

Price (Euro)	6.20			
52 weeks range	7.31 / 4.79			
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)	98.5			
Number of shares (million)	15.9			
Free Float	24%			
Free Float MCap (million)	23.6			
CAGR pre tax profits 11-14e	5.8%			
Multiples	2012	2013e	2014e	2015e
MarketCap/ Sales	2.3	2.3	2.3	2.2
PE-Ratio	2.2	12.0	9.0	7.9
Dividend Yield	0.0%	3.2%	4.0%	4.8%
Price-to-Book ratio	60.1%	58.3%	56.0%	0.0%
Key Data per Share (Euro)	2012	2013e	2014e	2015e
Earnings per Share (EPS)	2.78	0.51	0.69	0.78
Dividends per Share (DPS)	0.00	0.20	0.25	0.30
NAV per share	10.32	10.63	11.07	11.56
Financial Data (Euro '000)	2012	2013e	2014e	2015e
Revenues (rental income)	27,917	41,850	42,850	43,420
Net Revaluation Gains	41,357	5,990	4,860	4,785
Total operating income	42,076	42,200	43,215	43,800
Operating profit (EBITDA)	22,819	15,885	20,505	22,625
Operating Profit (EBIT)	64,177	21,875	25,365	27,411
Pre-tax profit (EBT)	56,882	10,665	14,155	16,146
Net profit (after minorities)	44,197	8,177	10,925	12,458
Adjusted Shareholders' Equity	142,692	143,869	154,795	167,252
RoE after tax	37.7%	5.7%	7.3%	7.7%
Financial Calendar				
1H report	14 August 2013			
1Q key figures	6 November 2013			
Main Shareholders				
conwert SE	76%			
Analysts	Stefan Scharff, CREA			
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KWG's excellent 1H revenues in line with forecasts - integration of acquired portfolios ahead - TP Euro 8.50 confirmed!

Yesterday, on Wednesday 7 August, KWG released some key performance figures regarding its upcoming 1H report.

Both gross rental income and net cold rent soared tremendously, compared to 1H 2012. Gross income increased from Euro 12.7m to 22.5m, while Net Cold Rents amounted to Euro 15.6m after 9.0m in 1H 2012. Funds from Operations (FFO) came in at Euro 3.4m, after Euro 1.2m in the respective period of last year, marking an increase of almost 200% within 12 months. Those results are fully in line with our current forecast of Euro 41.9m in Gross Revenues and a net profit after minorities of about Euro 8.2m for fiscal 2013. In the course of the 1H key figure release, the company also confirmed the guidance of about Euro 30m in Net Cold Rents and Euro 5m in FFO for the full year.

This significant increase in operating performance figures is mainly due to the successful expansion of the portfolio via the two acquisitions of BWAG and the Tower-portfolio last year. We expect KWG to fully integrate the portfolios to the core-segment of the group within the next 18 months. In the course of this integration process we expect the company to selectively sell units or small portfolios if they do not match KWG's long-term strategy. With the vast majority of units that KWG will integrate into its core-portfolio, however, we expect further synergies with regards to asset management costs as well as sustainable growth in asset values via comprehensive refurbishments. Particularly energy efficiency refurbishment measures and a reduction of vacancies via active asset management should add value in the mid- to long-term.

In the light of the operating success, the KWG share is still rather cheap at a discount to NNNAV per share (Euro 11.56) of more than 40%.

KWG continues its successful growth path in 2013 with the integration of the two acquired portfolios. Net rental income should increase by at least 50% as of year-end 2013 compared to 2012, while FFO should more than double. In 2013, KWG needs to show that the group is able to successfully integrate the large volume of new units at a fast pace, while maintaining cost discipline. 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 39% as of 1H 2013.
- 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

