

Recommendation:
BUY (BUY)

Risk:
Medium (Medium) Price Target:
EUR 8.30 (8.30)

28 April 2014

FFO exceeding guidance

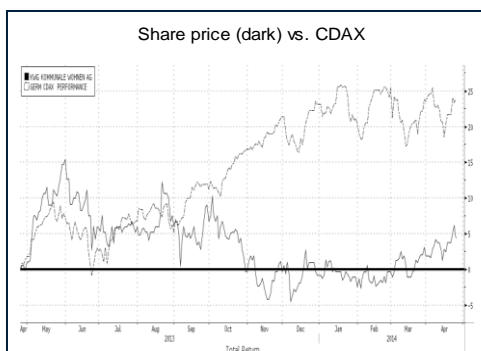
Property valuation losses hitting earnings

- KWG recently reported its FY13 figures which were hurt by non-cash property valuation losses in 2H. Top line and FFO exceeded expectations and guidance.
- Sales of EUR 45.7m (PY EUR 27.9m, +63.6%) was above our forecast of EUR 43.1m. The revaluation result from investment properties of EUR -1.75m (PY EUR 35.6m, -104.9%) was below our expectations of EUR 8.4m and therefore net income of EUR 1.2m (PY EUR 43.9m) missed our estimate of EUR 6.5m. However, FFO of EUR 5.4m (PY EUR 2.0m, +170.0%) exceeded the company guidance of EUR 5.0m.
- The significant increase of the figures in a yoy comparison is mostly due to the BWAG and "Tower portfolio" acquisition in FY12, which almost doubled KWG's portfolio from approx. 5,400 units to more than 9,000 units.
- Non-cash property valuation losses throughout the overall portfolio were booked as the respective markets did not perform as strong as previously assumed by the appraisers; therefore a revaluation result of EUR -1.75m.
- Total vacancy rate was reduced to 11.7% from 13.3% in FY12. Also the number of properties was reduced to 9,300 from 9,600 in the course of optimising the portfolio.
- The current focus stays on refurbishing the investment portfolio (36% of total portfolio) step by step in order to reduce its high vacancy rate and thereby to increase the portfolio value. At the same time KWG aims to optimise its portfolio by gradually selling around 10% of its units (disinvestment portfolio). We assume that, in the course of the refurbishment and optimisation, rental revenues will grow rather slow in the next two years. However, in the mid-term KWG should be able to create significant value in the portfolio through its asset management capabilities.
- The management is confident to slightly increase the FFO in FY14E. We increased our EPS estimates and confirm our BUY recommendation with an unchanged price target of EUR 8.30.

Key data

| FY 12/31, EUR m | 2011 | 2012 | 2013 | 2014E | 2015E | 2016E |
|-----------------|-------|-------|-------|-------|-------|-------|
| Total revenues | 21.7 | 27.9 | 46.0 | 48.7 | 49.9 | 50.5 |
| EBIT | 18.4 | 63.3 | 14.4 | 20.8 | 20.8 | 21.1 |
| Net result | 9.8 | 43.9 | 1.2 | 7.6 | 8.1 | 8.2 |
| EPS | 0.91 | 3.02 | 0.07 | 0.47 | 0.50 | 0.51 |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| FFO I per share | 0.10 | 0.14 | 0.33 | 0.34 | 0.35 | 0.35 |
| Dividend yield | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| FFO I yield | 2.1% | 2.0% | 5.3% | 5.2% | 5.2% | 5.3% |
| ROE | 11.8% | 34.0% | 0.7% | 4.3% | 4.4% | 4.3% |
| Net debt LTV | 58.3% | 34.3% | 53.8% | 56.2% | 54.7% | 53.2% |
| P/NAV | 0.60 | 0.62 | 0.61 | 0.62 | 0.59 | 0.57 |
| P/EPRA NAV | 0.58 | 0.58 | 0.56 | 0.57 | 0.54 | 0.52 |
| P/E | 5.4 | 2.1 | 86.8 | 14.4 | 13.6 | 13.5 |

