

# KWG Kommunale Wohnen

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



Der Spezialist für Finanzaktien

01 | March | 12

<b>Price (Euro)</b>	<b>5.05</b>			
52 weeks range	5.70 / 4.50			
<b>Key Data</b>				
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)	54.5			
Number of shares (million)	10.8			
Free Float	35%			
Free Float MCap (million)	19.1			
CAGR pre tax profits 09-12e	54.7%			
<b>Multiples</b>				
	<b>2011e</b>	<b>2012e</b>	<b>2013e</b>	<b>2014e</b>
MarketCap/ Sales	1.8	1.7	1.6	1.6
<b>PE-Ratio</b>	<b>6.2</b>	<b>5.5</b>	<b>4.8</b>	<b>4.1</b>
<b>Dynamic PE-Ratio</b>	<b>0.11</b>	<b>0.10</b>	<b>0.09</b>	<b>0.07</b>
Dividend Yield	0.0%	3.0%	4.0%	0.0%
<b>Price-to-Book ratio</b>	<b>62.8%</b>	<b>56.4%</b>	<b>50.4%</b>	<b>0.0%</b>
<b>Key Data per Share (Euro)</b>				
	<b>2011e</b>	<b>2012e</b>	<b>2013e</b>	<b>2014e</b>
<b>Earnings per Share (EPS)</b>	<b>0.81</b>	<b>0.92</b>	<b>1.06</b>	<b>1.24</b>
Dividends per Share (DPS)	0.00	0.15	0.20	0.25
Book Value per Share (BVPS)	8.04	8.96	10.02	11.26
<b>Financial Data (Euro '000)</b>				
	<b>2011e</b>	<b>2012e</b>	<b>2013e</b>	<b>2014e</b>
<b>Revenues (rental income)</b>	<b>21,584</b>	<b>25,901</b>	<b>27,714</b>	<b>30,762</b>
Other income (incl. revaluations)	10,580	7,500	7,700	7,200
Total operating income	32,164	33,401	35,414	37,962
Operating profit (EBITDA)	18,191	18,712	20,158	22,364
<b>Operating Profit (EBIT)</b>	<b>18,013</b>	<b>18,532</b>	<b>19,939</b>	<b>22,105</b>
<b>Pre-tax profit (EBT)</b>	<b>11,444</b>	<b>11,960</b>	<b>13,384</b>	<b>15,505</b>
<b>Net profit (after minorities)</b>	<b>8,793</b>	<b>9,930</b>	<b>11,434</b>	<b>13,430</b>
Adjusted Shareholders' Equity	86,892	96,822	108,256	121,686
<b>RoE after tax</b>	<b>10.7%</b>	<b>10.8%</b>	<b>11.2%</b>	<b>11.7%</b>
<b>Financial Calendar</b>				
Annual Report 2011			30 April 2012	
1Q 2012 Key Data			7 May 2012	
AGM			31 July 2012	
<b>Main Shareholders</b>				
Group of core shareholders		65%		
<b>Analysts</b>				
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## KWG well on track with record profit of Euro 8.8m and 2012 growth plans – Buy affirmed

Today, Hamburg-based residential player KWG Kommunale Wohnen published some preliminary key figures for FY 2011. Total revenues increased to Euro 21.5m (+8.5%) and aggregated Net Cold Rent came in at about Euro 15m (+12.8%), both slightly below our estimates of Euro 23.2m and 15.9m, respectively. Earnings Before Taxes (EBT) slightly outperformed our projection of Euro 11.1 and amounted to Euro 11.4m after 10.7m in 2010 (+6.5%).

With a Net Profit of Euro 8.8m, translating into 81 cents per share, the company exactly matched our forecast for 2011. NAV is reported at about Euro 8 per share, which is also close to our estimate of Euro 8.05. These key figures mirror the operational success of the year 2011 and show that the company is well on track.

With the ongoing transformation from investment properties to the core portfolio and the acquisition of the Delmenhorst portfolio (442 units) in July 2011, Net Cold Rents rose to Euro 4m within 4Q. This may serve as the basis for our 2012 estimates also taking into account the acquisitions scheduled for the first half of the year. Average vacancy of the core portfolio decreased significantly to 2.7% compared to 6.4% as of year-end 2010. In our view this proves the company's capabilities to significantly increase cash earnings of its portfolio properties at a fast pace after refurbishments are completed.

