

KWG Kommunale Wohnen

Buy (unchanged) **Target: Euro 8.00** (unchanged)



Der Spezialist für Finanzaktien

08 | Nov | 12

| | | | | |
|--------------------------------------|------------------------------|---------------|---------------|---------------|
| Price (Euro) | 5.10 | | | |
| 52 weeks range | 5.80 / 4.64 | | | |
| 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) | 78,780 | | | |
| Market Cap (EUR million) | 73.4 | | | |
| Number of shares (million) | 14.4 | | | |
| Free Float | 35% | | | |
| Free Float MCap (million) | 25.7 | | | |
| CAGR pre tax profits 11-14e | 26.4% | | | |
| Multiples | | | | |
| | 2011 | 2012e | 2013e | 2014e |
| MarketCap/ Sales | 2.9 | 1.8 | 2.4 | 2.1 |
| PE-Ratio | 5.7 | 3.3 | 4.5 | 3.7 |
| Dynamic PE-Ratio | 0.22 | 0.12 | 0.17 | 0.14 |
| Dividend Yield | 0.0% | 0.0% | 3.9% | 4.9% |
| Price-to-Book ratio | 61.2% | 57.3% | 53.7% | 50.7% |
| Key Data per Share (Euro) | | | | |
| | 2011 | 2012e | 2013e | 2014e |
| Earnings per Share (EPS) | 0.89 | 1.57 | 1.13 | 1.39 |
| Dividends per Share (DPS) | 0.00 | 0.00 | 0.20 | 0.25 |
| NAV per share | 8.33 | 8.90 | 9.50 | 10.05 |
| Financial Data (Euro '000) | | | | |
| | 2011 | 2012e | 2013e | 2014e |
| Revenues (rental income) | 21,659 | 27,750 | 30,525 | 35,104 |
| 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 |
| Operating Profit (EBIT) | 18,359 | 33,641 | 26,556 | 30,709 |
| Pre-tax profit (EBT) | 11,940 | 26,926 | 19,886 | 24,109 |
| Net profit (after minorities) | 9,819 | 24,896 | 17,936 | 22,034 |
| Adjusted Shareholders' Equity | 91,494 | 123,391 | 134,326 | 156,361 |
| RoE after tax | 11.6% | 23.2% | 13.9% | 15.2% |
| Financial Calendar | | | | |
| Annual report 2012 | April 2013 | | | |
| Main Shareholders | | | | |
| Group of core shareholders | 65% | | | |
| Analysts | | | | |
| | Stefan Scharff, CREA | | | |
| | Denis Kuhn | | | |
| E-Mail | scharff@src-research.de | | | |
| | kuhn@src-research.de | | | |
| Internet | www.src-research.de | | | |

KWG triples 9M-EPS to 1.30€ and continues its successful expansion - Buy confirmed!

Yesterday, on Wednesday 7 November, KWG published some key figures for the first nine months of the year and reported an increase in net profit to Euro 20.7m after Euro 4.5m in 9M 2011. Besides of the lucky buy profit of about Euro 13m from the first time consolidation of BWAG which has been recognized in the 1H results already, more importantly, KWG increased its Funds from Operations (FFO) again. FFO for the first nine months soared from Euro 1.1m to Euro 2.0m compared to 9M 2011. In 3Q alone, the group recorded FFO of about Euro 0.8m. Net cold rents amounted to Euro 14m after about 11m in 9M 2011. Once again, both rising average rent levels (now 5.30 €/sqm for new lettings) and shrinking vacancy within the core portfolio contributed to the group's top and bottom line. We forecast net cold rents for the full fiscal year to come in at slightly below Euro 20m and also keep our net profit forecast of about Euro 25m for 2012. In addition to the positive one-off effect from the consolidation of BWAG, we expect the closing of the acquisition of the 2,900-unit portfolio announced in July (see our update from 17 July) within 2012. All current forecasts do not incorporate the significant upside in cash flows nor any potential positive one-off effects from the deal. At a double digit initial yield, the approx. Euro 93m portfolio could contribute another Euro 10m in annual rental income. Once the deal is closed, we will adjust our forecasts.

Net Asset Value per share was at Euro 8.62 as of 30 June, implying a current discount to NAV of about 40%. Taking into account the substantial growth both in portfolio size at very attractive conditions and in rental income via the reduction of vacancies through active asset management and refurbishments, we still regard the share as significantly undervalued. Particularly the strong focus on building a diversified residential portfolio at fairly high yields should enable the group to become a sound source of long-term dividends.

