

Recommendation:  
**BUY** (BUY)

Risk:  
**Medium** (Medium)

Price Target:  
**EUR 8.30** (7.90)

21 December 2012

## conwert purchases approx. 60% of KWG and KWG signs its biggest acquisition so far

- Today and yesterday, two important news have been released. The Austrian real estate company conwert acquired approx. 60% of KWG and KWG signed the biggest acquisition so far in its history with a portfolio comprising of 2,908 units.
- The purchase price for approx. 60% of KWG has not been disclosed and it is obvious to assume that the core investors should be the sellers. Half of the price is paid in cash and half of the price is paid with conwert shares. The transaction implies a conwert share price of EUR 13.94 which leads us to assume that conwert purchased the stake at a certain discount to NAV as the conwert share price currently is around EUR 9.90. KWG has been trading at a discount of 35% anyway. Part of the purchase price depends on certain parameters to be accomplished by KWG. The purchase is subject to the approval of the cartel office. After closing of the transaction in February 2013 the CEO of KWG (Mr. Efremdis) will become member of conwert's management board and KWG will be fully consolidated. No mandatory take-over bid is required as KWG is quoted in the Entry Standard.
- KWG signed the biggest acquisition so far in its history with a portfolio comprising of 2,908 units with a vacancy rate of 24%. The purchase price amounts to EUR 89.5m. Due to first-time consolidation the management expects an increase in NAV of EUR 1.00 per share. The portfolio will be fully consolidated at 31 December 2012. The residential and commercial units are located in Berlin (608 units) and North Rhine-Westphalia (2,300 units). In total, KWG increases its portfolio to almost 10,000 units including the acquisition and can create synergies in particular by managing the 2,300 NRW units through the recently acquired BWAG.
- KWG is on track with its acquisition plans. The cheap price (9.2 net cold rent multiple) is due to the high vacancy rate which gives KWG the opportunity to create value through its asset management capabilities. By consolidating KWG, conwert will increase its Germany portfolio by 66% to 24,500 units and KWG will get a financially strong partner with conwert. We increase our earnings estimates due to the newly acquired portfolio and reiterate our BUY recommendation with a new PT of EUR 8.30 (old: 7.90).



Source: CBS Research AG, Bloomberg, KWG

Change	2012E		2013E		2014E	
	new	old	new	old	new	old
Sales	-	27.0	38.6	34.7	38.6	35.0
EBIT	55.3	39.2	18.3	16.9	18.6	17.5
EPS	3.03	1.83	0.28	0.25	0.30	0.29

www.kwg-ag.de

Sector: Real Estate

WKN: 522734

ISIN: DE0005227342

Reuters: BIWG.DE

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>6.12</b>
Shares outstanding (m):	15.9
Market capitalisation (EUR m):	97.2
Enterprise value (EUR m):	238.8
Ø daily trading volume (3 m., no. of shares):	17,695

### Performance data:

High 52 weeks (EUR):	7.15
Low 52 weeks (EUR):	4.71
Absolute performance (12 months):	31.4%
Relative performance vs. CDAX:	
1 month	15.2%
3 months	22.3%
6 months	9.3%
12 months	-0.1%

### Shareholders:

Core investors	65.0%
Free float	35.0%

### Financial calendar:

n.a. n.a.

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### Key data

FY 12/31, EUR m	2009	2010	2011	2012E	2013E	2014E
Sales	19.8	19.8	21.7	27.0	38.6	38.6
EBIT	9.0	16.6	18.4	55.3	18.3	18.6
Net result	3.3	8.6	9.8	43.7	4.4	4.7
EPS	0.38	0.87	0.91	3.03	0.28	0.30
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Gross margin	69.4%	79.0%	79.4%	87.8%	72.3%	72.6%
EBIT margin	37.7%	56.0%	54.0%	74.6%	41.0%	41.2%
ROE	5.5%	12.0%	11.8%	35.5%	2.7%	2.8%
ROA	4.9%	8.4%	8.3%	17.6%	4.3%	4.4%
LTV	67.3%	63.1%	59.9%	62.9%	62.6%	61.2%
Price / NAV	0.72	0.71	0.60	0.61	0.59	0.57
EV/EBIT	17.3	10.0	10.1	4.3	13.1	12.9
P/E	12.4	5.9	5.4	2.0	21.8	20.7

