

20 | Aug | 12

■ **Price (Euro)** **5.09**  
52 weeks range 5.80 / 4.65

■ **Key Data**

Country	Germany
Industry	Real Estate
Segment	Open Market (Entry Standard)
ISIN	DE0005227342
WKN	522734
Reuters	BIWG.DE
Bloomberg	BIW GY
Internet	www.kwg-ag.de
Reporting Standard	IFRS
Fiscal Year	31/12
Ø Daily Turnover in € (3M)	49,489
Market Cap (EUR million)	73.3
Number of shares (million)	14.4
Free Float	35%
Free Float MCap (million)	25.7
CAGR pre tax profits 11-14e	26.4%

■ <b>Multiples</b>	2011	2012e	2013e	2014e
MarketCap/ Sales	2.9	1.8	2.4	2.1
<b>PE-Ratio</b>	<b>5.7</b>	<b>3.2</b>	<b>4.5</b>	<b>3.7</b>
<b>Dynamic PE-Ratio</b>	<b>0.22</b>	<b>0.12</b>	<b>0.17</b>	<b>0.14</b>
Dividend Yield	0.0%	2.9%	3.9%	4.9%
<b>Price-to-Book ratio</b>	<b>61.1%</b>	<b>57.2%</b>	<b>53.6%</b>	<b>50.6%</b>

■ <b>Key Data per Share (Euro)</b>	2011	2012e	2013e	2014e
<b>Earnings per Share (EPS)</b>	<b>0.89</b>	<b>1.57</b>	<b>1.13</b>	<b>1.39</b>
Dividends per Share (DPS)	0.00	0.15	0.20	0.25
NAV per share	8.33	8.90	9.50	10.05

■ <b>Financial Data (Euro '000)</b>	2011	2012e	2013e	2014e
<b>Revenues (rental income)</b>	<b>21,659</b>	<b>27,750</b>	<b>30,525</b>	<b>35,104</b>
Net Revaluation Gains	8,535	8,960	10,080	9,590
Total operating income	25,265	41,800	30,875	35,469
Operating profit (EBITDA)	9,824	24,680	16,475	21,119
<b>Operating Profit (EBIT)</b>	<b>18,359</b>	<b>33,641</b>	<b>26,556</b>	<b>30,709</b>
<b>Pre-tax profit (EBT)</b>	<b>11,940</b>	<b>26,926</b>	<b>19,886</b>	<b>24,109</b>
<b>Net profit (after minorities)</b>	<b>9,819</b>	<b>24,896</b>	<b>17,936</b>	<b>22,034</b>
Adjusted Shareholders' Equity	91,494	123,391	134,326	156,361
<b>RoE after tax</b>	<b>11.6%</b>	<b>23.2%</b>	<b>13.9%</b>	<b>15.2%</b>

■ **Financial Calendar**

<b>SRC Forum Financials &amp; Real Estate</b>	<b>12 Sep 2012</b>
9M figures	7 Nov 2012

■ **Main Shareholders**

Group of core shareholders	65%
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■ **Analysts**

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### KWG with record net profit in 1H and attractive acquisition ahead – Buy confirmed!

On Thursday, 16 August, KWG published its report for the first six months of the year and was able to report an increase in net profit to Euro 20.4m after Euro 3.4m in 1H 2011, mainly due to a lucky buy profit of about Euro 13m from the first time consolidation of BWAG. Funds from Operations (FFO) also soared from Euro 0.2m to Euro 1.2m on a half-yearly basis. Even more importantly, KWG managed to increase its revenues on a like-for-like basis as well. Net cold rents amounted to Euro 9m after about 7m in the first half of 2011, thanks to increased rent levels (now 4.84 €/sqm on average) and, again, lower average vacancy (2.5% as of 30 June) at the core portfolio. With regards to rents, we see even further upside in the mid- to long-term due to the current underrent situations at several properties, e.g. in the BWAG-portfolio.

