDA)	2,405	5,172	7,154	9,824	10,970	16,475	21,119	29.1%
EBITDA margin	17.5%	26.2%	36.2%	45.4%	39.5%	54.0%	60.2%	
Amortization of intangible assets and depreciation of property, plant and equipment and investment properties	-49	-103	-173	-218	-190	-220	-260	
Revaluation gains	3,015	3,961	9,602	8,753	12,250	10,300	9,850	
Operating profit (EBIT)	5,372	9,030	16,583	18,359	23,030	26,556	30,709	18.7%
EBIT margin	30.0%	45.2%	82.8%	72.7%	82.0%	86.0%	86.6%	
Income from securities in financial assets	68	0	0	8	50	50	50	
Other interest and similar income	432	72	26	25	300	450	600	
Interest and similar expenditure	-4,897	-5,865	-5,861	-6,445	-7,010	-7,120	-7,250	
Minority interests of other shareholders	-6	-2	-6	-7	-55	-50	0	
Pre-tax Profit (EBT)	969	3,235	10,742	11,940	16,316	19,886	24,109	26.4%
EBT margin	7.1%	16.4%	54.4%	55.1%	58.8%	65.1%	68.7%	
tax expenses and other expenses	-197	87	-2,158	-2,114	-2,005	-1,915	-2,030	
Tax rate	20.3%	15.8%	7.5%	17.7%	12.3%	9.6%	8.4%	
Minorities	0	0	-1	-7	-25	-35	-45	
Net Profit after minorities	772	3,322	8,583	9,819	14,286	17,936	22,034	30.9%
Return on sales	5.6%	16.8%	43.4%	45.3%	51.5%	58.8%	62.8%	
Number of shares (at year-end, '000)	7,490	8,627	10,805	10,805	15,881	15,881	15,881	
Earnings per share (Euro)	0.10	0.39	0.87*	0.89	0.90	1.13	1.39	
EPS above CoE (8.0%)	-0.41	-0.18	0.29	0.28	0.39	0.53	0.71	
Dividends per Share (DPS) in Euro	0.00	0.00	0.00	0.00	0.15	0.20	0.25	
NAV per share in Euro	6.53	6.59	7.23	8.33	8.90	9.50	10.05	
Adjusted Shareholders' Equity without minorities	56,143	64,735	78,099	91,494	112,780	123,716	145,750	16.8%
RoE after Tax	1.6%	5.5%	12.0%	11.6%	14.0%	15.2%	16.4%	
Key ratios & figures	2008	2009	2010	2011	2012e	2013e	2014e	
Growth rates in %								
Revenues	354.0%	44.2%	0.0%	9.6%	28.1%	10.0%	15.0%	
EBITDA	-29.8%	115.0%	38.3%	37.3%	11.7%	50.2%	28.2%	
EBIT	58.3%	68.1%	83.6%	10.7%	25.4%	15.3%	15.6%	
EBT	-63.3%	234.0%	232.0%	11.2%	36.6%	21.9%	21.2%	
Net profit after minorities	-75.1%	330.5%	158.4%	14.4%	45.5%	25.5%	22.9%	
Margins in %								
Gross								
EBITDA	13.4%	25.9%	35.7%	38.9%	39.1%	53.4%	59.5%	
EBIT	30.0%	45.2%	82.8%	72.7%	82.0%	86.0%	86.6%	
EBT	7.1%	16.4%	54.4%	55.1%	58.8%	65.1%	68.7%	
Expense ratios in %								
Personnel costs quote	7.7%	7.4%	8.9%	9.2%	8.7%	8.1%	7.5%	
Cost of material to sales	27.9%	36.7%	31.1%	27.8%	27.1%	21.1%	18.0%	
Depreciation to sales	0.3%	0.5%	0.9%	0.9%	0.7%	0.7%	0.7%	
Tax rate	20.3%	15.8%	7.5%	17.7%	12.3%	9.6%	8.4%	
Profitability in %								
Net profit to sales ratio	5.6%	16.8%	43.4%	45.3%	51.5%	58.8%	62.8%	
Return on equity (ROE) after tax	1.6%	5.5%	12.0%	11.6%	14.0%	15.2%	16.4%	
Valuation								
PE-ratio	48.53	12.98	5.75	5.62	5.56	4.43	3.60	
Price/BVpS	6.53	6.59	7.23	8.33	8.90	9.50	10.05	
Dividend yield in %	0.0%	0.0%	0.0%	0.0%	3.0%	4.0%	5.0%	
EV/ Sales	4.02	3.60	3.59	2.85	2.56	2.33	2.03	
EV/ EBITDA	29.93	13.92	10.06	7.33	6.56	4.37	3.41	
Data per share								
Number of shares in k	7,490	8,627	10,805	10,805	15,881	15,881	15,881	
EpS	0.10	0.39	0.87*	0.89	0.90	1.13	1.39	
DpS	0.00	0.00	0.00	0.00	0.15	0.20	0.25	
BVpS	6.53	6.59	7.23	8.33	8.90	9.50	10.05	

* EPS with average number of shares of 9.857 million shares

SRC Research

– The Specialist for Financial and Real Estate Stocks –

SRC-Scharff Research und Consulting GmbH

Klingerstrasse 23

D-60313 Frankfurt

Germany

Fon: +49 (0) 69 / 400 313 – 80

E-Mail: scharff@src-research.de

kuhn@src-research.de

Internet: www.src-research.de

Rating Chronicle	Date	Rating	Former Price	Former Target
KWG	18. Apr 12	Buy	5,24 €	8,00 €
KWG	7. Mar 12	Buy	5,18 €	8,00 €
KWG	1. Mar 12	Buy	5,05 €	7,50 €
KWG	9. Nov 11	Buy	4,99 €	7,50 €
KWG	25. Aug 11	Buy	5,16 €	7,50 €
KWG	12. Jul 11	Buy	4,61 €	7,50 €

Please note:

The KWG share price mentioned in this report is from closing of 14 May 2012. KWG mandated SRC Research for mentoring the KWG share.

Disclaimer © 2012: This equity research report is published by: SRC-Scharff Research und Consulting GmbH (short name: SRC Research), Klingerstr. 23, D-60313 Frankfurt, Germany. All rights reserved.

Although we feel sure that all information in this SRC report stem from carefully selected sources with a high credibility, we cannot give any guarantee for accuracy, trueness and completeness. All opinions quoted in this report give the current judgement of the author that not necessarily is the same opinion as SRC-Scharff Research und Consulting GmbH or another staff member. All in this report made opinions and judgements might be changed without a pre-announcement. Within the scope of German regulative framework author and SRC-Scharff Research und Consulting GmbH do not assume any liability for using this document or its content. This report is just for information purposes and not a request or an invitation or a recommendation to buy or sell any stock that is mentioned here. Private clients should search for personal advice at their bank or investment house and should keep in mind that prices and dividends of equities might rise and fall and that nobody can give a guarantee of the future development of equities. The author of this report and the SRC-Scharff Research und Consulting GmbH commit themselves on a unsolicited basis to have no long- or short-positions in equities or derivatives related to equities mentioned in this report.

Reproduction, distribution and publishing of this report and its content as a whole or in parts is only allowed with an approval of SRC management board in written form. With acceptance of this document you agree with all regulations mentioned here and all general terms and conditions you will find at anytime at our website www.src-research.de.