Source: KWG Kommunale Wohnen AG, CBS Research AG



Source: CBS Research AG, Bloomberg, KWG

| Change | 2014E | | 2015E | | 2016E | |
|-----------|-------|------|-------|------|-------|-----|
| | new | old | new | old | new | old |
| Tot. Rev. | 48.7 | 43.6 | 49.9 | 44.1 | 50.5 | - |
| EBIT | - | 20.8 | 20.8 | 20.9 | 21.1 | - |
| EPS | 0.47 | 0.35 | 0.50 | 0.36 | 0.51 | - |

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): | 6.81 |
| Shares outstanding (m): | 15.9 |
| Market capitalisation (EUR m): | 108.2 |
| Enterprise value (EUR m): | 336.6 |
| Ø daily trading volume (3 m., no. of shares): | 8,285 |

Performance data:

| | |
|-----------------------------------|--------|
| High 52 weeks (EUR): | 7.41 |
| Low 52 weeks (EUR): | 6.02 |
| Absolute performance (12 months): | 4.4% |
| Relative performance vs. CDAX: | |
| 1 month | -0.6% |
| 3 months | 3.5% |
| 6 months | -5.6% |
| 12 months | -15.7% |

Shareholders:

| | |
|------------|-------|
| conwert | 76.0% |
| Free float | 24.0% |

Financial calendar:

| | |
|-----------------|-------------|
| 1Q figures 2014 | 15 May 2014 |
|-----------------|-------------|

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KWG Kommunale Wohnen AG**Profit and loss y/y comparison**

| | IFRS | EURm | 2012 | 2013 | change | % change |
|--|------|------|--------------|--------------|---------------|---------------|
| Sales | | | 27.92 | 45.67 | 17.76 | 63.6% |
| <i>thereof Net cold rent</i> | | | 19.79 | 31.09 | 11.30 | 57.1% |
| Result from property disposals | | | 0.00 | 0.19 | 0.19 | n.m. |
| Revaluation result from investment properties | | | 35.57 | -1.75 | -37.32 | -104.9% |
| Other operating income | | | 19.72 | 2.41 | -17.32 | -87.8% |
| Total output (subtotal) | | | 83.21 | 46.52 | -36.69 | -44.1% |
| COGS | | | -8.38 | -14.95 | -6.57 | 78.3% |
| as % of total output | | | -10.1% | -32.1% | | |
| Gross income | | | 74.83 | 31.57 | -43.26 | -57.8% |
| Other operating expenses | | | -3.47 | -5.05 | -1.58 | -45.4% |
| EBIT | | | 63.30 | 14.41 | -48.89 | -77.2% |
| as % of total output | | | 76.1% | 31.0% | | |
| Financial result | | | -7.14 | -9.93 | -2.79 | -39.1% |
| EBT | | | 56.16 | 4.48 | -51.68 | -92.0% |
| as % of total output | | | 67.5% | 9.6% | | |
| Net income attributable to shareholders | | | 43.93 | 1.19 | -42.74 | -97.3% |
| as % of total output | | | 52.8% | 2.6% | | |
| Shares outstanding (in millions) | | | 14.5 | 16.2 | 1.67 | 11.5% |
| Earnings per share (EUR) | | | 3.02 | 0.07 | -2.95 | -97.6% |
| FFO I | | | 2.00 | 5.40 | 3.40 | 170.0% |
| FFO I per share (EUR) | | | 0.14 | 0.33 | 0.20 | 142.1% |

