

KWG Kommunale Wohnen

Buy (unchanged) **Target: Euro 8.50** (old: Euro 8.00)



Der Spezialist für Finanzaktien

10 | Jan | 13

Price (Euro)	6.39			
52 weeks range	7.15 / 4.71			
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)	101.0			
Number of shares (million)	15.8			
Free Float	40%			
Free Float MCap (million)	40.4			
CAGR pre tax profits 11-14e	30.1%			
Multiples				
MarketCap/ Sales	4.0	2.4	2.6	2.5
PE-Ratio	7.2	4.1	4.4	4.2
Dynamic PE-Ratio	0.24	0.14	0.15	0.14
Dividend Yield	0.0%	0.0%	3.1%	3.9%
Price-to-Book ratio	76.7%	65.7%	58.2%	52.2%
Key Data per Share (Euro)				
Earnings per Share (EPS)	0.89	1.57	1.46	1.53
Dividends per Share (DPS)	0.00	0.00	0.20	0.25
NAV per share	8.33	9.72	10.98	12.25
Financial Data (Euro '000)				
Revenues (rental income)	21,659	27,750	38,200	40,050
Net Revaluation Gains	8,535	8,960	10,080	9,590
Total operating income	25,265	41,800	38,550	40,415
Operating profit (EBITDA)	9,824	24,680	22,240	23,765
Operating Profit (EBIT)	18,359	33,641	32,321	33,356
Pre-tax profit (EBT)	11,940	26,926	25,071	26,306
Net profit (after minorities)	9,819	24,896	23,121	24,231
Adjusted Shareholders' Equity	91,494	123,391	139,511	163,742
RoE after tax	11.6%	23.2%	17.6%	16.0%
Financial Calendar				
Annual report 2012	22 April 2013			
1Q key figures	8 May 2013			
Main Shareholders				
conwert SE	60%			
Analysts				
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2,900-unit acquisition closed within 2012 - Conwert SE acquires 60% in KWG - Buy!

As of 20 December 2012, KWG reported the successful closing of the acquisition of a 2,900-unit portfolio located in North-Rhine-Westphalia (2,300 units) and Berlin (600 units). With this transaction, KWG reaches its strategic goal to expand the portfolio to about 10,000 units within fiscal 2012, implying a doubling of the portfolio in the past 18 months. Purchase price was c. Euro 90m, implying a single-digit multiple (9.2x) of annual rental income. At a total rental space of more than 200,000sqm, the purchase price translates into a price of only Euro 443 per sqm. KWG's existing portfolio, similarly located, was valued at an average price of Euro 758 as of 30 June 2012.

We forecast net cold rents for the full fiscal year 2012e to come in at slightly below Euro 20m and lift our estimates for the years 2013e to 2014e. All current forecasts now incorporate the significant upside in cash flows and a potential positive one-off effect resulting from the first-time consolidation of the recently acquired portfolio. At a double digit initial yield, the portfolio could contribute another Euro 10m in annual rental income in 2013 already. Taking the current vacancy of about 24% into account, we are confident that KWG will be able to raise cash earnings via reduction of vacancy significantly within the next 12 months. The company has proven its ability to quickly drive down vacancies in newly acquired portfolios several times within recent years.

Moreover, on 21 December 2012, conwert SE, a listed real estate specialist based in Vienna, announced the acquisition of a 60% stake in KWG via a block-trade. See page 3 for further details and our opinion on the transaction.

NAV per share was at Euro 8.62 as of 30 June. After the first-time consolidation of the new portfolio, we expect NAV per share to climb to about Euro 9.70, implying a current discount to NAV of more than 35%.

After the most recent acquisition, KWG's portfolio has grown to the target volume of about 10,000 units. Thanks to the attractive transaction, the group will be able to continue its FFO-growth in 2013. Regarding the favourable operating performance and sound growth, we think that the current discount to NAV of about 35% will further reduce within the next months.

Strengths

SWOT – Analysis

- Management and core investors (now convert SE with 60% stake) 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 completed within fiscal year 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.
- 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 recently closed 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 portfolio expansion and the acquisition of a 60% majority stake by convert SE.

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 are already financed by the lending bank.

