

Recommendation:
BUY (BUY)

Risk:
Medium (Medium)

Price Target:
EUR 8.30 (8.30)

20 August 2013

Good 1H 2013 figures

Work on the portfolio is priority number one

- KWG recently reported its 1H13 figures that were in line with the company guidance. The significant increase in a yoy comparison is mostly due to the BWAG and "Tower portfolio" acquisition in 2H12. The acquisition of BWAG and "Tower portfolio" almost doubled KWG's portfolio from approx. 5,400 units to approx. 10,000 units.
- Sales increased by 76.9% to EUR 22.5m (PY EUR 12.7m). The revaluation gain of EUR 3.7m was lower than the EUR 8.2m from the prior year's period because refurbishment and modernisation measures started later in 2013 than in 2012. This was amongst others due to weather conditions.
- EBIT in 1H13 decreased by -53.8% to EUR 12.0m from EUR 26.0m mainly due to EUR 13.1m first-time consolidation gains of BWAG in 1H12 which were booked in other operating income. Adjusted by this one-off, EBIT in 1H13 would have been EUR 25.1m, only slightly below the level of 1H12.
- FFO strongly increased by 183.3% to EUR 3.4m (PY EUR 1.2m). Vacancy in the core portfolio increased to 2.8% from 1.6% as at December 2012 mainly due to the disposal of 160 fully rented units in Wolfsburg.
- The refurbishment of the portfolio, in particular the "Tower portfolio", has the highest priority in KWG's strategy, even before new acquisitions. The company plans to spend at least a total of EUR 9m in FY13 of the whole portfolio, thereof EUR 1.7m for the part of the "Tower portfolio" located in Berlin. So far EUR 3.7m have been spent in 1H13 (PY EUR 2.7m). As a result, KWG aims to reduce the vacancy rate of the acquired units in Berlin from currently around 7% to almost 0% until the end of FY13.
- The management confirmed its FY 2013E guidance of EUR 30m net cold rent and FFO of EUR 5.0m. The company has started its biggest refurbishment program so far which will lead to value increases and higher rental income. Backed by the 1H13 figures we adjusted our estimates upwards and confirm our BUY recommendation with an unchanged price target of EUR 8.30.

Key data

FY 12/31, EUR m	2010	2011	2012	2013E	2014E	2015E
Sales	19.8	21.7	27.9	43.1	43.6	43.8
EBIT	16.6	18.4	64.2	22.9	20.5	20.7
Net result	8.6	9.8	44.2	6.3	5.7	5.9
EPS	0.87	0.91	3.04	0.39	0.35	0.36
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Gross margin	79.0%	79.4%	90.0%	73.6%	72.3%	72.4%
EBIT margin	56.0%	54.0%	76.7%	43.8%	40.8%	40.8%
ROE	12.0%	11.8%	34.1%	3.6%	3.2%	3.1%
ROA	8.4%	8.3%	18.0%	5.0%	4.6%	4.5%
Gross debt LTV	63.1%	59.9%	57.4%	56.5%	56.0%	55.1%
Price / NAV	0.71	0.60	0.62	0.63	0.61	0.59
EV/EBIT	10.0	10.1	3.9	11.1	12.3	12.2
P/E	5.9	5.4	2.1	17.4	19.2	18.8

Source: KWG Kommunale Wohnen AG, CBS Research AG



Source: CBS Research AG, Bloomberg, KWG

Change	2013E		2014E		2015E	
	new	old	new	old	new	old
Sales	43.1	40.2	43.6	40.6	43.8	40.8
EBIT	22.9	18.8	20.5	19.2	20.7	19.4
EPS	0.39	0.31	0.35	0.34	0.36	0.34

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):	6.80
Shares outstanding (m):	15.9
Market capitalisation (EUR m):	108.0
Enterprise value (EUR m):	253.0
Ø daily trading volume (3 m., no. of shares):	11,019

Performance data:

High 52 weeks (EUR):	7.41
Low 52 weeks (EUR):	4.90
Absolute performance (12 months):	32.0%
Relative performance vs. CDAX:	
1 month	-0.9%
3 months	-2.7%
6 months	1.4%
12 months	9.2%

Shareholders:

conwert	76.0%
Free float	24.0%

Financial calendar:

3Q figures 2013 06 November 2013

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KWG Kommunale Wohnen AG

Profit and loss comparison

	IFRS	EURm	1H 2012	1H 2013	change	% change
Sales			12.7	22.5	9.8	76.9%
Revaluation result from investment properties			8.2	3.7	-4.6	-55.4%
Other operating income			13.7	0.7	-13.0	-95.0%
Total revenues			34.7	26.9	-7.8	-22.5%
COGS			-4.2	-7.2	-3.0	72.8%
as % of total revenues			-0.1	-0.3		
Gross income			30.5	19.6	-10.8	-35.5%
SG&A			-4.3	-7.5	-3.2	-73.3%
EBIT			26.0	12.0	-14.0	-53.8%
as % of total revenues			0.8	0.4		
Financial result			-3.6	-4.7	-1.1	-30.7%
EBT			22.4	7.3	-15.1	-67.5%
as % of total revenues			0.6	0.3		
Net income attributable to shareholders			20.4	5.1	-15.2	-74.8%
as % of total revenues			58.8%	19.1%		
Shares outstanding (in millions)			12.9	16.2		
Earnings per share (EUR)			1.59	0.32	-1.27	-80.0%
Reported FFO			1.2	3.4	2.2	183.3%
Reported FFO per share			0.08	0.21	0.13	162.5%

Source: CBS Research AG; KWG Kommunale Wohnen AG

KWG Kommunale Wohnen AG

Profit and loss account

	IFRS	EURm	2010	2011	2012	2013E	2014E	2015E
Sales			19.8	21.7	27.9	43.1	43.6	43.8
YoY growth			0.0%	9.6%	41.2%	99.2%	56.1%	1.5%
Revaluation result from investment properties			9.6	8.8	41.6	8.4	6.5	6.6
Other operating income			0.3	3.6	14.2	0.7	0.3	0.3
Total revenues			29.6	34.0	83.7	52.2	50.4	50.7
COGS			-6.2	-7.0	-8.4	-13.8	-13.9	-14.0
in % of total revenues			-21.0%	-20.6%	-10.0%	-26.4%	-27.7%	-27.6%
Gross income			23.4	27.0	75.3	38.4	36.4	36.7
in % of total revenues			79.0%	79.4%	90.0%	73.6%	72.3%	72.4%
Personnel expenses			-1.8	-2.3	-3.0	-4.1	-4.1	-4.2
in % of total revenues			-6.0%	-6.8%	-3.6%	-7.8%	-8.2%	-8.2%
Expenditure on investment properties			-3.0	-3.4	-4.4	-6.5	-7.0	-7.0
in % of total revenues			-10.1%	-9.8%	-5.2%	-12.4%	-13.8%	-13.8%
Other operating expenses			-1.9	-2.8	-3.5	-4.7	-4.6	-4.6
in % of total revenues			-6.3%	-8.1%	-4.1%	-9.1%	-9.1%	-9.1%
EBITDA			16.8	18.6	64.4	23.1	20.8	20.9
in % of total revenues			56.5%	54.6%	77.0%	44.2%	41.2%	41.3%
Depreciation and amortisation			-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
EBIT			16.6	18.4	64.2	22.9	20.5	20.7
in % of total revenues			56.0%	54.0%	76.7%	43.8%	40.8%	40.8%
Financial result			-5.8	-6.4	-7.3	-11.4	-11.4	-11.4
EBT			10.7	11.9	56.9	11.5	9.2	9.3
in % of total revenues			36.3%	35.1%	68.0%	22.1%	18.2%	18.4%
Taxes			-2.2	-2.1	-10.4	-4.7	-3.4	-3.5
as % of EBT			-20.1%	-17.7%	-18.3%	-40.6%	-37.5%	-37.2%
Net income including minorities			8.6	9.8	46.5	6.8	5.7	5.9
Minority interests			0.0	0.0	-2.3	-0.5	0.0	0.0
Net income attributable to shareholders			8.6	9.8	44.2	6.3	5.7	5.9
in % of total revenues			29.0%	28.9%	52.9%	12.2%	11.4%	11.5%
Shares outstanding (in millions)			9.9	10.8	14.5	16.2	16.2	16.2
Earnings per share (EUR)			0.87	0.91	3.04	0.39	0.35	0.36