Source: CBS Research AG; KWG Kommunale Wohnen AG

KWG Kommunale Wohnen AG

Profit and loss account

| | IFRS | EURm | 2011 | 2012 | 2013 | 2014E | 2015E | 2016E |
|--|------|------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total revenues | | | 21.7 | 27.9 | 46.0 | 48.7 | 49.9 | 50.5 |
| YoY growth | | | 9.6% | 41.2% | 112.4% | 74.6% | 8.4% | 3.7% |
| Sales | | | 21.7 | 27.9 | 45.7 | 46.2 | 46.9 | 47.5 |
| YoY growth | | | 9.6% | 41.2% | 110.9% | 65.6% | 2.6% | 2.8% |
| Result from property disposals | | | 0.0 | 0.0 | 0.2 | 0.2 | 0.3 | 0.3 |
| Revaluation result from investment properties | | | 8.8 | 35.6 | -1.8 | 3.0 | 3.4 | 3.5 |
| Other operating income | | | 3.6 | 19.7 | 2.4 | 1.0 | 1.0 | 1.0 |
| Total output (subtotal) | | | 34.0 | 83.2 | 46.5 | 50.4 | 51.6 | 52.3 |
| COGS | | | -7.0 | -8.4 | -15.0 | -14.8 | -15.0 | -15.2 |
| Gross income | | | 27.0 | 74.8 | 31.6 | 35.6 | 36.6 | 37.1 |
| in % of total output | | | 79.4% | 89.9% | 67.9% | 70.7% | 70.9% | 70.9% |
| Personnel expenses | | | -2.3 | -3.5 | -3.3 | -3.5 | -3.6 | -3.6 |
| Expenditure on investment properties | | | -3.4 | -4.4 | -8.6 | -6.2 | -8.4 | -7.6 |
| Other operating expenses | | | -2.8 | -3.5 | -5.0 | -4.9 | -3.5 | -4.5 |
| EBITDA | | | 18.6 | 63.5 | 14.6 | 21.0 | 21.1 | 21.3 |
| in % of total output | | | 54.6% | 76.4% | 31.4% | 41.7% | 40.8% | 40.8% |
| Depreciation and amortisation | | | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 |
| EBIT | | | 18.4 | 63.3 | 14.4 | 20.8 | 20.8 | 21.1 |
| in % of total output | | | 54.0% | 76.1% | 31.0% | 41.3% | 40.4% | 40.4% |
| Financial result | | | -6.4 | -7.1 | -9.9 | -10.8 | -10.7 | -10.9 |
| EBT | | | 11.9 | 56.2 | 4.5 | 10.0 | 10.1 | 10.2 |
| in % of total output | | | 35.1% | 67.5% | 9.6% | 19.9% | 19.6% | 19.6% |
| Taxes | | | -2.1 | -10.3 | -3.2 | -2.4 | -2.0 | -2.0 |
| as % of EBT | | | -17.7% | -18.4% | -72.3% | -23.7% | -20.0% | -20.0% |
| Net income including minorities | | | 9.8 | 45.8 | 1.2 | 7.7 | 8.1 | 8.2 |
| Minority interests | | | 0.0 | -1.9 | -0.1 | 0.0 | 0.0 | 0.0 |
| Net income attributable to shareholders | | | 9.8 | 43.9 | 1.2 | 7.6 | 8.1 | 8.2 |
| in % of total output | | | 28.9% | 52.8% | 2.6% | 15.2% | 15.7% | 15.7% |
| Shares outstanding (in millions) | | | 10.8 | 14.5 | 16.2 | 16.2 | 16.2 | 16.2 |
| Earnings per share (EUR) | | | 0.91 | 3.02 | 0.07 | 0.47 | 0.50 | 0.51 |
| FFO I | | | 1.1 | 2.0 | 5.4 | 5.6 | 5.6 | 5.7 |
| FFO I per share (EUR) | | | 0.10 | 0.14 | 0.33 | 0.34 | 0.35 | 0.35 |
| Dividend per share (EUR) | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