Net Asset Value per share increased by 14% and amounted to Euro 8.62 and the total portfolio value went up by more than 50% to about Euro 305m as of 30 June. This steep hike was not only caused by the growing number of units (+37%), but also reflects the higher quality and thus earnings potential of the portfolio. By maintaining its rapid growth at favourable conditions in 1H 2012, we see KWG in an excellent position to gain more attention in the market and shrink the current discount to its intrinsic value. On 11 July, KWG announced the signing of a Term Sheet regarding the acquisition of a 2,900-unit residential portfolio. Purchase price would be about Euro 93m at a double digit initial yield according to the Term Sheet. See our 17 July update for more details. As the deal is not confirmed yet, we did not take the additional revenue potential into consideration so far. However, the deal offers great upside potential both in terms of immediate cash flow impact as well as from a long term perspective, due to its attractive conditions and the strategic match. We will further adjust our projections once the deal is closed.

**KWG achieved sound performance within the first half of the year, even without taking the very lucrative BWAG deal into account. We lifted our net profit projection to about Euro 25m due to the excellent 1H figures and confirm both our Buy rating and our Target Price of € 8.00 for now. Upon closing of the 2,900-unit portfolio deal, we see an even higher fair value!**

## Strengths

### SWOT – Analysis

- Management and core investors (in particular the Ehlerding family) have a broad and long-term experience in the German real estate arena.
- Excellent network and relationships combined with a proven track record will enhance further deal flow with municipalities. The BWAG deal confirmed the group's capabilities to source and close attractive deals on an ongoing basis.
- High yielding residential portfolio in fundamentally solid regions with a proven track record for active asset management and attractive acquisitions.
- Strong equity ratio of about 41% as of 1H 2012.
- Successful expansion to the strategic goal of 10,000 units within the last 18 months if the 2,900-unit-deal will be closed within 3Q.
- Buy discipline, proven in several deals, showed the ability to buy at very attractive prices and to pay with own shares near to NAV values to avoid dilution of existing shareholders.

## Weaknesses

- Small market cap of the company leads to lower visibility at investors with high investment volume. But market cap already increased with a rising portfolio size and a higher number of shares of now 15.9m shares after the successful capital increase.
- Relatively low liquidity in the KWG share due to market cap and free float.

## Opportunities

- Rising cash earnings with further upside as KWG already achieved significant improvements regarding both rents and occupancy rates via comprehensive refurbishment measures within the last two years.
- Proven track record makes municipalities confident for further deals with KWG as reliable partner. This gives the chance for off-market transactions.
- The market for deals with municipalities has some future potential, due to the weak financial conditions of most municipalities. This should increase the willingness to sell municipal housing companies.
- Significant cash flow potential from the announced portfolio acquisition in Berlin and North Rhine Westphalia.
- Market recognition should increase after the excellent 1H results, the successful consolidation of BWAG and the ongoing portfolio expansion.

## Threats

- Funding of acquisitions and refurbishment projects could become problematic when economic conditions worsen significantly.
- Typical risks of property deals such as refurbishment costs getting out of hand. For the new acquisition, however, Capex-costs would also be financed by the lending bank.