Revaluation gains amounted to about Euro 9m, which matches our projections and reflects the increases in cash flow resulting from decreased vacancies and higher average rents per sqm at the same time. Despite the obvious success in the firm's operating business, acquisitions within FY 2011 were below the company's guidance and our projections. Nevertheless, we are confident that KWG will be able to expand its residential portfolio significantly within 2012. According to the management, the company is in negotiations for a number of acquisitions. We expect more news flow to come in the next few months.

**Revenues and net profit rose significantly in 2011, in line with our projections. Therefore we expect KWG to continue its successful growth in 2012, including the expansion of the portfolio via additional acquisitions. We stick to our Buy rating and to our target of Euro 7.50.**

## SWOT – Analysis

### Strengths

- 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.
- High yielding residential portfolio in fundamentally solid regions with a proven track record for rental success and attractive acquisitions.
- Strong equity ratio of 37% as of June 2011 and cash still at approx. € 3.5m.
- 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 increased from Euro 40m to now about Euro 55m .
- Low trading volume of the stock, and therefore reserve of investors that fear illiquidity.

### Opportunities

- Positive cash earnings property portfolio with further upside potential as KWG achieved significant increases in rents via comprehensive refurbishment measures in the past.
- 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.
- The 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 are 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 worsens.
- Typical risks of purchasing properties (higher costs than originally planned).

### Discounted Cashflow for KWG Kommunale WohnenAG (Entity WACC Method)

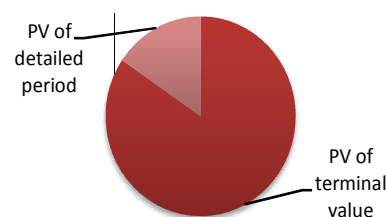
#### Assumptions:

Equity ratio longterm	38%	Beta factor	0.90
CoE Cost of Equity	7.7%	Risk-free return	1.8%
CoL Cost of Liability	4.9%	Market risk premium	6.5%
Weighted Average Cost of Capital (WACC)	5.9%		
Years until first pay-out	0.83		
Growth in Terminal Value	1.0%		

Euro '000	2012e	2013e	2014e	2015e	2016e	Terminal Value
<b>Rental income from properties</b>	<b>25,642</b>	<b>27,437</b>	<b>28,809</b>	<b>30,249</b>	<b>31,459</b>	<b>30,551</b>
Sales revenues growth	18.8%	7.0%	5.0%	5.0%	4.0%	1.0%
Cash margin on revenues	47.3%	45.0%	45.0%	45.0%	45.0%	45.0%
<b>Operating cash-profit</b> after staff and material expenses and other expenses	<b>12,141</b>	<b>13,604</b>	<b>12,964</b>	<b>13,612</b>	<b>14,157</b>	<b>13,748</b>
Tax rate on operating cash profit	11.3%	11.3%	11.3%	11.3%	11.3%	15.8%
<b>Net operating profit after tax (NOPAT)</b>	<b>10,769</b>	<b>12,067</b>	<b>11,499</b>	<b>12,074</b>	<b>12,557</b>	<b>11,576</b>
+/- Changes in Working Capital	-300	-300	-400	-750	-1,000	-200
+/- Changes in Others UV	-123	-109	-115	-115	-119	-250
<b>Free cash flow</b>	<b>10,346</b>	<b>11,658</b>	<b>10,984</b>	<b>11,209</b>	<b>11,438</b>	<b>11,126</b>
<b>Present value of free cash flows</b>	<b>9,864</b>	<b>10,494</b>	<b>9,335</b>	<b>8,994</b>	<b>8,665</b>	<b>161,820</b>

PV of detailed period	38,686
PV of terminal value	161,820
<b>Sum of free cash flows / Enterprise Value</b>	<b>209,170</b>
+ market value of assets that are not necessary for operating business	0
+ cash / cash equivalents (as of Dec. 2011e)	3,850
- interest bearing liabilities / long-term provisions (as of Dec. 2011e)	-128,546
<b>Market value of equity</b>	<b>84,474</b>
Number of shares in million	10,805
<b>Fair market value per share in Euro</b>	<b>7.82</b>

#### Enterprise value breakdown



Development of value drivers	2012e	2013e	2014e	2015e	2016e	Terminal Value
Sales growth	18.8%	7.0%	5.0%	5.0%	4.0%	1.0%
Cash margin on revenues	47.3%	45.0%	45.0%	45.0%	45.0%	45.0%
Changes in Working Capital quota	-1.2%	-1.1%	-1.4%	-2.5%	-3.2%	-0.7%