Source: CBS Research AG, KWG Kommunale Wohnen AG

KWG Kommunale Wohnen AG

Balance Sheet

	IFRS	EURm	2010	2011	2012	2013E	2014E	2015E
Assets								
Noncurrent assets			193.2	230.8	427.7	430.9	437.1	443.7
as % of total assets			94.1%	96.6%	90.4%	97.0%	96.4%	96.2%
Intangible assets			0.2	0.1	0.1	0.1	0.1	0.1
Fixed assets			0.3	0.3	0.5	0.3	0.0	0.0
Investment properties			188.6	226.4	424.7	428.0	434.5	441.1
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			4.0	3.9	2.4	2.4	2.4	2.4
Current assets			12.1	8.1	45.3	13.3	16.2	17.3
as % of total assets			5.9%	3.4%	9.6%	3.0%	3.6%	3.8%
Inventories			0.1	0.1	0.1	0.1	0.1	0.1
Accounts receivables			0.8	1.2	1.4	1.5	1.6	1.6
Properties held for sale			0.0	0.0	4.2	4.2	3.5	3.0
Other receivables and other assets			2.5	3.1	9.3	3.3	3.4	3.4
Securities			0.0	0.0	0.0	0.0	0.0	0.0
Cash			8.7	3.6	30.3	4.2	7.6	9.2
Total Assets			205.2	238.8	473.0	444.2	453.2	461.0
Shareholders' equity and liabilities								
Total equity			78.1	87.8	171.8	178.6	184.4	190.2
as % of total equity and liabilities			38.1%	36.8%	36.3%	40.2%	40.7%	41.3%
Capital stock			10.8	10.8	15.9	15.9	15.9	15.9
Reserves			42.4	40.3	68.1	68.1	68.1	68.1
Retained earnings			24.9	36.7	80.9	87.3	93.0	98.9
Minorities			0.0	0.0	6.8	7.3	7.3	7.3
Special items			0.0	2.3	2.3	2.3	2.3	2.3
Contributions to implement the capital increase resolved			0.0	0.3	0.3	0.3	0.3	0.3
Premiums to implement the capital increase resolved			0.0	2.0	2.0	2.0	2.0	2.0
Noncurrent liabilities			118.6	112.8	184.9	215.0	217.9	219.9
as % of total equity and liabilities			57.8%	47.2%	39.1%	48.4%	48.1%	47.7%
Pension provision and other liabilities			0.0	1.0	2.7	2.7	2.7	2.7
Financial liabilities			114.2	104.7	159.2	186.9	187.8	187.7
Deferred income			0.0	0.0	7.1	7.1	7.1	7.1
Deferred tax liabilities			4.3	7.0	15.8	18.4	20.3	22.3
Other liabilities			0.1	0.1	0.1	0.1	0.1	0.1
Current liabilities			8.6	36.0	114.0	48.2	48.6	48.6
as % of total equity and liabilities			4.2%	15.1%	24.1%	10.9%	10.7%	10.5%
Financial liabilities			5.0	31.0	16.2	42.6	42.8	42.8
Deferred income			0.0	0.0	0.2	0.2	0.2	0.2
Trade accounts payables			1.0	2.1	4.3	2.2	2.3	2.3
Short-term tax liabilities			0.0	0.1	0.3	0.3	0.3	0.3
Other liabilities			2.6	2.8	93.1	2.9	3.0	3.0
Total equity and liabilities			205.2	238.8	473.0	444.2	453.2	461.0

KWG Kommunale Wohnen AG

Cash flow statement

	IFRS	EURm	2009	2010	2011	2012	2013E	2014E	2015E
Group result before deduction of income tax			2.7	10.2	11.3	56.1	11.5	9.2	9.3
Depreciation and amortisation			0.1	0.2	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	0.0
Gains/losses from disposal of long term assets			0.2	0.0	-1.2	-0.1	0.0	0.0	0.0
Result from interest income and interest expense			5.8	5.8	6.4	7.4	11.4	11.4	11.4
Revaluation result from investment properties			-4.0	-9.6	-8.8	-41.6	-8.4	-6.5	-6.6
Change in other assets and liabilities			-9.9	-6.4	-6.2	-7.2	-99.9	-12.2	-12.4
Cash flow from operating activities			-5.1	0.1	0.0	1.7	-85.2	2.1	1.9
Net cash flow from investment properties			0.0	0.0	1.1	-18.3	5.1	0.0	0.0
Net cash flow from long term assets			-2.1	0.0	-22.7	-5.9	-0.1	0.1	-0.2
Cash flow from investing activities			-2.1	-5.8	-21.6	-24.1	5.0	0.1	-0.2
Cash inflow from capital increases			5.3	4.8	0.0	17.6	0.0	0.0	0.0
Net borrowings/retirements of financial debt			1.4	2.4	16.5	31.6	54.1	1.2	-0.1
Cash flow from financing activities			6.7	7.2	16.5	49.2	54.1	1.2	-0.1
Total change in cash and cash equivalents			-0.5	1.5	-5.2	26.7	-26.1	3.3	1.7
Cash and cash equivalents at the start of the period			7.8	7.3	8.7	3.6	30.3	4.2	7.6
Cash and cash equivalents at the end of the period			7.3	8.7	3.6	30.3	4.2	7.6	9.2

Source: CBS Research AG, KWG Kommunale Wohnen AG

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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
20 August 2013	BUY	EUR 6.80	EUR 8.30
16 May 2013	BUY	EUR 7.10	EUR 8.30
20 March 2013	BUY	EUR 6.09	EUR 8.30
21 December 2012	BUY	EUR 6.12	EUR 8.30
7 November 2012	BUY	EUR 5.09	EUR 7.90

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