**P&L KWG Kommunale Wohnen AG**

31/12 IFRS (Euro '000)	2008	2009	2010	2011	2012e	2013e	2014e	CAGR '11 - '14e
<b>Revenues</b>	<b>13.706</b>	<b>19.759</b>	<b>19.765</b>	<b>21.659</b>	<b>27.750</b>	<b>30.525</b>	<b>35.104</b>	17,5%
↳ thereof rental income from properties	8.711	19.759	19.765	18.053	27.280	30.220	34.753	
↳ thereof rental income without costs of material	3.716	12.423	13.529	11.040	19.660	23.720	28.353	
other oper. Income	4.211	224	263	3.606	14.050	350	365	
<b>Total operating income</b>	<b>17.917</b>	<b>19.983</b>	<b>20.028</b>	<b>25.265</b>	<b>41.800</b>	<b>30.875</b>	<b>35.469</b>	
Expenses for investment properties	-3.856	-3.653	-2.999	-3.351	-4.550	-3.300	-3.200	
Cost of material	-4.995	-7.336	-6.236	-7.013	-7.620	-6.500	-6.400	
<b>Net operating income (NOI)</b>	<b>4.855</b>	<b>8.770</b>	<b>10.530</b>	<b>11.295</b>	<b>15.580</b>	<b>20.725</b>	<b>25.504</b>	
NOI-margin	35,4%	44,4%	53,3%	52,1%	56,1%	67,9%	72,7%	
Personnel expenses	-1.377	-1.488	-1.773	-2.323	-2.450	-2.500	-2.650	
Other operating expenses	-5.284	-2.334	-1.866	-2.754	-2.500	-2.100	-2.100	
<b>Operating profit (EBITDA)</b>	<b>2.405</b>	<b>5.172</b>	<b>7.154</b>	<b>9.824</b>	<b>24.680</b>	<b>16.475</b>	<b>21.119</b>	29,1%
EBITDA margin	17,5%	26,2%	36,2%	45,4%	88,9%	54,0%	60,2%	
Amortization of intangible assets and depreciation of property, plant and equipment and investment properties	-49	-103	-173	-218	-190	-220	-260	
Revaluation gains	3.015	3.961	9.602	8.753	9.150	10.300	9.850	
<b>Operating profit (EBIT)</b>	<b>5.372</b>	<b>9.030</b>	<b>16.583</b>	<b>18.359</b>	<b>33.641</b>	<b>26.556</b>	<b>30.709</b>	18,7%
EBIT margin	30,0%	45,2%	82,8%	72,7%	80,5%	86,0%	86,6%	
Income from securities in financial assets	68	0	0	8	50	50	50	
Other interest and similar income	432	72	26	25	300	450	600	
Interest and similar expenditure	-4.897	-5.865	-5.861	-6.445	-7.010	-7.120	-7.250	
Minority interests of other shareholders	-6	-2	-6	-7	-55	-50	0	
<b>Pre-tax Profit (EBT)</b>	<b>969</b>	<b>3.235</b>	<b>10.742</b>	<b>11.940</b>	<b>26.926</b>	<b>19.886</b>	<b>24.109</b>	26,4%
EBT margin	7,1%	16,4%	54,4%	55,1%	97,0%	65,1%	68,7%	
tax expenses and other expenses	-197	87	-2.158	-2.114	-2.005	-1.915	-2.030	
Tax rate	20,3%	15,8%	7,5%	17,7%	7,4%	9,6%	8,4%	
Minorities	0	0	-1	-7	-25	-35	-45	
<b>Net Profit after minorities</b>	<b>772</b>	<b>3.322</b>	<b>8.583</b>	<b>9.819</b>	<b>24.896</b>	<b>17.936</b>	<b>22.034</b>	30,9%
Return on sales	5,6%	16,8%	43,4%	45,3%	89,7%	58,8%	62,8%	
Number of shares (at year-end, '000)	7.490	8.627	10.805	10.805	15.881	15.881	15.881	
<b>Earnings per share (Euro)</b>	<b>0,10</b>	<b>0,39</b>	<b>0,87*</b>	<b>0,89</b>	<b>1,57</b>	<b>1,13</b>	<b>1,39</b>	
EPS above CoE (8.0%)	-0,41	-0,18	0,29	0,28	1,03	0,48	0,66	
