

Recommendation:
BUY (BUY)

Risk:
Medium (Medium)

Price Target:
EUR 7.00 (7.00)

08 March 2012

Good figures, good deal

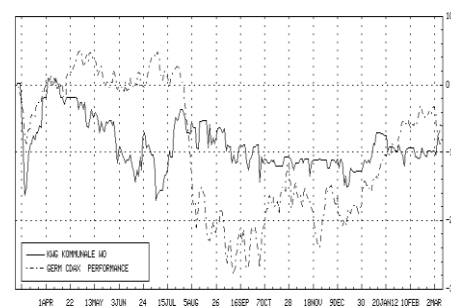
- KWG recently published preliminary FY 2011 key figures, which slightly exceeded our expectations bottom line, and announced the acquisition of Barmer Wohnungsbau AG (BWAG) with its portfolio located in Wuppertal.
- Sales FY 2011 increased by 8.8% YoY to EUR 21.5m. This was driven by the significant reduction of vacancy in the core portfolio to 2.7% from previous year's 6.7% and the increase of rent per m². EBT of EUR 11.4m (PY: EUR 10.8m, +6.1%) exceeded our estimate of EUR 9.5m. Net income of EUR 8.8m (PY: EUR 8.6m, +2.6%) was slightly above our forecast of EUR 8.6m. We assume that net income increased less than EBT because of deferred taxes due to investment property valuation gains.
- On 5 March, KWG announced the acquisition of 77.3% of BWAG from institutional investors for an undisclosed price. To finance the acquisition KWG will issue 1.5m new shares valued at EUR 7.54 per share in a capital increase by way of contribution in kind and will finance the remaining purchase price with debt. The transaction is expected to be closed and become effective in 2Q or 3Q 2012. Through the acquisition, KWG's portfolio will grow by 25% to 6.765 (5,419) units while sales will increase by 29% to EUR 27.8m (21.5m). Vacancy rate in the core portfolio will decrease to 2.3% (2.7%) as the BWAG portfolio has a vacancy rate of only 1%.
- The transaction inheres several positive aspects for KWG: According to KWG the net cold rent of BWAG of EUR 4.07 per m² is 20% below market average and offers upside potential. BWAG over-capexed its portfolio with approx. EUR/m² 24.00 to EUR/m² 29.43m² between 2008 and 2010. This offers significant savings potential in BWAG's 90,600 m² portfolio as the industry average is around EUR/m² 7.50. The FFO improvement is planned to be around 32% CAGR until 2014 leading to a sustainable dividend policy.
- The deal price has not been disclosed but KWG indicates that it did not overpay and expects a valuation of EUR/m² 730-750. The expected LTV of BWAG is only 20% and offers additional growth potential. We think that KWG did a good deal with significant savings potentials and a regional overlapping in North Rhine-Westphalia. We reiterate our BUY recommendation with a PT of EUR 7.00. After the release of the complete FY 2011 figures we will work on our model.

Key data

FY 12/31, EUR m	2008	2009	2010	2011	2011E	2012E
Sales	13.7	19.8	19.8	21.5	22.0	25.9
EBIT	5.4	9.0	16.6		15.6	17.9
Net result	0.8	3.3	8.6	8.8	8.6	11.0
EPS	0.10	0.38	0.87	0.81	0.80	1.02
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Gross margin	76.1%	69.4%	79.0%		78.2%	80.2%
EBIT margin	25.7%	37.7%	56.0%		53.9%	56.3%
ROE	1.6%	5.5%	12.0%		10.5%	12.0%
ROA	3.6%	1.4%	8.4%		7.2%	7.7%
LTV	68.4%	67.3%	63.1%		63.1%	61.5%
Price / NAV	0.78	0.72	0.71		0.64	0.56
EV/EBIT	28.4	60.8	10.0		11.5	10.0
P/E	49.7	neg.	5.9	5.6	6.4	5.0

Source: KWG Kommunale Wohnen AG on a stand-alone basis, CBS Research AG

Share price (dark) vs. CDAX



Source: CBS Research AG, Bloomberg, KWG

Change	2010		2011 [E]		2012E	
	new	old	prelim	expect	new	old
Sales	-	19.8	21.5	22.0	-	25.9
EBIT	-	16.6	0.0	15.6	-	17.9
EPS	-	0.87	0.81	0.80	-	1.02

www.kwg-ag.de

WKN: 522734

Reuters: BIWG.DE

Sector: Real Estate

ISIN: DE0005227342

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):	5.10
Shares outstanding (m):	10.8
Market capitalisation (EUR m):	55.1
Enterprise value (EUR m):	179.4
Ø daily trading volume (3 m., no. of shares):	2,303

Performance data:

High 52 weeks (EUR):	5.70
Low 52 weeks (EUR):	4.50
Absolute performance (12 months):	-8.7%
Relative performance vs. CDAX:	
1 month	0.1%
3 months	-10.7%
6 months	-18.7%
12 months	-3.8%

Shareholders:

Core investors	65.0%
Free float	35.0%

Financial calendar:

Complete FY 2011 figures April 2012

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KWG Kommunale Wohnen AG**Profit and loss y/y comparison**

	IFRS	EURm	2H 2010	prelim. 2H 2011	change	% change	2010	prelim. 2011	change	% change
Sales			9.94	11.37	1.43	14.4%	19.76	21.50	1.74	8.8%
Revaluation result from investment properties			9.60				9.60			
Other operating income			0.05				0.26			
Total revenues			19.59				29.63			
COGS			-3.09				-6.24			
as % of total revenues			-15.8%				-21.0%			
Gross income			16.50				23.39			
Other operating expenses			-1.01				-1.87			
EBIT			12.78				16.58			
as % of total revenues			65.2%				56.0%			
Financial result			-2.92				-5.84			
EBT			9.87	7.19	-2.68	-27.1%	10.74	11.40	0.66	6.1%
as % of total revenues			50.4%	-			36.3%	-		
Net income attributable to shareholders			8.05	5.45	-2.59	-32.2%	8.57	8.80	0.23	2.6%
as % of total revenues			41.1%	-			28.9%	-		
Shares outstanding (in millions)			9.8	10.8			9.9	10.8		
Earnings per share (EUR)			0.82	0.50	-0.31	-38.3%	0.87	0.81	-0.06	-6.9%

Source: CBS Research AG; KWG Kommunale Wohnen AG

KWG Kommunale Wohnen AG

Profit and loss account

	IFRS	EURm	2008	2009	2010	prelim. 2011	2011E	2012E
Sales			13.7	19.8	19.8	21.5	22.0	25.9
YoY growth			354.0%	44.2%	0.0%	8.8%	11.4%	17.6%
Revaluation result from investment properties			3.0	4.0	9.6		6.6	5.7
Other operating income			4.2	0.2	0.3		0.3	0.3
Total revenues			20.9	23.9	29.6		28.9	31.9
COGS			-5.0	-7.3	-6.2		-6.3	-6.3
in % of total revenues			-23.9%	-30.6%	-21.0%		-21.8%	-19.8%
Gross income			15.9	16.6	23.4		22.6	25.6
in % of total revenues			76.1%	69.4%	79.0%		78.2%	80.2%
Personnel expenses			-1.4	-1.5	-1.8		-1.8	-1.0
in % of total revenues			-6.6%	-6.2%	-6.0%		-6.2%	-3.1%
Expenditure on investment properties			-3.9	-3.7	-3.0		-3.2	-4.2
in % of total revenues			-18.4%	-15.3%	-10.1%		-11.1%	-13.2%
Other operating expenses			-5.3	-2.3	-1.9		-2.0	-2.4
in % of total revenues			-25.2%	-9.7%	-6.3%		-6.9%	-7.5%
EBITDA			5.4	9.1	16.8		15.6	18.0
in % of total revenues			25.9%	38.1%	56.5%		54.1%	56.4%
Depreciation and amortisation			0.0	-0.1	-0.2		0.0	0.0
EBIT			5.4	9.0	16.6		15.6	17.9
in % of total revenues			25.7%	37.7%	56.0%		53.9%	56.3%
Financial result			-4.4	-5.8	-5.8		-6.1	-6.0
EBT			1.0	3.2	10.7	11.4	9.5	11.9
in % of total revenues			4.6%	13.5%	36.3%	-	32.9%	37.3%
Taxes			-0.2	0.1	-2.2		-0.9	-0.9
as % of EBT			-20.3%	2.7%	-20.1%		-9.4%	-7.2%
Net income including minorities			0.8	3.3	8.6		8.6	11.0
Minority interests			0.0	0.0	0.0		0.0	0.0
Net income attributable to shareholders			0.8	3.3	8.6	8.8	8.6	11.0
in % of total revenues			3.7%	13.9%	28.9%	-	29.8%	34.6%
Shares outstanding (in millions)			7.5	8.6	9.9	10.8	10.8	10.8
Earnings per share (EUR)			0.10	0.38	0.87	0.81	0.80	1.02

Source: CBS Research AG, KWG Kommunale Wohnen AG on a stand-alone-basis

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Date	Recommendation	Price at change date	Price target
27 May 2011	BUY	EUR 5.25	EUR 7.00
26 August 2011	BUY	EUR 5.15	EUR 7.00
09 November 2011	BUY	EUR 4.93	EUR 7.00
08 March 2012	BUY	EUR 5.10	EUR 7.00

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