

Recommendation:  
**BUY** (BUY)

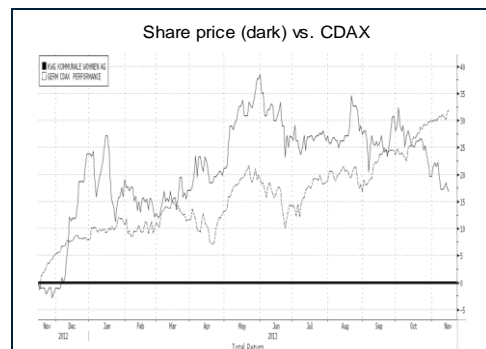
Risk:  
**Medium** (Medium)

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

18 November 2013

## Doing well in 9M13, guidance confirmed

- KWG recently reported its 9M13 key figures. Sales and net cold rent were in line with our expectations and the run rate of the net income indicates that we have to increase our FY13E net profit estimate.
- The significant increase of the figures in a yoy comparison is mostly due to the BWAG and "Tower portfolio" acquisition end of 1H12 and in 2H12, respectively. The acquisition of BWAG and "Tower portfolio" almost doubled KWG's portfolio from approx. 5,400 units to approx. 10,000 units.
- 9M13 sales increased by 68.8% to EUR 33.6m (PY EUR 19.9m) and net cold rent rose by 62.2% to EUR 23.2m (PY EUR 14.3m). The management reiterated its net cold rent guidance for FY13E of EUR 30m which is fully in line with our forecast.
- Net income dropped by 69.6% to EUR 6.3m (PY EUR 20.7m) but this comparison is distorted mainly by EUR 13.1m first-time consolidation gains of BWAG in 1H12 which were booked in other operating income. Adjusted by this one-off, net income in 9M13 would have resulted in EUR 19.4m (excluding potential taxes), only slightly below the level of 9M12.
- The reported FFO significantly went up by 130% to EUR 4.6m (PY EUR 2.0m). The management confirmed its FY13E FFO guidance of EUR 5.0m which should be easily achieved despite potentially higher capex in 4Q.
- The refurbishment of the portfolio goes on. The company plans to spend at least a total of EUR 9m in FY13E on the whole portfolio, thereof EUR 1.7m for the part of the "Tower portfolio" located in Berlin. So far EUR 4.7m have been spent in 9M13 on the whole portfolio. As a result, KWG reduced the vacancy rate in the investment portfolio to 22.0% from 33.1% in the prior year's period. At the same time, the average net cold rent in the overall portfolio increased to EUR/m<sup>2</sup> 4.98 from EUR/m<sup>2</sup> 4.86.
- We slightly increase our FY13E net income forecast and confirm our BUY recommendation with an unchanged price target of EUR 8.30.



Source: CBS Research AG, Bloomberg, KWG

Change	2013E		2014E		2015E	
	new	old	new	old	new	old
Sales	-	43.1	-	43.6	-	43.8
EBIT	-	21.4	-	20.5	-	20.7
EPS	0.40	0.39	-	0.35	-	0.36

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>6.20</b>
Shares outstanding (m):	15.9
Market capitalisation (EUR m):	98.5
Enterprise value (EUR m):	243.5
Ø daily trading volume (3 m., no. of shares):	10,339

### Performance data:

High 52 weeks (EUR):	7.41
Low 52 weeks (EUR):	5.15
Absolute performance (12 months):	16.6%
Relative performance vs. CDAX:	
1 month	-12.1%
3 months	-17.4%
6 months	-20.4%
12 months	-13.2%

### Shareholders:

conwert	76.0%
Free float	24.0%

### Financial calendar:

FY figures 2013 07 March 2014

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### 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	21.4	20.5	20.7
Net result	8.6	9.8	44.2	6.5	5.7	5.9
EPS	0.87	0.91	3.04	0.40	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%	41.0%	40.8%	40.8%
ROE	12.0%	11.8%	34.1%	3.7%	3.2%	3.1%
ROA	8.4%	8.3%	18.0%	4.7%	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	0.57	0.56	0.54
EV/EBIT	10.0	10.1	3.9	11.4	11.9	11.8
P/E	5.9	5.4	2.1	15.5	17.5	17.2

Source: KWG Kommunale Wohnen AG, CBS Research AG

## KWG Kommunale Wohnen AG

## Profit and loss comparison

	IFRS	EURm	3Q 2012	3Q 2013	change	% change	9M 2012	9M 2013	change	% change
<b>Sales</b>			7.18	11.09	3.91	54.5%	19.90	33.60	13.70	68.8%
<i>thereof Net cold rent</i>			5.30	7.57	2.27	42.8%	14.30	23.20	8.90	62.2%
<b>Net income attributable to shareholders</b>			0.31	1.42	1.11	353.5%	20.70	6.30	-14.40	-69.6%
<b>Reported FFO</b>			0.80	1.20	0.40	50.0%	2.00	4.60	2.60	130.0%