- We see the acquisition of a 76% majority stake by convert SE as a strong backstop to the share price development in the short- to mid-term, as we expect convert to increase its share at the current low share price level.
- 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 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 full year 2012 and 1H 2013 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)	2009	2010	2011	2012	2013e	2014e	2015e	CAGR '12 - '15e
Revenues	19.759	19.765	21.659	27.917	41.850	42.850	43.420	15,9%
↳ thereof rental income without costs of material	12.423	13.529	14.646	19.533	29.770	31.800	33.880	
other oper. Income	224	263	3.606	14.159	350	365	380	
Total operating income	19.983	20.028	25.265	42.076	42.200	43.215	43.800	
Expenses for investment properties	-3.653	-2.999	-3.351	-4.368	-6.150	-5.890	-5.850	
Cost of material	-7.336	-6.236	-7.013	-8.384	-12.080	-11.050	-9.540	
Net operating income (NOI)	8.770	10.530	11.295	15.165	23.620	25.910	28.030	
NOI-margin	44,4%	53,3%	52,1%	54,3%	56,4%	60,5%	64,6%	
Personnel expenses	-1.488	-1.773	-2.323	-3.033	-3.360	-2.650	-2.800	
Other operating expenses	-2.334	-1.866	-2.754	-3.472	-4.725	-3.120	-2.985	
Operating profit (EBITDA)	5.172	7.154	9.824	22.819	15.885	20.505	22.625	-0,3%
EBITDA margin	26,2%	36,2%	45,4%	81,7%	38,0%	47,9%	52,1%	
Amortization of intangible assets and depreciation of property, plant and equipment and investment properties	-103	-173	-218	-228	-220	-260	-300	
Revaluation gains	3.961	9.602	8.753	41.585	6.210	5.120	5.085	
Operating profit (EBIT)	9.030	16.583	18.359	64.177	21.875	25.365	27.411	-24,7%
EBIT margin	45,2%	82,8%	72,7%	152,5%	51,8%	58,7%	62,6%	
Income from securities in financial assets	0	0	8	159	50	50	50	
Other interest and similar income	72	26	25	17	550	600	650	
Interest and similar expenditure	-5.865	-5.861	-6.445	-7.464	-11.800	-11.850	-11.950	
Minority interests of other shareholders	-2	-6	-7	-6	-10	-10	-15	
Pre-tax Profit (EBT)	3.235	10.742	11.940	56.882	10.665	14.155	16.146	5,8%
EBT margin	16,4%	54,4%	55,1%	203,8%	25,5%	33,0%	37,2%	
tax expenses and other expenses	87	-2.158	-2.114	-10.385	-2.453	-3.185	-3.633	
Tax rate	15,8%	7,5%	17,7%	19,8%	23,0%	22,5%	22,5%	
Minorities	0	-1	-7	-2.300	-35	-45	-55	
Net Profit after minorities	3.322	8.583	9.819	44.197	8.177	10.925	12.458	3,6%
Return on sales	16,8%	43,4%	45,3%	158,3%	19,5%	25,5%	28,7%	
Number of shares (at year-end, '000)	8.627	10.805	10.805	15.881	15.881	15.881	15.881	
Earnings per share (Euro)	0,39	0,87*	0,89	2,78	0,51	0,69	0,78	
Dividends per Share (DPS) in Euro	0,00	0,00	0,00	0,00	0,20	0,25	0,30	
NAV per share in Euro	6,59	7,23	8,33	10,32	10,63	11,07	11,56	
Adjusted Shareholders' Equity without minorities	64.735	78.099	91.494	142.692	143.869	154.795	167.252	19,2%
RoE after Tax	5,5%	12,0%	11,6%	37,7%	5,7%	7,3%	7,7%	
Key ratios & figures	2009	2010	2011	2012e	2013e	2014e	2015e	
Growth rates in %								
Revenues	44,2%	0,0%	9,6%	28,9%	49,9%	2,4%	1,3%	
EBITDA	115,0%	38,3%	37,3%	132,3%	-30,4%	29,1%	10,3%	
EBIT	68,1%	83,6%	10,7%	249,6%	-65,9%	16,0%	8,1%	
EBT	234,0%	232,0%	11,2%	376,4%	-81,3%	32,7%	14,1%	
Net profit after minorities	330,5%	158,4%	14,4%	350,1%	-81,5%	33,6%	14,0%	
Margins in %								
Gross	16,6%	42,9%	38,9%	105,0%	19,4%	25,3%	28,4%	
EBITDA	25,9%	35,7%	38,9%	54,2%	37,6%	47,4%	51,7%	
EBIT	45,2%	82,8%	72,7%	152,5%	51,8%	58,7%	62,6%	
EBT	16,4%	54,4%	55,1%	203,8%	25,5%	33,0%	37,2%	
Expense ratios in %								
Personnel costs quote	7,4%	8,9%	9,2%	7,2%	8,0%	6,1%	6,4%	
Cost of material to sales	36,7%	31,1%	27,8%	19,9%	28,6%	25,6%	21,8%	
Depreciation to sales	0,5%	0,9%	0,9%	0,5%	0,5%	0,6%	0,7%	
Tax rate	15,8%	7,5%	17,7%	19,8%	23,0%	22,5%	22,5%	
Profitability in %								
Net profit to sales ratio	16,8%	43,4%	45,3%	158,3%	19,5%	25,5%	28,7%	
Return on equity (ROE) after tax	5,5%	12,0%	11,6%	37,7%	5,7%	7,3%	7,7%	
Valuation								
PE-ratio	16,10	7,13	6,97	2,23	12,04	9,01	7,90	
Price/BVpS	6,59	7,23	8,33	10,32	10,63	11,07	11,56	
Dividend yield in %	0,0%	0,0%	0,0%	0,0%	3,2%	4,0%	4,8%	
EV/ Sales	4,93	4,92	3,90	2,34	2,33	2,28	2,25	
EV/ EBITDA	19,04	13,76	10,02	4,31	6,20	4,80	4,35	
Data per share								
Number of shares in k	8.627	10.805	10.805	15.881	15.881	15.881	15.881	
EpS	0,39	0,87*	0,89	2,78	0,51	0,69	0,78	
DpS	0,00	0,00	0,00	0,00	0,20	0,25	0,30	
BVpS	6,59	7,23	8,33	10,32	10,63	11,07	11,56	

* EPS with average number of shares of 9.857 million shares

Sources: Company data, SRC estimates

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Rating Chronicle	Date	Rating	Former Price	Former Target
KWG	21 March 2013	Buy	6,20 €	8,50 €
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 7 August 2013.
KWG mandated SRC Research for mentoring the KWG share.

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