KWG successfully integrated BWAG and, moreover, improved its cash flow within its existing portfolio via effective asset management. We stick to our Buy rating and our Target Price of € 8.00 for now. Upon closing of the 2,900-unit portfolio deal, which we suspect within 4Q, we see additional upside in the KWG share.

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-consolidation confirmed the group's capabilities to effectively grow the portfolio at very attractive conditions and integrate new portfolios fast and effectively.
- 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 fiscal 2012.
- 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.
- Further portfolio expansion at very lucrative prices is rather time-costly.

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, forcing some to sell assets.
- Significant cash flow potential from the announced 2,900-unit portfolio acquisition in Berlin and North Rhine Westphalia. We expect up to Euro 10m in additional annual rental income.
- Market recognition should increase after the excellent 1H and 9M 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.

Net rents up by 31% on a y-o-y basis.

Core portfolio growing at about 45%, even at shrinking average vacancy of only 3%.

Total portfolio might comprise about 9,700 units as of year-end upon closing of the new 2,900-unit acquisition.

EPS +210% in 9M 2012

Long-term portfolio growth and continuous increase of NAV per share continued in 2012.

KWG well on track regarding its strategic goal of becoming a dividend-oriented long-term investment in German residential property.

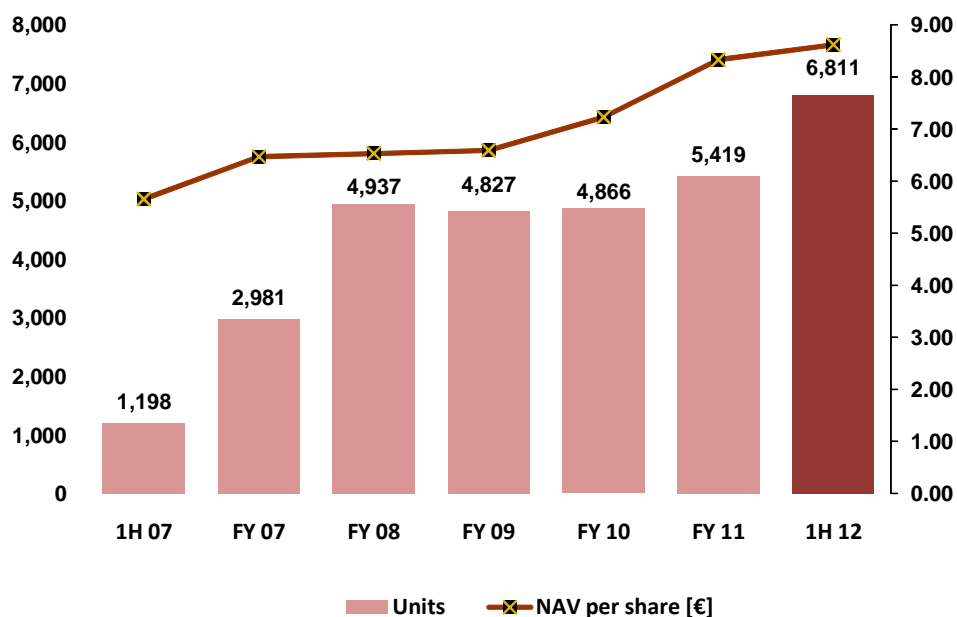
With a large portion of the targeted portfolio located in North Rhine Westphalia, we expect significant synergies with KWG's existing portfolio properties in the region.

9M-Key Figures Show Excellent Operating Performance

| KWG AG | 9M 2012 | 9M 2011 | Change | 2012e (SRC est.) |
|--------------------------------|---------------|---------------|-------------|----------------------|
| Revenues € m | 19.9 | 15.8 | 26% | 27.8 |
| thereof net rent | 14.3 | 10.9 | 31% | 19.7 |
| Vacancy in core portfolio | 3.0% | 3.9% | -23% | 2.7% |
| Units core portfolio | 5,372 | 3,715 | 45% | 7,500 |
| Units investment portfolio | 1,439 | 1,694 | -15% | 2,200 |
| Total portfolio (units) | 6,811 | 5,419 | 26% | 9,700 |
| EpS € after minorities | 1.30 € | 0.42 € | 210% | 1.57 € |

Source: KWG AG, SRC estimates

Long-term Portfolio and NAV-Growth Continued in 2012



Source: KWG reports

KWG's Diversified Portfolio at a Glance

| Location | Units | sqm | Total Share |
|-------------------------|--------------|----------------|-------------|
| Berlin | 414 | 24,232 | 6% |
| Lower Saxony / Bremen | 1,327 | 79,945 | 20% |
| North Rhine-Westphalia* | 2,443 | 159,960 | 40% |
| Saxony | 1,871 | 99,434 | 25% |
| Schleswig-Holstein | 88 | 3,780 | 1% |
| Thuringia | 668 | 34,479 | 9% |
| Total | 6,811 | 401,830 | 100% |

