

<b>Price (Euro)</b>	<b>6.20</b>			
52 weeks range	7.20 / 4.82			
<b>Key Data</b>				
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)	98.5			
Number of shares (million)	15.9			
Free Float	24%			
Free Float MCap (million)	23.6			
CAGR pre tax profits 11-14e	30.1%			
<b>Multiples</b>				
MarketCap/ Sales	3.9	1.3	2.6	2.4
<b>PE-Ratio</b>	<b>7.0</b>	<b>2.1</b>	<b>4.2</b>	<b>4.1</b>
Dividend Yield	0.0%	0.0%	3.2%	4.0%
<b>Price-to-Book ratio</b>	<b>74.4%</b>	<b>63.8%</b>	<b>56.5%</b>	<b>50.6%</b>
<b>Key Data per Share (Euro)</b>				
<b>Earnings per Share (EPS)</b>	<b>0.89</b>	<b>2.93</b>	<b>1.46</b>	<b>1.53</b>
Dividends per Share (DPS)	0.00	0.00	0.20	0.25
NAV per share	8.33	9.72	10.98	12.26
<b>Financial Data (Euro '000)</b>				
<b>Revenues (rental income)</b>	<b>21,659</b>	<b>27,900</b>	<b>38,200</b>	<b>40,050</b>
Net Revaluation Gains	8,535	9,045	10,080	9,590
Total operating income	25,265	74,550	38,550	40,415
Operating profit (EBITDA)	9,824	55,555	22,240	23,765
<b>Operating Profit (EBIT)</b>	<b>18,359</b>	<b>64,602</b>	<b>32,321</b>	<b>33,356</b>
<b>Pre-tax profit (EBT)</b>	<b>11,940</b>	<b>57,997</b>	<b>25,171</b>	<b>26,306</b>
<b>Net profit (after minorities)</b>	<b>9,819</b>	<b>46,489</b>	<b>23,221</b>	<b>24,231</b>
Adjusted Shareholders' Equity	91,494	144,983	161,204	185,434
<b>RoE after tax</b>	<b>11.6%</b>	<b>39.3%</b>	<b>15.2%</b>	<b>14.0%</b>
<b>Financial Calendar</b>				
Annual report 2012	22 April 2013			
1Q key figures	8 May 2013			
<b>Main Shareholders</b>				
conwert SE	76%			
<b>Analysts</b>				
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### KWG reports prelim 2012 EPS of Euro 2.93 – net rental income +34% - Buy confirmed!

Yesterday, on 20 March, KWG published preliminary results for fiscal 2012. Gross rental income amounted to Euro 27.9m after 21.7m in 2011. More importantly, net cold rent came in at Euro 19.8m (SRC forecast Euro 19.7m), which equals a plus of 34% compared to last year's figure. Net result on group level even increased by 374% from last year's Euro 9.8m to Euro 46.5m for 2012. Responsible for the significant hike in rental revenues was the portfolio expansion (mainly via the BWAG acquisition) and a further reduction of vacancies throughout the portfolio. Average vacancy in the core-portfolio came down again from 2.7% last year to now 1.6%.

Nevertheless, additional value can be created in the investment portfolio, where the company is conducting refurbishments and actively repositions newly acquired units if necessary. We expect this investment portfolio to contain slightly more than 2,000 units as of year-end 2012.

With the acquisitions of BWAG and the 2,900-unit Tower-portfolio, KWG has reached its strategic goal to expand the portfolio to about 10,000 units within fiscal 2012. Regarding purchase prices, KWG has shown sound buying discipline by paying low multiples of annual rental income (9.2x in the Tower-deal). The acquisitions below market value allowed for substantial lucky-buy effects within fiscal 2012. After the Euro 12m in positive non-cash gains following the first time consolidation of BWAG, we expect more than Euro 20m as a positive one-off from the consolidation of the Tower portfolio. On 6 March, conwert SE reported that it has lifted its stake in KWG from initially 60% to now 76%. We commented on the transaction on 10 January 2013. See our update for details.

As a result of the recent expansion, NAV per share also rose by 30% from Euro 8.62 as of 30 June to Euro 11.19 as of year-end, according to the prelim results.

**KWG has shown outstanding performance figures for 2012. All fundamentals of the operating business improved. In addition, the positive one-off effects from several first-time consolidations lifted the (prelim) net profit to Euro 2.93 per share, implying a 2.1-times P/E-ratio!**

**We confirm our Buy rating and stick to our target price of Euro 8.50.**

## Strengths

### SWOT – Analysis

- Management and core investors (now convert SE with 76% 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 (Tower-portfolio). We expect up to Euro 10m in additional annual rental income.
- Market recognition should increase after the excellent 1H and prelim full year 2012 results, the successful portfolio expansion and the acquisition of a 76% 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.