Dividends per Share (DPS) in Euro	0,00	0,00	0,00	0,00	0,15	0,20	0,25	
<b>NAV per share in Euro</b>	<b>6,53</b>	<b>6,59</b>	<b>7,23</b>	<b>8,33</b>	<b>8,90</b>	<b>9,50</b>	<b>10,05</b>	
<b>Adjusted Shareholders' Equity</b> without minorities	<b>56.143</b>	<b>64.735</b>	<b>78.099</b>	<b>91.494</b>	<b>123.391</b>	<b>134.326</b>	<b>156.361</b>	19,6%
RoE after Tax	1,6%	5,5%	12,0%	11,6%	23,2%	13,9%	15,2%	
<b>Key ratios &amp; figures</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012e</b>	<b>2013e</b>	<b>2014e</b>	
<b>Growth rates in %</b>								
Revenues	354,0%	44,2%	0,0%	9,6%	28,1%	10,0%	15,0%	
EBITDA	-29,8%	115,0%	38,3%	37,3%	151,2%	-33,2%	28,2%	
EBIT	58,3%	68,1%	83,6%	10,7%	83,2%	-21,1%	15,6%	
EBT	-63,3%	234,0%	232,0%	11,2%	125,5%	-26,1%	21,2%	
Net profit after minorities	-75,1%	330,5%	158,4%	14,4%	153,5%	-28,0%	22,9%	
<b>Margins in %</b>								
Gross								
EBITDA	13,4%	25,9%	35,7%	38,9%	59,0%	53,4%	59,5%	
EBIT	30,0%	45,2%	82,8%	72,7%	80,5%	86,0%	86,6%	
EBT	7,1%	16,4%	54,4%	55,1%	97,0%	65,1%	68,7%	
<b>Expense ratios in %</b>								
Personnel costs quote	7,7%	7,4%	8,9%	9,2%	5,9%	8,1%	7,5%	
Cost of material to sales	27,9%	36,7%	31,1%	27,8%	18,2%	21,1%	18,0%	
Depreciation to sales	0,3%	0,5%	0,9%	0,9%	0,5%	0,7%	0,7%	
Tax rate	20,3%	15,8%	7,5%	17,7%	7,4%	9,6%	8,4%	
<b>Profitability in %</b>								
Net profit to sales ratio	5,6%	16,8%	43,4%	45,3%	89,7%	58,8%	62,8%	
Return on equity (ROE) after tax	1,6%	5,5%	12,0%	11,6%	23,2%	13,9%	15,2%	
<b>Valuation</b>								
PE-ratio	49,01	13,11	5,80	5,67	3,22	4,47	3,64	
Price/BVpS	6,53	6,59	7,23	8,33	8,90	9,50	10,05	
Dividend yield in %	0,0%	0,0%	0,0%	0,0%	3,0%	4,0%	5,0%	
EV/ Sales	4,06	3,64	3,63	2,88	1,74	2,36	2,05	
EV/ EBITDA	30,23	14,06	10,16	7,40	2,95	4,41	3,44	
<b>Data per share</b>								
Number of shares in k	7.490	8.627	10.805	10.805	15.881	15.881	15.881	
EpS	0,10	0,39	0,87*	0,89	1,57	1,13	1,39	
DpS	0,00	0,00	0,00	0,00	0,15	0,20	0,25	
BVpS	6,53	6,59	7,23	8,33	8,90	9,50	10,05	

\* EPS with average number of shares of 9.857 million shares

## SRC Research

### – The Specialist for Financial and Real Estate Stocks –

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Rating Chronicle	Date	Rating	Former Price	Former Target
KWG	16-Jul-12	Buy	5.05 €	8.00 €
KWG	15-May-12	Buy	5.00 €	8.00 €
KWG	18-Apr-12	Buy	5.24 €	8.00 €
KWG	7-Mar-12	Buy	5.18 €	8.00 €
KWG	1-Mar-12	Buy	5.05 €	7.50 €
KWG	9-Nov-11	Buy	4.99 €	7.50 €
KWG	25-Aug-11	Buy	5.16 €	7.50 €
KWG	12-Jul-11	Buy	4.61 €	7.50 €

#### Please note:

The KWG share price mentioned in this report is from closing of 17 August 2012.  
KWG mandated SRC Research for mentoring the KWG share.

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