

Recommendation:  
**BUY** (BUY)

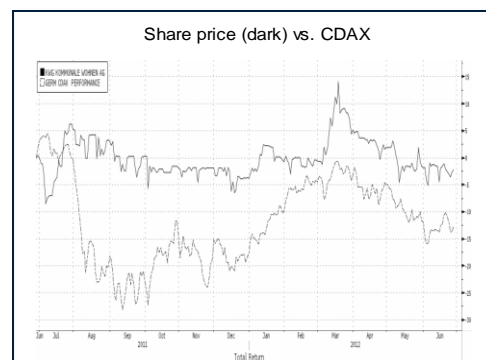
Risk:  
**Medium** (Medium)

Price Target:  
**EUR 7.00** (7.00)

28 June 2012

## KWG has set an expansion course

- Recently, we had a meeting with the management of KWG from which we returned with a good impression. The integration of Barmer Wohnungsbau AG (BWAG), which has been fully consolidated since 1 May 2012, is going well. The management expects an increase of the FFO by approx. EUR 1m through this acquisition for the current business year.
- In terms of figures: the final FY11 figures announced in April exceeded on the bottom line the good preliminary FY11 key figures released in March mainly due to tax effects. The key figures of 1Q12 showed an increase in sales by 17.3% to EUR 5.9m (PY EUR 5.0m) and in EBIT by 15.3% to EUR 2.2m (PY 1.9m). This was driven by the portfolio expansion from 4,895 units in the previous year's period to 5,419 units in 1Q12 and led to an increase in FFO by 77.5% yoy to EUR 0.7m.
- KWG has set an expansion course. Through the acquisition of BWAG the portfolio will grow by 26% to 6,813 (currently 5,419) units while lifting annual sales by approx. 29% to round about EUR 28m. KWG expects for the BAWAG portfolio a LTV of only 20% after valuing the portfolio at approx. EUR 730-750 per m<sup>2</sup> which increases the financial flexibility for more acquisitions. Additional firepower comes from the cash capital increase conducted in April where 3.6m new shares, placed at EUR 5.25 per share, were issued leading to a gross cash inflow of approx. EUR 18.8m.
- We have adjusted our model by including the BWAG acquisition and assuming more acquisitions this year financed by the new funds from the capital increase conducted in April. According to our new scenario, investment properties on the balance sheet will significantly increase from EUR 226.4m in FY11 to EUR 357.8m in FY12E. Consequently we expect sales to rise from EUR 21.7m in FY11 to EUR 26.4m in FY12E and EUR 34.7m in FY13E as the rent generated by the acquisitions will only partly influence FY12E but fully affect FY13E.
- We think that our new earnings estimates scenario is conservative and contains some risk to the upside as we include rather moderate valuation gains and no expansion in FY13E and FY14E. Furthermore KWG plans a FFO growth around 32% CAGR until 2014 leading to a sustainable dividend policy. We reiterate our BUY recommendation with a PT of EUR 7.00.



Change	2012E		2013E		2014E	
	new	old	new	old	new	old
Sales	26.4	25.9	34.7	-	35.0	-
EBIT	23.0	17.9	16.7	-	17.2	-
EPS	0.69	1.02	0.21	-	0.26	-

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):	<b>4.92</b>
Shares outstanding (m):	15.9
Market capitalisation (EUR m):	78.1
Enterprise value (EUR m):	210.3
Ø daily trading volume (3 m., no. of shares):	9,318

### Performance data:

High 52 weeks (EUR):	5.80
Low 52 weeks (EUR):	4.50
Absolute performance (12 months):	-2.2%
Relative performance vs. CDAX:	
1 month	-2.4%
3 months	1.7%
6 months	-6.3%
12 months	11.8%

