

Recommendation:  
**BUY** (BUY)

Risk:  
**Medium** (Medium)

Price Target:  
**EUR 7.10** (7.00)

26 July 2012

## Ahead of a new significant acquisition

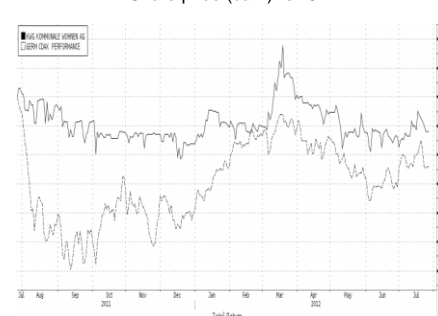
- Recently, KWG announced the signing of a term sheet to buy approx. 2,900 units for EUR 93m and the successful refinancing of a EUR 22.3m loan.
- The term sheet rules the essential financing conditions and secures KWG exclusive negotiations for the final contract which is planned to be signed in 3Q of the current year.
- The potential new portfolio has a vacancy rate of 23% and is located in North Rhine-Westphalia (2,301 units, located amongst others in Bochum, Düsseldorf and Wuppertal) and Berlin (609 units). The purchase price of EUR 93m is equivalent to 9.5x annual net cold rent.
- KWG will finance the deal with equity from the capital increase conducted in April and debt at attractive terms from a state bank which already gave a financing commitment for refurbishment of the portfolio. Total investment for refurbishment should amount to EUR 15m within one year.
- Through the acquisition, KWG would reach a portfolio size of almost 10,000 units with annual net cold rent of approx. EUR 33m. According to KWG, the new portfolio will generate EUR 1.7m FFO in FY 2013E, thus lifting the FFO of KWG to more than EUR 5m in FY 2013E and to more than EUR 8m in the following years through vacancy reductions and rent increases.
- KWG expects to increase the NAV per share by EUR 1.00 through a first-time consolidation gain of the potential new portfolio (EUR 8.12 at 12/2011).
- The recent refinancing of a EUR 22.3m loan will save EUR 0.5m interest cost p.a. The 10 year maturity loan has an attractive average interest rate of 3.3% p.a., which is 200 bps below the interest rate of the former loan. There is no more significant refinancing until the end of FY 2014.
- We raise our estimates due to the lower interest costs and reiterate our BUY recommendation with a new PT of EUR 7.10. If KWG closes the acquisition it would have almost doubled its number of units within one year and exceeded our expectation of 9,000 units as at year end. This would leave room for an additional increase of our earnings estimates.

### 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	10.2	3.9	4.6
EPS	0.38	0.87	0.91	0.71	0.24	0.29
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%	9.6%	3.0%	3.4%
ROA	4.9%	8.4%	8.3%	7.9%	4.5%	4.6%
LTV	67.3%	63.1%	59.9%	66.7%	65.0%	64.0%
Price / NAV	0.72	0.71	0.60	0.63	0.61	0.59
EV/EBIT	17.3	10.0	10.1	9.2	12.7	12.3
P/E	12.4	5.9	5.4	7.1	20.7	17.5

Source: KWG Kommunale Wohnen AG, CBS Research AG

Share price (dark) vs. CDAX



Source: CBS Research AG, Bloomberg, KWG

Change	2012E		2013E		2014E	
	new	old	new	old	new	old
Sales	-	26.4	-	34.7	-	35.0
EBIT	-	23.0	-	16.7	-	17.2
EPS	0.71	0.69	0.24	0.21	0.29	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>5.03</b>
Shares outstanding (m):	15.9
Market capitalisation (EUR m):	79.9
Enterprise value (EUR m):	212.1
Ø daily trading volume (3 m., no. of shares):	12,016

### Performance data:

High 52 weeks (EUR):	5.80
Low 52 weeks (EUR):	4.65
Absolute performance (12 months):	-6.0%
Relative performance vs. CDAX:	
1 month	-2.9%
3 months	1.0%
6 months	-0.4%
12 months	7.0%

### Shareholders:

Core investors	65.0%
Free float	35.0%

### Financial calendar:

AGM	31 July 2012
2Q 2012 figures	14 August 2012

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## 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	-8.5	-11.2	-11.1
<b>EBT</b>			<b>3.2</b>	<b>10.7</b>	<b>11.9</b>	<b>14.5</b>	<b>5.5</b>	<b>6.2</b>
in % of total revenues			13.5%	36.3%	35.1%	35.2%	13.5%	15.2%
Taxes			0.1	-2.2	-2.1	-4.3	-1.6	-1.6
as % of EBT			2.7%	-20.1%	-17.7%	-29.8%	-29.4%	-26.3%
<b>Net income including minorities</b>			<b>3.3</b>	<b>8.6</b>	<b>9.8</b>	<b>10.2</b>	<b>3.9</b>	<b>4.6</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>10.2</b>	<b>3.9</b>	<b>4.6</b>
in % of total revenues			13.9%	29.0%	28.9%	24.7%	9.6%	11.2%
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>0.71</b>	<b>0.24</b>	<b>0.29</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%	97.8%	97.5%
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>7.5</b>	<b>8.3</b>	<b>9.5</b>
as % of total assets			5.3%	5.9%	3.4%	2.0%	2.2%	2.5%
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	2.8	3.4	4.4
<b>Total Assets</b>			<b>187.5</b>	<b>205.2</b>	<b>238.8</b>	<b>369.7</b>	<b>368.5</b>	<b>374.8</b>
<b>Shareholders' equity and liabilities</b>								
<b>Total equity</b>			<b>64.7</b>	<b>78.1</b>	<b>87.8</b>	<b>127.1</b>	<b>130.9</b>	<b>135.5</b>
as % of total equity and liabilities			34.5%	38.1%	36.8%	34.4%	35.5%	36.2%
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	46.9	50.7	55.3
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%	52.0%	51.5%
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>369.7</b>	<b>368.5</b>	<b>374.8</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	14.5	5.5	6.2
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	8.5	11.2	11.1
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	-8.6	-11.2	-11.1
<b>Cash flow from operating activities</b>			<b>-5.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.3</b>	<b>1.0</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>-0.8</b>	<b>0.5</b>	<b>1.1</b>
Cash and cash equivalents at the start of the period			7.8	7.3	8.7	3.6	2.8	3.4
<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>2.8</b>	<b>3.4</b>	<b>4.4</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
26 July 2012	BUY	EUR 5.03	EUR 7.10
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

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

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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.

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