Source: CBS Research AG, KWG Kommunale Wohnen AG

KWG Kommunale Wohnen AG

Balance Sheet

| | IFRS | EURm | 2011 | 2012 | 2013 | 2014E | 2015E | 2016E |
|--|------|------|--------------|--------------|--------------|--------------|--------------|--------------|
| Assets | | | | | | | | |
| Noncurrent assets | | | 230.8 | 424.5 | 420.7 | 426.5 | 433.3 | 440.0 |
| as % of total assets | | | 96.6% | 90.4% | 96.2% | 97.4% | 96.2% | 95.0% |
| Intangible assets | | | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 | 0.1 |
| Fixed assets | | | 0.3 | 0.5 | 0.4 | 0.0 | 0.0 | 0.0 |
| Investment properties | | | 226.4 | 423.9 | 420.3 | 426.5 | 433.2 | 439.9 |
| 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 | | | 3.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Current assets | | | 8.1 | 45.3 | 16.5 | 11.3 | 17.3 | 23.4 |
| as % of total assets | | | 3.4% | 9.6% | 3.8% | 2.6% | 3.8% | 5.0% |
| Inventories | | | 0.1 | 0.1 | 0.3 | 0.1 | 0.1 | 0.1 |
| Accounts receivables | | | 1.2 | 1.4 | 3.5 | 1.6 | 1.6 | 1.6 |
| Properties held for sale | | | 0.0 | 4.2 | 4.2 | 2.9 | 2.2 | 1.5 |
| Other receivables and other assets | | | 3.1 | 9.3 | 1.5 | 3.4 | 3.4 | 3.4 |
| Securities | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash | | | 3.6 | 30.3 | 7.0 | 3.3 | 10.0 | 16.8 |
| Total Assets | | | 238.8 | 469.7 | 437.2 | 437.8 | 450.5 | 463.4 |
| Shareholders' equity and liabilities | | | | | | | | |
| Total equity | | | 87.8 | 171.0 | 172.6 | 180.3 | 188.4 | 196.5 |
| as % of total equity and liabilities | | | 36.8% | 36.4% | 39.5% | 41.2% | 41.8% | 42.4% |
| Capital stock | | | 10.8 | 15.9 | 15.9 | 15.9 | 15.9 | 15.9 |
| Reserves | | | 40.3 | 68.0 | 69.0 | 69.0 | 69.0 | 69.0 |
| Retained earnings | | | 36.7 | 80.6 | 81.8 | 89.4 | 97.5 | 105.7 |
| Minorities | | | 0.0 | 6.5 | 5.9 | 5.9 | 5.9 | 5.9 |
| Special items | | | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| Contributions to implement the capital increase resolved | | | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Premiums to implement the capital increase resolved | | | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Noncurrent liabilities | | | 112.8 | 177.0 | 240.4 | 205.9 | 209.9 | 213.9 |
| as % of total equity and liabilities | | | 47.2% | 37.7% | 55.0% | 47.0% | 46.6% | 46.2% |
| Pension provision and other liabilities | | | 1.0 | 2.7 | 2.5 | 2.5 | 2.5 | 2.5 |
| Financial liabilities | | | 104.7 | 160.9 | 223.1 | 187.7 | 190.6 | 193.6 |
| Deferred income | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deferred tax liabilities | | | 7.0 | 13.3 | 14.8 | 15.7 | 16.7 | 17.7 |
| Other liabilities | | | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Current liabilities | | | 36.0 | 119.5 | 21.9 | 49.4 | 50.0 | 50.7 |
| as % of total equity and liabilities | | | 15.1% | 25.4% | 5.0% | 11.3% | 11.1% | 10.9% |
| Financial liabilities | | | 31.0 | 16.2 | 12.3 | 42.8 | 43.5 | 44.1 |
| Deferred income | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade accounts payables | | | 2.1 | 4.3 | 3.4 | 2.3 | 2.3 | 2.3 |
| Short-term tax liabilities | | | 0.1 | 4.6 | 0.3 | 0.3 | 0.3 | 0.3 |
| Other liabilities | | | 2.8 | 94.5 | 5.9 | 4.0 | 4.0 | 4.0 |
| Total equity and liabilities | | | 238.8 | 469.7 | 437.2 | 437.8 | 450.5 | 463.4 |