### Shareholders:

Core investors	65.0%
Free float	35.0%

### Financial calendar:

AGM 31 July 2012

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### Key data

FY 12/31, EUR m	2009	2010	2011	2012E	2013E	2014E
Sales	19.8	19.8	21.7	26.4	34.7	35.0
EBIT	9.0	16.6	18.4	23.0	16.7	17.2
Net result	3.3	8.6	9.8	10.0	3.4	4.1
EPS	0.38	0.87	0.91	0.69	0.21	0.26
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Gross margin	69.4%	79.0%	79.4%	79.4%	72.5%	72.5%
EBIT margin	37.7%	56.0%	54.0%	55.8%	41.4%	42.3%
ROE	5.5%	12.0%	11.8%	9.4%	2.6%	3.1%
ROA	4.9%	8.4%	8.3%	7.9%	4.5%	4.7%
LTV	67.3%	63.1%	59.9%	66.7%	65.0%	64.0%
Price / NAV	0.72	0.71	0.60	0.62	0.60	0.58
EV/EBIT	17.3	10.0	10.1	9.2	12.6	12.2
P/E	12.4	5.9	5.4	7.1	23.1	19.1

Source: KWG Kommunale Wohnen AG, CBS Research AG

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

	IFRS	EURm	1Q 2011	1Q 2012	change	% change
<b>Sales</b>			<b>5.03</b>	<b>5.90</b>	<b>0.87</b>	<b>17.3%</b>
<b>EBIT</b>			<b>1.91</b>	<b>2.20</b>	<b>0.29</b>	<b>15.3%</b>

Source: CBS Research AG; KWG Kommunale Wohnen AG

**KWG Kommunale Wohnen AG**
**Profit and loss account**

	IFRS	EURm	2009	2010	2011	2012E	2013E	2014E
<b>Sales</b>			<b>19.8</b>	<b>19.8</b>	<b>21.7</b>	<b>26.4</b>	<b>34.7</b>	<b>35.0</b>
YoY growth			44.2%	0.0%	9.6%	33.7%	60.0%	32.6%
Revaluation result from investment properties			4.0	9.6	8.8	14.4	5.3	5.4
Other operating income			0.2	0.3	3.6	0.3	0.3	0.3
<b>Total revenues</b>			<b>23.9</b>	<b>29.6</b>	<b>34.0</b>	<b>41.2</b>	<b>40.3</b>	<b>40.8</b>
COGS			-7.3	-6.2	-7.0	-8.5	-11.1	-11.2
in % of total revenues			-30.6%	-21.0%	-20.6%	-20.6%	-27.5%	-27.5%
<b>Gross income</b>			<b>16.6</b>	<b>23.4</b>	<b>27.0</b>	<b>32.7</b>	<b>29.2</b>	<b>29.6</b>
in % of total revenues			69.4%	79.0%	79.4%	79.4%	72.5%	72.5%
Personnel expenses			-1.5	-1.8	-2.3	-2.6	-3.3	-3.3
in % of total revenues			-6.2%	-6.0%	-6.8%	-6.4%	-8.2%	-8.2%
Expenditure on investment properties			-3.7	-3.0	-3.4	-4.0	-5.2	-4.9
in % of total revenues			-15.3%	-10.1%	-9.8%	-9.6%	-12.9%	-12.0%
Other operating expenses			-2.3	-1.9	-2.8	-2.9	-3.8	-3.9
in % of total revenues			-9.7%	-6.3%	-8.1%	-7.1%	-9.5%	-9.5%
<b>EBITDA</b>			<b>9.1</b>	<b>16.8</b>	<b>18.6</b>	<b>23.2</b>	<b>16.9</b>	<b>17.5</b>
in % of total revenues			38.1%	56.5%	54.6%	56.3%	41.9%	42.8%
Depreciation and amortisation			-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
<b>EBIT</b>			<b>9.0</b>	<b>16.6</b>	<b>18.4</b>	<b>23.0</b>	<b>16.7</b>	<b>17.2</b>
in % of total revenues			37.7%	56.0%	54.0%	55.8%	41.4%	42.3%
Financial result			-5.8	-5.8	-6.4	-8.6	-11.7	-11.5
<b>EBT</b>			<b>3.2</b>	<b>10.7</b>	<b>11.9</b>	<b>14.3</b>	<b>5.0</b>	<b>5.7</b>
in % of total revenues			13.5%	36.3%	35.1%	34.8%	12.4%	14.0%
Taxes			0.1	-2.2	-2.1	-4.3	-1.6	-1.6
as % of EBT			2.7%	-20.1%	-17.7%	-30.2%	-32.1%	-28.4%
<b>Net income including minorities</b>			<b>3.3</b>	<b>8.6</b>	<b>9.8</b>	<b>10.0</b>	<b>3.4</b>	<b>4.1</b>
Minority interests			0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income attributable to shareholders</b>			<b>3.3</b>	<b>8.6</b>	<b>9.8</b>	<b>10.0</b>	<b>3.4</b>	<b>4.1</b>
in % of total revenues			13.9%	29.0%	28.9%	24.3%	8.4%	10.1%
Shares outstanding (in millions)			8.6	9.9	10.8	14.4	15.9	15.9
<b>Earnings per share (EUR)</b>			<b>0.38</b>	<b>0.87</b>	<b>0.91</b>	<b>0.69</b>	<b>0.21</b>	<b>0.26</b>