**Current share price (Euro)** 5.05  
**Up/Downside** 54.8%

**P&L KWG Kommunale Wohnen AG**

31/12 IFRS (Euro '000)	2008	2009	2010	2011e	2012e	2013e	2014e	CAGR '09e - '12e
<b>Revenues</b>	<b>13,706</b>	<b>19,759</b>	<b>19,765</b>	<b>21,584</b>	<b>25,901</b>	<b>27,714</b>	<b>30,762</b>	<b>9.4%</b>
└ thereof rental income from properties	13,706	19,759	19,765	21,562	25,642	27,437	30,455	
└ thereof rental income without costs of material	8,711	12,423	13,529	14,930	18,908	20,231	22,457	
other oper. income (mainly net revaluation result)	10,406	4,184	9,865	10,580	7,500	7,700	7,200	
<b>Total operating income</b>	<b>24,112</b>	<b>23,943</b>	<b>29,630</b>	<b>32,164</b>	<b>33,401</b>	<b>35,414</b>	<b>37,962</b>	
Expenses for investment properties	-3,856	-3,653	-2,999	-2,941	-3,100	-3,300	-3,050	
Cost of material	-4,995	-7,336	-6,236	-6,632	-6,734	-7,206	-7,998	
Personnel expenses	-1,377	-1,488	-1,773	-2,160	-2,355	-2,650	-2,850	
Other operating expenses	-8,463	-2,334	-1,866	-2,240	-2,500	-2,100	-1,700	
<b>Operating profit (EBITDA)</b>	<b>5,421</b>	<b>9,132</b>	<b>16,756</b>	<b>18,191</b>	<b>18,712</b>	<b>20,158</b>	<b>22,364</b>	<b>27.0%</b>
<i>EBITDA margin</i>	<i>39.6%</i>	<i>46.2%</i>	<i>84.8%</i>	<i>84.3%</i>	<i>72.2%</i>	<i>72.7%</i>	<i>72.7%</i>	
Amortization of intangible assets and depreciation of property, plant and equipment and investment properties	-49	-103	-173	-179	-180	-220	-260	
<b>Operating profit (EBIT)</b>	<b>5,373</b>	<b>9,029</b>	<b>16,584</b>	<b>18,013</b>	<b>18,532</b>	<b>19,939</b>	<b>22,105</b>	<b>27.1%</b>
<i>EBIT margin</i>	<i>22.3%</i>	<i>37.7%</i>	<i>56.0%</i>	<i>56.0%</i>	<i>55.5%</i>	<i>56.3%</i>	<i>58.2%</i>	
Income from securities in financial assets	68	0	0	50	50	50	50	
Other interest and similar income	432	72	26	80	300	450	600	
Interest and similar expenditure	-4,897	-5,865	-5,861	-6,656	-6,871	-7,005	-7,250	
Minority interests of other shareholders	-6	-3	-6	-43	-51	-50	0	
<b>Pre-tax Profit (EBT)</b>	<b>969</b>	<b>3,233</b>	<b>10,743</b>	<b>11,444</b>	<b>11,960</b>	<b>13,384</b>	<b>15,505</b>	<b>54.7%</b>
<i>EBT margin</i>	<i>7.1%</i>	<i>16.4%</i>	<i>54.4%</i>	<i>53.0%</i>	<i>46.2%</i>	<i>48.3%</i>	<i>50.4%</i>	
tax expenses and other expenses	-197	87	-2,159	-2,640	-2,005	-1,915	-2,030	
<i>Tax rate</i>	<i>20.3%</i>	<i>15.8%</i>	<i>7.5%</i>	<i>23.1%</i>	<i>16.8%</i>	<i>14.3%</i>	<i>13.1%</i>	
Minorities	0	0	-1	-11	-25	-35	-45	
<b>Net Profit after minorities</b>	<b>773</b>	<b>3,320</b>	<b>8,583</b>	<b>8,793</b>	<b>9,930</b>	<b>11,434</b>	<b>13,430</b>	<b>44.1%</b>
<i>Return on sales</i>	<i>5.6%</i>	<i>16.8%</i>	<i>43.4%</i>	<i>40.7%</i>	<i>38.3%</i>	<i>41.3%</i>	<i>43.7%</i>	
Number of shares (at year-end, '000)	7,490	9,822	10,805	10,805	10,805	10,805	10,805	