Key Facts Regarding the Acquisition of a 60% Majority Stake in KWG by conwert SE

- As of 21 December, KWG announced that Vienna-based listed real estate company conwert SE has acquired a majority stake of about 60% from a group of former long-term core shareholders of KWG.
- The purchase price will be paid in cash (50%) and conwert treasury shares (50%). Implied share price will be about Euro 14.00 per conwert treasury share.
- The purchase price translates into a valuation of Euro 620 per sqm.
- In addition, there will be a variable component of the purchase price, depending upon specific key performance figures of KWG.
- The seller of the KWG stake also received the option to buy another 1m conwert shares at a price of Euro 10.00 per share within three years of the closing of the transaction.
- Conwert SE will buy back up to 2.5m new shares via a new buyback program in order to obtain the required amount of shares in advance.
- Stavros Efremidis, current CEO of KWG, will become Executive Director at conwert SE as of February 2013.
- Conwert SE will fully consolidate KWG starting as of first quarter 2013.

We regard conwert's acquisition of a majority stake in KWG as positive for both companies. Conwert is able to significantly expand its German residential portfolio at an attractive price via the transaction. Furthermore, the 50% share of the purchase price that is paid in shares (implicit valuation of almost Euro 14.00 per share) undermines the quality of the conwert share. Conwert's investment in KWG proves the company's value accretive strategy right. KWG managed to grow its diversified residential portfolio both fast and at very attractive prices.

The company is now at a stage in terms of portfolio volume and profitability that should further trigger investors' interest in the share.

KWG may also benefit from takeover fantasy following the recent 60% investment in KWG. This should further boost KWG's share price. In addition, KWG intends to pay cash dividends starting as of fiscal year 2013. The absence of dividend payments so far may have been an obstruction for some investors in the past that is about to vanish.

We are therefore confident that the share will be able to further reduce its current discount to NAV and see the current share price as an attractive opportunity to invest in German residential real estate.

Vast majority of units has been transferred to the core portfolio, which had an excellent vacancy of below 3% as of 9M 2012.

Net rents were up by 31% on a y-o-y basis after 9M 2012.

We expect the investment portfolio to increase again by about 2,000 units with the integration of the newly acquired 2,900 units in Berlin and North-Rhine-Westphalia.

Bank financing for the intended capex-measures at the new portfolio (approx. Euro 15m) has already been secured.

With the successful closing of the 2,900-unit acquisition as of 4Q 2012, KWG has almost doubled its portfolio within the past 18 months.

The constant and substantial growth of NAV per share reflects the value accretive strategy of the company.

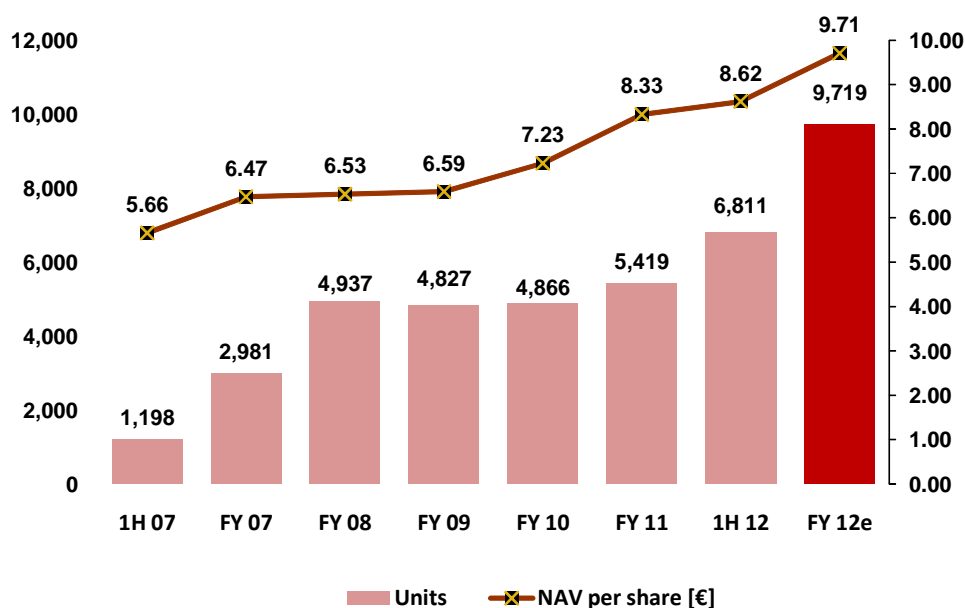
KWG is well on track regarding its strategic goal of becoming a dividend-oriented long-term investment in German residential real estate.