Source: CBS Research AG, KWG Kommunale Wohnen AG

## KWG Kommunale Wohnen AG

## Balance Sheet

	IFRS	EURm	2009	2010	2011	2012E	2013E	2014E
<b>Assets</b>								
<b>Noncurrent assets</b>			<b>177.4</b>	<b>193.2</b>	<b>230.8</b>	<b>362.2</b>	<b>360.2</b>	<b>365.3</b>
as % of total assets			94.7%	94.1%	96.6%	98.0%	97.9%	97.8%
Intangible assets			0.2	0.2	0.1	0.1	0.1	0.1
Fixed assets			0.2	0.3	0.3	0.3	0.3	0.0
Investment properties			173.6	188.6	226.4	357.8	355.8	361.3
Other long-term assets			0.0	0.0	0.0	0.0	0.0	0.0
Financial assets			0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax assets			3.5	4.0	3.9	3.9	3.9	3.9
<b>Current assets</b>			<b>10.0</b>	<b>12.1</b>	<b>8.1</b>	<b>7.4</b>	<b>7.6</b>	<b>8.4</b>
as % of total assets			5.3%	5.9%	3.4%	2.0%	2.1%	2.2%
Inventories			0.0	0.1	0.1	0.1	0.1	0.1
Accounts receivables			0.4	0.8	1.2	1.4	1.5	1.6
Other receivables and other assets			2.3	2.5	3.1	3.2	3.3	3.4
Securities			0.0	0.0	0.0	0.0	0.0	0.0
Cash			7.3	8.7	3.6	2.6	2.7	3.3
<b>Total Assets</b>			<b>187.5</b>	<b>205.2</b>	<b>238.8</b>	<b>369.5</b>	<b>367.8</b>	<b>373.7</b>
<b>Shareholders' equity and liabilities</b>								
<b>Total equity</b>			<b>64.7</b>	<b>78.1</b>	<b>87.8</b>	<b>126.9</b>	<b>130.3</b>	<b>134.4</b>
as % of total equity and liabilities			34.5%	38.1%	36.8%	34.3%	35.4%	36.0%
Capital stock			9.8	10.8	10.8	15.9	15.9	15.9
Reserves			40.1	42.4	40.3	64.3	64.3	64.3
Retained earnings			14.8	24.9	36.7	46.7	50.1	54.2
Minorities			0.0	0.0	0.0	0.0	0.0	0.0
<b>Special items</b>			<b>0.0</b>	<b>0.0</b>	<b>2.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Contributions to implement the capital increase resolved			0.0	0.0	0.3	0.0	0.0	0.0
Premiums to implement the capital increase resolved			0.0	0.0	2.0	0.0	0.0	0.0
<b>Noncurrent liabilities</b>			<b>116.8</b>	<b>118.6</b>	<b>112.8</b>	<b>195.6</b>	<b>191.6</b>	<b>193.2</b>
as % of total equity and liabilities			62.3%	57.8%	47.2%	52.9%	52.1%	51.7%
Financial liabilities			114.4	114.2	104.7	184.2	178.6	178.6
Deferred tax liabilities			2.3	4.3	7.0	11.3	12.9	14.6
Other liabilities			0.1	0.1	0.1	0.1	0.1	0.1
<b>Current liabilities</b>			<b>6.0</b>	<b>8.6</b>	<b>36.0</b>	<b>47.0</b>	<b>45.9</b>	<b>46.1</b>
as % of total equity and liabilities			3.2%	4.2%	15.1%	12.7%	12.5%	12.3%
Financial liabilities			2.4	5.0	31.0	42.0	40.7	40.7
Trade accounts payables			1.2	1.0	2.1	2.1	2.2	2.3
Short-term tax liabilities			0.0	0.0	0.1	0.1	0.1	0.1
Other liabilities			2.3	2.6	2.8	2.8	2.9	3.0
<b>Total equity and liabilities</b>			<b>187.5</b>	<b>205.2</b>	<b>238.8</b>	<b>369.5</b>	<b>367.8</b>	<b>373.7</b>