Source: CBS Research AG; KWG Kommunale Wohnen AG

## KWG Kommunale Wohnen AG

## Profit and loss account

	IFRS	EURm	2010	2011	2012	2013E	2014E	2015E
<b>Sales</b>			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
<b>Total revenues</b>			29.6	34.0	83.7	52.2	50.4	50.7
<b>COGS</b>			-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%
<b>Gross income</b>			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	-7.9	-7.0	-7.0
in % of total revenues			-10.1%	-9.8%	-5.2%	-15.2%	-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%
<b>EBITDA</b>			16.8	18.6	64.4	21.6	20.8	20.9
in % of total revenues			56.5%	54.6%	77.0%	41.4%	41.2%	41.3%
Depreciation and amortisation			-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
<b>EBIT</b>			16.6	18.4	64.2	21.4	20.5	20.7
in % of total revenues			56.0%	54.0%	76.7%	41.0%	40.8%	40.8%
Financial result			-5.8	-6.4	-7.3	-9.8	-11.4	-11.4
<b>EBT</b>			10.7	11.9	56.9	11.7	9.2	9.3
in % of total revenues			36.3%	35.1%	68.0%	22.3%	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%	-40.0%	-37.5%	-37.2%
<b>Net income including minorities</b>			8.6	9.8	46.5	7.0	5.7	5.9
Minority interests			0.0	0.0	-2.3	-0.5	0.0	0.0
<b>Net income attributable to shareholders</b>			8.6	9.8	44.2	6.5	5.7	5.9
in % of total revenues			29.0%	28.9%	52.9%	12.4%	11.4%	11.5%
Shares outstanding (in millions)			9.9	10.8	14.5	16.2	16.2	16.2
<b>Earnings per share (EUR)</b>			0.87	0.91	3.04	0.40	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
<b>Assets</b>								
<b>Noncurrent assets</b>			<b>193.2</b>	<b>230.8</b>	<b>427.7</b>	<b>430.9</b>	<b>437.1</b>	<b>443.7</b>
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
<b>Current assets</b>			<b>12.1</b>	<b>8.1</b>	<b>45.3</b>	<b>13.5</b>	<b>16.3</b>	<b>17.5</b>
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	4.4	7.7	9.4
<b>Total Assets</b>			<b>205.2</b>	<b>238.8</b>	<b>473.0</b>	<b>444.3</b>	<b>453.4</b>	<b>461.1</b>
<b>Shareholders' equity and liabilities</b>								
<b>Total equity</b>			<b>78.1</b>	<b>87.8</b>	<b>171.8</b>	<b>178.8</b>	<b>184.5</b>	<b>190.4</b>
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	87.4	93.2	99.0
Minorities			0.0	0.0	6.8	7.3	7.3	7.3
<b>Special items</b>			<b>0.0</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>
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
<b>Noncurrent liabilities</b>			<b>118.6</b>	<b>112.8</b>	<b>184.9</b>	<b>215.0</b>	<b>217.9</b>	<b>219.9</b>
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
<b>Current liabilities</b>			<b>8.6</b>	<b>36.0</b>	<b>114.0</b>	<b>48.2</b>	<b>48.6</b>	<b>48.6</b>
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
<b>Total equity and liabilities</b>			<b>205.2</b>	<b>238.8</b>	<b>473.0</b>	<b>444.3</b>	<b>453.4</b>	<b>461.1</b>

## KWG Kommunale Wohnen AG

### Cash flow statement

	IFRS	EURm	2010	2011	2012	2013E	2014E	2015E
<b>Group result before deduction of income tax</b>			10.2	11.3	56.1	11.7	9.2	9.3
Depreciation and amortisation			0.2	0.2	0.2	0.2	0.2	0.2
Other non-cash items			-0.1	-1.9	-13.2	0.0	0.0	0.0
Gains/losses from disposal of long term assets			0.0	-1.2	-0.1	0.0	0.0	0.0
Result from interest income and interest expense			5.8	6.4	7.4	9.8	11.4	11.4
Revaluation result from investment properties			-9.6	-8.8	-41.6	-8.4	-6.5	-6.6
Change in other assets and liabilities			-6.4	-6.2	-7.2	-98.3	-12.2	-12.4
<b>Cash flow from operating activities</b>			<b>0.1</b>	<b>0.0</b>	<b>1.7</b>	<b>-85.0</b>	<b>2.1</b>	<b>1.9</b>
Net cash flow from investment properties			0.0	1.1	-18.3	5.1	0.0	0.0
Net cash flow from long term assets			0.0	-22.7	-5.9	-0.1	0.1	-0.2
<b>Cash flow from investing activities</b>			<b>-5.8</b>	<b>-21.6</b>	<b>-24.1</b>	<b>5.0</b>	<b>0.1</b>	<b>-0.2</b>
Cash inflow from capital increases			4.8	0.0	17.6	0.0	0.0	0.0
Net borrowings/retirements of financial debt			2.4	16.5	31.6	54.1	1.2	-0.1
<b>Cash flow from financing activities</b>			<b>7.2</b>	<b>16.5</b>	<b>49.2</b>	<b>54.1</b>	<b>1.2</b>	<b>-0.1</b>
<b>Total change in cash and cash equivalents</b>			<b>1.5</b>	<b>-5.2</b>	<b>26.7</b>	<b>-25.9</b>	<b>3.3</b>	<b>1.7</b>
Cash and cash equivalents at the start of the period			7.3	8.7	3.6	30.3	4.4	7.7
<b>Cash and cash equivalents at the end of the period</b>			<b>8.7</b>	<b>3.6</b>	<b>30.3</b>	<b>4.4</b>	<b>7.7</b>	<b>9.4</b>

Source: CBS Research AG, KWG Kommunale Wohnen AG

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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%.

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Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
18 November 2013	BUY	EUR 6.20	EUR 8.30
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



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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

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