<b>Earnings per share (Euro)</b>	<b>0.10</b>	<b>0.34</b>	<b>0.87*</b>	<b>0.81</b>	<b>0.92</b>	<b>1.06</b>	<b>1.24</b>	
EPS above CoE (8.0%)	-0.41	-0.15	0.29	0.20	0.24	0.30	0.39	
Dividends per Share (DPS) in Euro	0.00	0.00	0.00	0.00	0.15	0.20	0.25	
<b>Book Value per Share (BVPS) in Euro</b>	<b>7.50</b>	<b>6.59</b>	<b>7.23</b>	<b>8.04</b>	<b>8.96</b>	<b>10.02</b>	<b>11.26</b>	
<b>Adjusted Shareholders' Equity without minorities</b>	<b>56,143</b>	<b>64,735</b>	<b>78,099</b>	<b>86,892</b>	<b>96,822</b>	<b>108,256</b>	<b>121,686</b>	<b>14.4%</b>
RoE after Tax	1.6%	5.5%	12.0%	10.7%	10.8%	11.2%	11.7%	
<b>Key ratios &amp; figures</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011e</b>	<b>2012e</b>	<b>2013e</b>	<b>2014e</b>	
<b>Growth rates in %</b>								
Revenues	354.0%	44.2%	0.0%	9.2%	20.0%	7.0%	11.0%	
EBITDA	58.3%	68.5%	83.5%	8.6%	2.9%	7.7%	10.9%	
EBIT	58.3%	68.1%	83.7%	8.6%	2.9%	7.6%	10.9%	
EBT	-63.3%	233.6%	232.2%	6.5%	4.5%	11.9%	15.8%	
Net profit after minorities	-75.0%	329.8%	158.5%	2.4%	12.9%	15.1%	17.5%	
<b>Margins in %</b>								
Gross								
EBITDA	22.5%	38.1%	56.6%	56.6%	56.0%	56.9%	58.9%	
EBIT	22.3%	37.7%	56.0%	56.0%	55.5%	56.3%	58.2%	
EBT	7.1%	16.4%	54.4%	53.0%	46.2%	48.3%	50.4%	
<b>Expense ratios in %</b>								
Personnel costs quote	5.7%	6.2%	6.0%	6.7%	7.1%	7.5%	7.5%	
Cost of material to sales	20.7%	30.6%	21.0%	20.6%	20.2%	20.3%	21.1%	
Depreciation to sales	0.2%	0.4%	0.6%	0.6%	0.5%	0.6%	0.7%	
Tax rate	20.3%	15.8%	7.5%	23.1%	16.8%	14.3%	13.1%	
<b>Profitability in %</b>								
Net profit to sales ratio	5.6%	16.8%	43.4%	40.7%	38.3%	41.3%	43.7%	
Return on equity (ROE) after tax	1.6%	5.5%	12.0%	10.7%	10.8%	11.2%	11.7%	
<b>Valuation</b>								
PE-ratio	48.96	14.94	5.80	6.21	5.49	4.77	4.06	
Price/BVpS	7.50	6.59	7.23	8.04	8.96	10.02	11.26	
Dividend yield in %	0.0%	0.0%	0.0%	0.0%	3.0%	4.0%	5.0%	
EV/ Sales	2.26	2.28	1.84	1.70	1.63	1.54	1.44	
EV/ EBITDA	10.06	5.97	3.25	3.00	2.91	2.71	2.44	
<b>Data per share</b>								
Number of shares in k	7,490	9,822	10,805	10,805	10,805	10,805	10,805	
EpS	0.10	0.34	0.87*	0.81	0.92	1.06	1.24	
DpS	0.00	0.00	0.00	0.00	0.15	0.20	0.25	
BVpS	7.50	6.59	7.23	8.04	8.96	10.02	11.26	

\* EPS with average number of shares of 9.857 million shares

## SRC Research

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Rating Chronicle	Date	Rating	Former Price	Former Target
KWG	9. Nov 2011	Buy	4.99 €	7.50 €
KWG	25. Aug 2011	Buy	5.16 €	7.50 €
KWG	12. Jul 11	Buy	4.61 €	7.50 €
KWG	19. May 11	Buy	5.30 €	7.50 €
KWG	26. Jan 11	Buy	5.45 €	7.50 €
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 29 February 2012. KWG mandated SRC Research for mentoring the KWG share.

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