Source: CBS Research AG, KWG Kommunale Wohnen AG

## KWG Kommunale Wohnen AG

## Cash flow statement

	IFRS	EURm	2009	2010	2011	2012E	2013E	2014E
<b>Group result before deduction of income tax</b>			2.7	10.2	11.3	14.3	5.0	5.7
Depreciation and amortisation			0.1	0.2	0.2	0.2	0.2	0.2
Other non-cash items			0.0	-0.1	-1.9	0.0	0.0	0.0
Gains/losses from disposal of long term assets			0.2	0.0	-1.2	0.0	0.0	0.0
Result from interest income and interest expense			5.8	5.8	6.4	8.6	11.7	11.5
Revaluation result from investment properties			-4.0	-9.6	-8.8	-14.4	-5.3	-5.4
Change in other assets and liabilities			-9.9	-6.4	-6.2	-8.8	-11.7	-11.5
<b>Cash flow from operating activities</b>			<b>-5.1</b>	<b>0.1</b>	<b>0.0</b>	<b>-0.1</b>	<b>-0.1</b>	<b>0.5</b>
Net cash flow from investment properties			0.0	0.0	1.1	-109.0	7.3	0.0
Net cash flow from long term assets			-2.1	0.0	-22.7	-0.2	-0.2	0.1
<b>Cash flow from investing activities</b>			<b>-2.1</b>	<b>-5.8</b>	<b>-21.6</b>	<b>-109.2</b>	<b>7.1</b>	<b>0.1</b>
Cash inflow from capital increases			5.3	4.8	0.0	17.8	0.0	0.0
Net borrowings/retirements of financial debt			1.4	2.4	16.5	90.5	-6.9	0.0
<b>Cash flow from financing activities</b>			<b>6.7</b>	<b>7.2</b>	<b>16.5</b>	<b>108.3</b>	<b>-6.9</b>	<b>0.0</b>
<b>Total change in cash and cash equivalents</b>			<b>-0.5</b>	<b>1.5</b>	<b>-5.2</b>	<b>-0.9</b>	<b>0.1</b>	<b>0.6</b>
Cash and cash equivalents at the start of the period			7.8	7.3	8.7	3.6	2.6	2.7
<b>Cash and cash equivalents at the end of the period</b>			<b>7.3</b>	<b>8.7</b>	<b>3.6</b>	<b>2.6</b>	<b>2.7</b>	<b>3.3</b>

Source: CBS Research AG, KWG Kommunale Wohnen AG

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Recommendation System:

Close Brothers Seydler Research AG uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 12 months:

BUY: The expected performance of the share price is above +10%.

HOLD: The expected performance of the share price is between 0% and +10%.

SELL: The expected performance of the share price is below 0%.

Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
28 June 2012	BUY	EUR 4.92	EUR 7.00
08 March 2012	BUY	EUR 5.10	EUR 7.00
09 November 2011	BUY	EUR 4.93	EUR 7.00
26 August 2011	BUY	EUR 5.15	EUR 7.00
27 May 2011	BUY	EUR 5.25	EUR 7.00

Risk-scaling System:

Close Brothers Seydler Research AG uses a 3-level risk-scaling system. The ratings pertain to a time horizon of up to 12 months:

LOW: The volatility is expected to be lower than the volatility of the benchmark

MEDIUM: The volatility is expected to be equal to the volatility of the benchmark

HIGH: The volatility is expected to be higher than the volatility of the benchmark

The following valuation methods are used when valuing companies: Multiplier models (price/earnings, price/cash flow, price/book value, EV/Sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer group comparisons, historical valuation approaches, discounting models (DCF, DDM), break-up value approaches or asset valuation approaches. The valuation models are dependent upon macroeconomic measures such as interest, currencies, raw materials and assumptions concerning the economy. In addition, market moods influence the valuation of companies.

The figures taken from the income statement, the cash flow statement and the balance sheet upon which the evaluation of companies is based are estimates referring to given dates and therefore subject to risks.

These may change at any time without prior notice.

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