**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>27,900</b>	<b>38,200</b>	<b>40,050</b>	22.7%
↳ thereof rental income from properties	8,711	19,759	19,765	18,053	27,420	37,818	39,650	
↳ thereof rental income without costs of material	3,716	12,423	13,529	11,040	19,040	29,718	31,300	
other oper. Income	4,211	224	263	3,606	46,650	350	365	
<b>Total operating income</b>	<b>17,917</b>	<b>19,983</b>	<b>20,028</b>	<b>25,265</b>	<b>74,550</b>	<b>38,550</b>	<b>40,415</b>	
Expenses for investment properties	-3,856	-3,653	-2,999	-3,351	-4,475	-3,300	-3,200	
Cost of material	-4,995	-7,336	-6,236	-7,013	-8,380	-8,100	-8,350	
<b>Net operating income (NOI)</b>	<b>4,855</b>	<b>8,770</b>	<b>10,530</b>	<b>11,295</b>	<b>15,045</b>	<b>26,800</b>	<b>28,500</b>	
NOI-margin	35.4%	44.4%	53.3%	52.1%	53.9%	70.2%	71.2%	
Personnel expenses	-1,377	-1,488	-1,773	-2,323	-2,710	-2,500	-2,650	
Other operating expenses	-5,284	-2,334	-1,866	-2,754	-3,430	-2,410	-2,450	
<b>Operating profit (EBITDA)</b>	<b>2,405</b>	<b>5,172</b>	<b>7,154</b>	<b>9,824</b>	<b>55,555</b>	<b>22,240</b>	<b>23,765</b>	34.2%
EBITDA margin	17.5%	26.2%	36.2%	45.4%	199.1%	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	9,235	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>64,602</b>	<b>32,321</b>	<b>33,356</b>	22.0%
EBIT margin	30.0%	45.2%	82.8%	72.7%	86.7%	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	650	550	600	
Interest and similar expenditure	-4,897	-5,865	-5,861	-6,445	-7,250	-7,700	-7,700	
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>57,997</b>	<b>25,171</b>	<b>26,306</b>	30.1%
EBT margin	7.1%	16.4%	54.4%	55.1%	207.9%	65.9%	65.7%	
tax expenses and other expenses	-197	87	-2,158	-2,114	-11,483	-1,915	-2,030	
Tax rate	20.3%	15.8%	7.5%	17.7%	19.8%	7.6%	7.7%	
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>46,489</b>	<b>23,221</b>	<b>24,231</b>	35.1%
Return on sales	5.6%	16.8%	43.4%	45.3%	166.6%	60.8%	60.5%	
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>2.93</b>	<b>1.46</b>	<b>1.53</b>	
Dividends per Share (DPS) in Euro	0.00	0.00	0.00	0.00	0.00	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>9.72</b>	<b>10.98</b>	<b>12.26</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>144,983</b>	<b>161,204</b>	<b>185,434</b>	26.6%
RoE after Tax	1.6%	5.5%	12.0%	11.6%	39.3%	15.2%	14.0%	
<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%	28.8%	36.9%	4.8%	
EBITDA	-29.8%	115.0%	38.3%	37.3%	465.5%	-60.0%	6.9%	
EBIT	58.3%	68.1%	83.6%	10.7%	251.9%	-50.0%	3.2%	
EBT	-63.3%	234.0%	232.0%	11.2%	385.7%	-56.6%	4.5%	
Net profit after minorities	-75.1%	330.5%	158.4%	14.4%	373.4%	-50.1%	4.3%	
<b>Margins in %</b>								
Gross								
EBITDA	13.4%	25.9%	35.7%	38.9%	74.5%	57.7%	58.8%	
EBIT	30.0%	45.2%	82.8%	72.7%	86.7%	83.8%	82.5%	
EBT	7.1%	16.4%	54.4%	55.1%	207.9%	65.9%	65.7%	
<b>Expense ratios in %</b>								
Personnel costs quote	7.7%	7.4%	8.9%	9.2%	3.6%	6.5%	6.6%	
Cost of material to sales	27.9%	36.7%	31.1%	27.8%	11.2%	21.0%	20.7%	
Depreciation to sales	0.3%	0.5%	0.9%	0.9%	0.3%	0.6%	0.6%	
Tax rate	20.3%	15.8%	7.5%	17.7%	19.8%	7.6%	7.7%	
<b>Profitability in %</b>								
Net profit to sales ratio	5.6%	16.8%	43.4%	45.3%	166.6%	60.8%	60.5%	
Return on equity (ROE) after tax	1.6%	5.5%	12.0%	11.6%	39.3%	15.2%	14.0%	
<b>Valuation</b>								
PE-ratio	62.02	16.59	7.34	7.18	2.18	4.37	4.19	
Price/BVpS	6.53	6.59	7.23	8.33	9.72	10.98	12.26	
Dividend yield in %	0.0%	0.0%	0.0%	0.0%	0.0%	3.1%	3.9%	
EV/ Sales	5.66	5.08	5.07	4.02	1.36	2.63	2.51	
EV/ EBITDA	42.19	19.62	14.19	10.33	1.83	4.56	4.27	
<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	2.93	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	12.26	

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

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<u>Rating Chronicle</u>	<u>Date</u>	<u>Rating</u>	<u>Former Price</u>	<u>Former Target</u>
KWG	10 January 2013	Buy	6.39 €	8.50 €
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 €

**Please note:**

The KWG share price mentioned in this report is from closing of 20 March 2013.  
KWG mandated SRC Research for mentoring the KWG share.

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