Source: Company presentation, SRC estimates

* after inclusion of BWAG units, SRC estimates

P&L KWG Kommunale Wohnen AG

| 31/12 IFRS (Euro '000) | 2008 | 2009 | 2010 | 2011 | 2012e | 2013e | 2014e | CAGR '11 - '14e |
|---|---------------|---------------|---------------|---------------|----------------|----------------|----------------|--------------------|
| Revenues | 13,706 | 19,759 | 19,765 | 21,659 | 27,750 | 30,525 | 35,104 | 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 | |
| Total operating income | 17,917 | 19,983 | 20,028 | 25,265 | 41,800 | 30,875 | 35,469 | |
| 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 | |
| Net operating income (NOI) | 4,855 | 8,770 | 10,530 | 11,295 | 15,580 | 20,725 | 25,504 | |
| 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 | |
| Operating profit (EBITDA) | 2,405 | 5,172 | 7,154 | 9,824 | 24,680 | 16,475 | 21,119 | 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 | |
| Operating profit (EBIT) | 5,372 | 9,030 | 16,583 | 18,359 | 33,641 | 26,556 | 30,709 | 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 | |
| Pre-tax Profit (EBT) | 969 | 3,235 | 10,742 | 11,940 | 26,926 | 19,886 | 24,109 | 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 | |
| Net Profit after minorities | 772 | 3,322 | 8,583 | 9,819 | 24,896 | 17,936 | 22,034 | 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 | |
| Earnings per share (Euro) | 0.10 | 0.39 | 0.87* | 0.89 | 1.57 | 1.13 | 1.39 | |
| 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 | 0.00 | 0.20 | 0.25 | |
| NAV per share in Euro | 6.53 | 6.59 | 7.23 | 8.33 | 8.90 | 9.50 | 10.05 | |
| Adjusted Shareholders' Equity without minorities | 56,143 | 64,735 | 78,099 | 91,494 | 123,391 | 134,326 | 156,361 | 19.6% |
| RoE after Tax | 1.6% | 5.5% | 12.0% | 11.6% | 23.2% | 13.9% | 15.2% | |
| Key ratios & figures | 2008 | 2009 | 2010 | 2011 | 2012e | 2013e | 2014e | |
| Growth rates in % | | | | | | | | |
| 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% | |
| Margins in % | | | | | | | | |
| 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% | |
| Expense ratios in % | | | | | | | | |
| 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% | |
| Profitability in % | | | | | | | | |
| 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% | |
| Valuation | | | | | | | | |
| PE-ratio | 49.50 | 13.24 | 5.86 | 5.73 | 3.25 | 4.52 | 3.68 | |
| 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% | 0.0% | 3.9% | 4.9% | |
| EV/ Sales | 4.10 | 3.68 | 3.67 | 2.91 | 1.76 | 2.38 | 2.07 | |
| EV/ EBITDA | 30.53 | 14.20 | 10.27 | 7.48 | 2.98 | 4.46 | 3.48 | |
| Data per share | | | | | | | | |
| 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 | 0.00 | 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 –

SRC-Scharff Research und Consulting GmbH

Klingerstrasse 23

D-60313 Frankfurt

Germany

Fon: +49 (0) 69 / 400 313 – 80

E-Mail: scharff@src-research.de

kuhn@src-research.de

Internet: www.src-research.de

| Rating Chronicle | Date | Rating | Former Price | Former Target |
|------------------|-----------------|--------|--------------|---------------|
| KWG | 20 August 2012 | Buy | 5.09 € | 8.00 € |
| KWG | 16 July 2012 | Buy | 5.05 € | 8.00 € |
| KWG | 15 May 2012 | Buy | 5.00 € | 8.00 € |
| KWG | 18 April 2012 | Buy | 5.24 € | 8.00 € |
| KWG | 7 March 2012 | Buy | 5.18 € | 8.00 € |
| KWG | 1 March 2012 | Buy | 5.05 € | 7.50 € |
| KWG | 9 November 2011 | Buy | 4.99 € | 7.50 € |
| KWG | 25 August 2011 | Buy | 5.16 € | 7.50 € |
| KWG | 12 July 2011 | Buy | 4.61 € | 7.50 € |

Please note:

The KWG share price mentioned in this report is from closing of 7 November 2012. KWG mandated SRC Research for mentoring the KWG share.

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