

Recommendation:
BUY (BUY)

Risk:
Medium (Medium)

Price Target:
EUR 7.90 (7.90)

17 August 2012

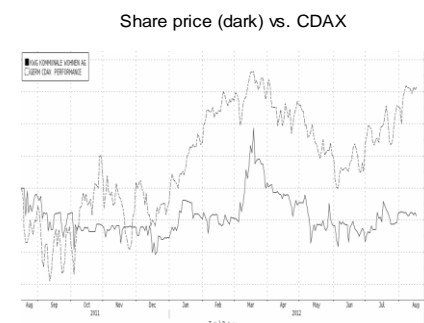
Final 1H12 figures confirm prelim. figures BWAG acquisition strengthened balance sheet

- Yesterday, KWG reported final 1H12 figures after having released extremely strong 1H12 preliminary key figures at the end of July. The final figures confirm the preliminary figures and show a strengthening of the balance sheet which stems mainly from the acquisition of Barmer Wohnungsbau AG (BWAG).
- Sales (gross rental income) rose to EUR 12.7m (PY: EUR 10.1m, +25.6%), net income was boosted to EUR 20.4m (PY: EUR 3.4m, +496%) and FFO increased significantly to EUR 1.2m (PY: EUR 0.2m, +500%). The figures include the recently acquired BWAG that has been consolidated since 1 May 2012 and which contributes with EUR 13m earnings to this extremely strong result and with EUR 0.2m to the FFO.
- Like for like, net income doubled to more than EUR 7m (PY: EUR 3.4m, +100%). Net cold rent increased by approx. 20% to around EUR 8m. The rent per m² rose to EUR 5.05 from EUR 4.83 in 1H11. As a consequence a revaluation result of EUR 7m was recorded (PY: EUR 3.1m). The vacancy rate in the core portfolio improved to 2.5% from 2.7% as at end of 2011.
- Including BWAG the rent per m² decreased to EUR 4.84 from EUR 4.92 as at end of 2011. This is due to the current rent at BWAG of only EUR/m² 4.32 which has a potential to reach EUR/m² 5.35 according to KWG.
- The balance sheet ratios have been considerably strengthened in comparison to the end of 2011 with an equity ratio that went up from 36.8% to 41.0% and a LTV which decreased from 59.9% to 50.8%. Apart from the like for like improvement of the business, this is also mainly due to BWAG.
- The final 1H12 figures have been a strong set of numbers. We expect to see further positive news flow in terms of synergies and the closing of the already announced acquisition of 2,900 units within 3Q 2012. We reiterate our BUY recommendation with a PT of EUR 7.90 and feel that there is still room for an increase of our earnings estimates in particular if the announced acquisition is closed in 3Q.

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	39.2	16.9	17.5
Net result	3.3	8.6	9.8	26.3	3.9	4.6
EPS	0.38	0.87	0.91	1.83	0.25	0.29
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Gross margin	69.4%	79.0%	79.4%	85.3%	72.6%	72.6%
EBIT margin	37.7%	56.0%	54.0%	68.3%	41.7%	42.6%
ROE	5.5%	12.0%	11.8%	23.0%	2.7%	3.1%
ROA	4.9%	8.4%	8.3%	13.2%	4.4%	4.5%
LTV	67.3%	63.1%	59.9%	64.4%	63.0%	62.2%
Price / NAV	0.72	0.71	0.60	0.56	0.55	0.53
EV/EBIT	17.3	10.0	10.1	5.4	12.6	12.2
P/E	12.4	5.9	5.4	2.8	20.4	17.4

Source: KWG Kommunale Wohnen AG, CBS Research AG



Source: CBS Research AG, Bloomberg, KWG

Change	2012E		2013E		2014E	
	new	old	new	old	new	old
Sales	-	26.4	-	34.7	-	35.0
EBIT	-	39.2	-	16.9	-	17.5
EPS	-	1.83	-	0.25	-	0.29

www.kwg-ag.de

WKN: 522734

Reuters: BIW.GE

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):	5.07
Shares outstanding (m):	15.9
Market capitalisation (EUR m):	80.5
Enterprise value (EUR m):	212.7
Ø daily trading volume (3 m., no. of shares):	14,861

Performance data:

High 52 weeks (EUR):	5.80
Low 52 weeks (EUR):	4.65
Absolute performance (12 months):	-4.3%
Relative performance vs. CDAX:	
1 month	-7.6%
3 months	-7.9%
6 months	-0.7%
12 months	-18.3%

Shareholders:

Core investors	65.0%
Free float	35.0%

Financial calendar:

3Q 2012 figures	07 November 2012
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Author:

Manuel Martin, CEFA (Analyst)