Source: KWG Kommunale Wohnen AG, CBS Research 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>27.0</b>	<b>38.6</b>	<b>38.6</b>
YoY growth			44.2%	0.0%	9.6%	36.8%	78.0%	42.6%
Revaluation result from investment properties			4.0	9.6	8.8	14.8	5.6	6.1
Other operating income			0.2	0.3	3.6	32.2	0.3	0.3
<b>Total revenues</b>			<b>23.9</b>	<b>29.6</b>	<b>34.0</b>	<b>74.0</b>	<b>44.5</b>	<b>45.0</b>
<b>COGS</b>			<b>-7.3</b>	<b>-6.2</b>	<b>-7.0</b>	<b>-9.1</b>	<b>-12.3</b>	<b>-12.3</b>
in % of total revenues			-30.6%	-21.0%	-20.6%	-12.2%	-27.7%	-27.4%
<b>Gross income</b>			<b>16.6</b>	<b>23.4</b>	<b>27.0</b>	<b>65.0</b>	<b>32.2</b>	<b>32.7</b>
in % of total revenues			69.4%	79.0%	79.4%	87.8%	72.3%	72.6%
Personnel expenses			-1.5	-1.8	-2.3	-2.6	-3.7	-3.7
in % of total revenues			-6.2%	-6.0%	-6.8%	-3.5%	-8.2%	-8.1%
Expenditure on investment properties			-3.7	-3.0	-3.4	-4.0	-5.8	-6.2
in % of total revenues			-15.3%	-10.1%	-9.8%	-5.4%	-13.0%	-13.7%
Other operating expenses			-2.3	-1.9	-2.8	-2.9	-4.2	-4.0
in % of total revenues			-9.7%	-6.3%	-8.1%	-3.9%	-9.5%	-9.0%
<b>EBITDA</b>			<b>9.1</b>	<b>16.8</b>	<b>18.6</b>	<b>55.5</b>	<b>18.5</b>	<b>18.8</b>
in % of total revenues			38.1%	56.5%	54.6%	74.9%	41.5%	41.7%
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>55.3</b>	<b>18.3</b>	<b>18.6</b>
in % of total revenues			37.7%	56.0%	54.0%	74.6%	41.0%	41.2%
Financial result			-5.8	-5.8	-6.4	-7.1	-12.1	-12.0
<b>EBT</b>			<b>3.2</b>	<b>10.7</b>	<b>11.9</b>	<b>48.1</b>	<b>6.1</b>	<b>6.5</b>
in % of total revenues			13.5%	36.3%	35.1%	65.0%	13.8%	14.5%
Taxes			0.1	-2.2	-2.1	-4.4	-1.7	-1.8
as % of EBT			2.7%	-20.1%	-17.7%	-9.2%	-27.6%	-28.2%
<b>Net income including minorities</b>			<b>3.3</b>	<b>8.6</b>	<b>9.8</b>	<b>43.7</b>	<b>4.4</b>	<b>4.7</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>43.7</b>	<b>4.4</b>	<b>4.7</b>
in % of total revenues			13.9%	29.0%	28.9%	59.0%	10.0%	10.4%
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>3.03</b>	<b>0.28</b>	<b>0.30</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>409.3</b>	<b>407.6</b>	<b>413.4</b>
as % of total assets			94.7%	94.1%	96.6%	97.8%	96.4%	96.6%
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	404.9	403.2	409.4
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>9.2</b>	<b>15.1</b>	<b>14.4</b>
as % of total assets			5.3%	5.9%	3.4%	2.2%	3.6%	3.4%
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	4.5	10.2	9.3
<b>Total Assets</b>			<b>187.5</b>	<b>205.2</b>	<b>238.8</b>	<b>418.5</b>	<b>422.7</b>	<b>427.8</b>
<b>Shareholders' equity and liabilities</b>								
<b>Total equity</b>			<b>64.7</b>	<b>78.1</b>	<b>87.8</b>	<b>160.6</b>	<b>165.1</b>	<b>169.8</b>
as % of total equity and liabilities			34.5%	38.1%	36.8%	38.4%	39.0%	39.7%
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	80.4	84.8	89.5
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>208.1</b>	<b>208.1</b>	<b>208.6</b>
as % of total equity and liabilities			62.3%	57.8%	47.2%	49.7%	49.2%	48.7%
Financial liabilities			114.4	114.2	104.7	196.5	194.8	193.5
Deferred income			0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax liabilities			2.3	4.3	7.0	11.5	13.2	15.0
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>49.8</b>	<b>49.6</b>	<b>49.5</b>
as % of total equity and liabilities			3.2%	4.2%	15.1%	11.9%	11.7%	11.6%
Financial liabilities			2.4	5.0	31.0	44.8	44.4	44.1
Deferred income			0.0	0.0	0.0	0.0	0.0	0.0
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>418.5</b>	<b>422.7</b>	<b>427.8</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	48.1	6.1	6.5
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	-29.2	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	7.1	12.1	12.0
Revaluation result from investment properties			-4.0	-9.6	-8.8	-14.8	-5.6	-6.1
Change in other assets and liabilities			-9.9	-6.4	-6.2	-7.3	-12.1	-12.0
<b>Cash flow from operating activities</b>			<b>-5.1</b>	<b>0.1</b>	<b>0.0</b>	<b>4.2</b>	<b>0.7</b>	<b>0.6</b>
Net cash flow from investment properties			0.0	0.0	1.1	-126.5	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>-126.7</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	105.6	-2.1	-1.7
<b>Cash flow from financing activities</b>			<b>6.7</b>	<b>7.2</b>	<b>16.5</b>	<b>123.5</b>	<b>-2.1</b>	<b>-1.7</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>5.7</b>	<b>-0.9</b>
Cash and cash equivalents at the start of the period			7.8	7.3	8.7	3.6	4.5	10.2
<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>4.5</b>	<b>10.2</b>	<b>9.3</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
21 December 2012	BUY	EUR 6.12	EUR 8.30
7 November 2012	BUY	EUR 5.09	EUR 7.90
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

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.

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