9M-Key Figures Reflected Ongoing Operating Success

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

Constant Growth in Portfolio Volume and NAV Continues



Source: KWG reports, SRC estimates

KWG's Diversified Portfolio at a Glance

City / Region	Units	sqm	Portfolio Share
Berlin*	1,022	65,520	11%
Lower Saxony / Bremen	1,327	79,945	14%
North Rhine-Westphalia*	4,743	322,500	49%
Saxony	1,871	99,434	19%
Schleswig-Holstein	88	3,780	1%
Thuringia	668	34,479	7%
Total*	9,719	605,658	100%

Source: Company presentations, *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	38,200	40,050	22.7%
└ thereof rental income from properties	8,711	19,759	19,765	18,053	27,280	37,818	39,650	
└ thereof rental income without costs of material	3,716	12,423	13,529	11,040	19,660	29,718	31,300	
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	38,550	40,415	
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	-8,100	-8,350	
Net operating income (NOI)	4,855	8,770	10,530	11,295	15,580	26,800	28,500	
<i>NOI-margin</i>	35.4%	44.4%	53.3%	52.1%	56.1%	70.2%	71.2%	
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	-2,410	-2,450	
Operating profit (EBITDA)	2,405	5,172	7,154	9,824	24,680	22,240	23,765	34.2%
<i>EBITDA margin</i>	17.5%	26.2%	36.2%	45.4%	88.9%	58.2%	59.3%	
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	32,321	33,356	22.0%
<i>EBIT margin</i>	30.0%	45.2%	82.8%	72.7%	80.5%	83.8%	82.5%	
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	-7,700	-7,700	
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	25,071	26,306	30.1%
<i>EBT margin</i>	7.1%	16.4%	54.4%	55.1%	97.0%	65.6%	65.7%	
tax expenses and other expenses	-197	87	-2,158	-2,114	-2,005	-1,915	-2,030	
<i>Tax rate</i>	20.3%	15.8%	7.5%	17.7%	7.4%	7.6%	7.7%	
Minorities	0	0	-1	-7	-25	-35	-45	
Net Profit after minorities	772	3,322	8,583	9,819	24,896	23,121	24,231	35.1%
<i>Return on sales</i>	5.6%	16.8%	43.4%	45.3%	89.7%	60.5%	60.5%	
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	1.46	1.53	
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	9.72	10.98	12.25	
Adjusted Shareholders' Equity without minorities	56,143	64,735	78,099	91,494	123,391	139,511	163,742	21.4%
<i>RoE after Tax</i>	1.6%	5.5%	12.0%	11.6%	23.2%	17.6%	16.0%	
Key ratios & figures	2008	2009	2010	2011	2012e	2013e	2014e	
Growth rates in %								
Revenues	354.0%	44.2%	0.0%	9.6%	28.1%	37.7%	4.8%	
EBITDA	-29.8%	115.0%	38.3%	37.3%	151.2%	-9.9%	6.9%	
EBIT	58.3%	68.1%	83.6%	10.7%	83.2%	-3.9%	3.2%	
EBT	-63.3%	234.0%	232.0%	11.2%	125.5%	-6.9%	4.9%	
Net profit after minorities	-75.1%	330.5%	158.4%	14.4%	153.5%	-7.1%	4.8%	
Margins in %								
Gross								
EBITDA	13.4%	25.9%	35.7%	38.9%	59.0%	57.7%	58.8%	
EBIT	30.0%	45.2%	82.8%	72.7%	80.5%	83.8%	82.5%	
EBT	7.1%	16.4%	54.4%	55.1%	97.0%	65.6%	65.7%	
Expense ratios in %								
Personnel costs quote	7.7%	7.4%	8.9%	9.2%	5.9%	6.5%	6.6%	
Cost of material to sales	27.9%	36.7%	31.1%	27.8%	18.2%	21.0%	20.7%	
Depreciation to sales	0.3%	0.5%	0.9%	0.9%	0.5%	0.6%	0.6%	
Tax rate	20.3%	15.8%	7.5%	17.7%	7.4%	7.6%	7.7%	
Profitability in %								
Net profit to sales ratio	5.6%	16.8%	43.4%	45.3%	89.7%	60.5%	60.5%	
Return on equity (ROE) after tax	1.6%	5.5%	12.0%	11.6%	23.2%	17.6%	16.0%	
Valuation								
PE-ratio	49.50	13.24	5.86	5.73	3.25	3.50	3.34	
Price/BVpS	6.53	6.59	7.23	8.33	9.72	10.98	12.25	
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	1.91	1.82	
EV/ EBITDA	30.53	14.20	10.27	7.48	2.98	3.30	3.09	
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	1.46	1.53	
DpS	0.00	0.00	0.00	0.00	0.00	0.20	0.25	
BVpS	6.53	6.59	7.23	8.33	9.72	10.98	12.25	

* EPS with average number of shares of 9.857 million shares

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Rating Chronicle	Date	Rating	Former Price	Former Target
KWG	8 November 2012	Buy	5.10 €	8.00 €
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 9 January 2013.
KWG mandated SRC Research for mentoring the KWG share.

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