Close Brothers Seydler Research AG

Phone: +49 (0) 69-977 84 56 0

Email: research@cbseydlerresearch.ag

www.cbseydlerresearch.ag

KWG Kommunale Wohnen AG
Profit and loss account

	IFRS	EURm	2009	2010	2011	2012E	2013E	2014E
Sales			19.8	19.8	21.7	26.4	34.7	35.0
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	14.8	5.5	5.6
Other operating income			0.2	0.3	3.6	16.2	0.3	0.3
Total revenues			23.9	29.6	34.0	57.4	40.5	41.0
COGS			-7.3	-6.2	-7.0	-8.5	-11.1	-11.2
in % of total revenues			-30.6%	-21.0%	-20.6%	-14.7%	-27.4%	-27.4%
Gross income			16.6	23.4	27.0	48.9	29.4	29.8
in % of total revenues			69.4%	79.0%	79.4%	85.3%	72.6%	72.6%
Personnel expenses			-1.5	-1.8	-2.3	-2.6	-3.3	-3.3
in % of total revenues			-6.2%	-6.0%	-6.8%	-4.6%	-8.1%	-8.1%
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%	-6.9%	-12.8%	-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%	-5.1%	-9.4%	-9.4%
EBITDA			9.1	16.8	18.6	39.4	17.1	17.7
in % of total revenues			38.1%	56.5%	54.6%	68.7%	42.2%	43.1%
Depreciation and amortisation			-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
EBIT			9.0	16.6	18.4	39.2	16.9	17.5
in % of total revenues			37.7%	56.0%	54.0%	68.3%	41.7%	42.6%
Financial result			-5.8	-5.8	-6.4	-8.5	-11.3	-11.1
EBT			3.2	10.7	11.9	30.7	5.6	6.3
in % of total revenues			13.5%	36.3%	35.1%	53.5%	13.8%	15.4%
Taxes			0.1	-2.2	-2.1	-4.4	-1.7	-1.7
as % of EBT			2.7%	-20.1%	-17.7%	-14.4%	-29.7%	-26.8%
Net income including minorities			3.3	8.6	9.8	26.3	3.9	4.6
Minority interests			0.0	0.0	0.0	0.0	0.0	0.0
Net income attributable to shareholders			3.3	8.6	9.8	26.3	3.9	4.6
in % of total revenues			13.9%	29.0%	28.9%	45.8%	9.7%	11.3%
Shares outstanding (in millions)			8.6	9.9	10.8	14.4	15.9	15.9
Earnings per share (EUR)			0.38	0.87	0.91	1.83	0.25	0.29

Source: CBS Research AG, KWG Kommunale Wohnen AG

KWG Kommunale Wohnen AG
Balance Sheet

	IFRS	EURm	2009	2010	2011	2012E	2013E	2014E
Assets								
Noncurrent assets			177.4	193.2	230.8	375.7	374.0	379.3
as % of total assets			94.7%	94.1%	96.6%	97.2%	96.8%	96.4%
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	371.4	369.6	375.2
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
Current assets			10.0	12.1	8.1	10.8	12.5	14.2
as % of total assets			5.3%	5.9%	3.4%	2.8%	3.2%	3.6%
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	6.1	7.6	9.1
Total Assets			187.5	205.2	238.8	386.6	386.4	393.5
Shareholders' equity and liabilities								
Total equity			64.7	78.1	87.8	143.2	147.2	151.8
as % of total equity and liabilities			34.5%	38.1%	36.8%	37.0%	38.1%	38.6%
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	63.0	66.9	71.5
Minorities			0.0	0.0	0.0	0.0	0.0	0.0
Special items			0.0	0.0	2.3	0.0	0.0	0.0
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
Noncurrent liabilities			116.8	118.6	112.8	196.2	193.1	195.2
as % of total equity and liabilities			62.3%	57.8%	47.2%	50.8%	50.0%	49.6%
Financial liabilities			114.4	114.2	104.7	184.7	179.9	180.3
Deferred tax liabilities			2.3	4.3	7.0	11.4	13.1	14.8
Other liabilities			0.1	0.1	0.1	0.1	0.1	0.1
Current liabilities			6.0	8.6	36.0	47.1	46.2	46.5
as % of total equity and liabilities			3.2%	4.2%	15.1%	12.2%	12.0%	11.8%
Financial liabilities			2.4	5.0	31.0	42.1	41.0	41.1
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
Total equity and liabilities			187.5	205.2	238.8	386.6	386.4	393.5