Source: CBS Research AG, KWG Kommunale Wohnen AG

KWG Kommunale Wohnen AG

Cash flow statement

| | IFRS | EURm | 2011 | 2012 | 2013 | 2014E | 2015E | 2016E |
|---|------|------|--------------|--------------|--------------|-------------|-------------|-------------|
| Group result before deduction of income tax | | | 11.3 | 55.3 | 2.9 | 10.0 | 10.1 | 10.2 |
| Depreciation and amortisation | | | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Other non-cash items | | | -1.9 | -18.8 | -0.3 | 0.0 | 0.0 | 0.0 |
| Gains/losses from disposal of long and short term assets | | | -1.2 | -0.1 | -0.2 | 0.0 | 0.0 | 0.0 |
| Result from interest income and interest expense | | | 6.4 | 7.3 | 9.9 | 10.8 | 10.7 | 10.9 |
| Revaluation result from investment properties | | | -8.8 | -35.6 | 1.8 | -3.0 | -3.4 | -3.5 |
| Change in other assets and liabilities | | | -6.2 | -6.6 | -10.5 | -13.8 | -11.0 | -11.2 |
| Cash flow from operating activities | | | 0.0 | 1.7 | 3.8 | 4.2 | 6.6 | 6.7 |
| Net cash flow from investment properties | | | 1.1 | -18.3 | -87.3 | -3.3 | -3.3 | -3.3 |
| Net cash flow from long term assets | | | -22.7 | -5.9 | -0.2 | 0.2 | -0.2 | -0.2 |
| Cash flow from investing activities | | | -21.6 | -24.1 | -87.4 | -3.1 | -3.5 | -3.5 |
| Cash inflow from capital increases | | | 0.0 | 17.6 | -0.3 | 0.0 | 0.0 | 0.0 |
| Net borrowings/retirements of financial debt | | | 16.5 | 31.6 | 60.6 | -5.0 | 3.6 | 3.6 |
| Cash flow from financing activities | | | 16.5 | 49.2 | 60.3 | -5.0 | 3.6 | 3.6 |
| Total change in cash and cash equivalents | | | -5.2 | 26.7 | -23.3 | -3.8 | 6.7 | 6.9 |
| Cash and cash equivalents at the start of the period | | | 8.7 | 3.6 | 30.3 | 7.0 | 3.3 | 10.0 |
| Cash and cash equivalents at the end of the period | | | 3.6 | 30.3 | 7.0 | 3.3 | 10.0 | 16.8 |

Source: CBS Research AG, KWG Kommunale Wohnen AG

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Recommendation System:

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%.

SELL: The expected performance of the share price is below 0%.

This rating system is only a guideline. Therefore, deviations from this system may apply.

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

| Date | Recommendation | Price at change date | Price target |
|------------------|----------------|----------------------|--------------|
| 28 April 2014 | BUY | EUR 6.81 | EUR 8.30 |
| 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 |

Risk-scaling System:

Close Brothers Seydler Research AG uses a 3-level risk-scaling system. The ratings pertain to a time horizon of up to 12 months:

LOW: The volatility is expected to be lower than the volatility of the benchmark

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

The following valuation methods are used when valuing companies: Multiplier models (price/earnings, price/cash flow, price/book value, EV/Sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer group comparisons, historical valuation approaches, discounting models (DCF, DDM), break-up value approaches or asset valuation approaches. The valuation models are dependent upon macroeconomic measures such as interest, currencies, raw materials and assumptions concerning the economy. In addition, market moods influence the valuation of companies.

The figures taken from the income statement, the cash flow statement and the balance sheet upon which the evaluation of companies is based are estimates referring to given dates and therefore subject to risks.

These may change at any time without prior notice.

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