Source: CBS Research AG, KWG Kommunale Wohnen AG

KWG Kommunale Wohnen AG

Cash flow statement

	IFRS	EURm	2009	2010	2011	2012E	2013E	2014E
Group result before deduction of income tax			2.7	10.2	11.3	30.7	5.6	6.3
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	-13.2	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	11.3	11.1
Revaluation result from investment properties			-4.0	-9.6	-8.8	-14.8	-5.5	-5.6
Change in other assets and liabilities			-9.9	-6.4	-6.2	-8.6	-11.3	-11.1
Cash flow from operating activities			-5.1	0.1	0.0	2.8	0.3	0.9
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
Cash flow from investing activities			-2.1	-5.8	-21.6	-109.2	7.1	0.1
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	91.1	-5.9	0.6
Cash flow from financing activities			6.7	7.2	16.5	108.9	-5.9	0.6
Total change in cash and cash equivalents			-0.5	1.5	-5.2	2.5	1.4	1.6
Cash and cash equivalents at the start of the period			7.8	7.3	8.7	3.6	6.1	7.6
Cash and cash equivalents at the end of the period			7.3	8.7	3.6	6.1	7.6	9.1

Source: CBS Research AG, KWG Kommunale Wohnen AG

Research



Schillerstrasse 27 - 29
60313 Frankfurt am Main

Phone: +49 (0)69 – 977 8456-0

Roger Peeters Member of the Board	+49 (0)69 -977 8456- 12 Roger.Peeters@cbseydlerresearch.ag	Igor Kim	+49 (0)69 -977 8456- 15 Igor.Kim@cbseydlerresearch.ag
Martin Decot	+49 (0)69 -977 8456- 13 Martin.Decot@cbseydlerresearch.ag	Gennadij Kremer	+49 (0)69 – 977 8456- 23 Gennadij.Kremer@cbseydlerresearch.ag
Anna von Klopmann	+49 (0)69 -977 8456- 10 Anna.Klopmann@cbseydlerresearch.ag	Ralf Marinoni	+49 (0)69 -977 8456- 17 Ralf.Marinoni@cbseydlerresearch.ag
Daniel Kukulj	+49 (0)69 – 977 8456- 21 Daniel.Kukulj@cbseydlerresearch.ag	Felix Parmantier	+49 (0)69 -977 8456- 22 Felix.Parmantier@cbseydlerresearch.ag
Manuel Martin	+49 (0)69 -977 8456- 16 Manuel.Martin@cbseydlerresearch.ag	Veysel Taze	+49 (0)69 -977 8456- 18 Veysel.Taze@cbseydlerresearch.ag
Marcus Silbe	+49 (0)69 -977 8456- 14 Marcus.Silbe@cbseydlerresearch.ag	Ivo Višić	+49 (0)69 -977 8456- 19 Ivo.Visic@cbseydlerresearch.ag

Institutional Sales



Schillerstrasse 27 – 29
60313 Frankfurt am Main

Phone: +49 (0)69 – 9 20 54-400

Raimar Bock Head of Sales	+49 (0)69 -9 20 54-115 Raimar.Bock@cbseydler.com	Sule Erkan (Sales-Support)	+49 (0)69 -9 20 54-107 Sule.Erkan@cbseydler.com
Rüdiger Eich (Germany, Switzerland)	+49 (0)69 -9 20 54-119 Ruediger.Eich@cbseydler.com	Klaus Korzilius (Benelux, Germany)	+49 (0)69 -9 20 54-114 Klaus.Korzilius@cbseydler.com
Dr. James Jackson (UK)	+49 (0)69 -9 20 54-113 James.Jackson@cbseydler.com	Markus Laifle (Execution)	+49 (0)69 -9 20 54-120 Markus.Laifle@cbseydler.com
Stefan Krewinkel (Execution, UK)	+49 (0)69 -9 20 54-118 Stefan.Krewinkel@cbseydler.com	Bruno de Lencquesaing (Benelux, France)	+49 (0)69 -9 20 54-116 Bruno.deLencquesaing@cbseydler.com
Michael Laufenberg (Germany)	+49 (0)69 -9 20 54-112 Michael.Laufenberg@cbseydler.com	Janine Theobald (Austria, Germany)	+49 (0)69 -9 20 54-106 Janine.Theobald@cbseydler.com
Christopher Seedorf (Sales-Support)	+49 (0)69 -9 20 54-110 Christopher.Seedorf@cbseydler.com	Bas-Jan Walhof (Benelux)	+49 (0)69 -9 20 54-105 Bas-Jan.Walhof@cbseydler.com

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

Date	Recommendation	Price at change date	Price target
17 August 2012	BUY	EUR 5.07	EUR 7.90
03 August 2012	BUY	EUR 5.11	EUR 7.90
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

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Graurheindorferstraße 108

53117 Bonn

and

Lurgiallee 12

60439 Frankfurt

 Close Brothers Seydler
Research AG

Schillerstrasse 27 - 29

60313 Frankfurt am Main

www.cbseydlerresearch.ag

Tel.: 0049 - (0)69 - 97 78 45 60