

Recommendation:  
**BUY** (BUY)

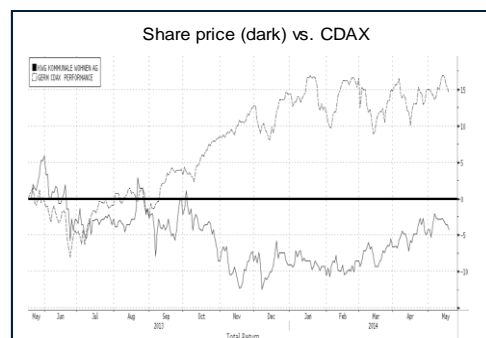
Risk:  
**Medium** (Medium)

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

19 May 2014

## Significant portfolio optimisation activity 1Q14 key figures in the range of our expectations

- End of last week, KWG reported its 1Q14 key figures which were in the range of our expectations.
- Sales slightly eased to EUR 10.9m (PY EUR 11.4m, -4.4%) mainly due to the moderate property disposals in the course of KWG's program of optimising the portfolio. Net cold rent decreased less to EUR 7.8m (PY EUR 8.0m, -2.5%). EBIT declined even less to EUR 5.1m (PY EUR 5.2m, -1.9%).
- KWG continued its portfolio optimisation in 1Q14 by selling above book value 545 units with a disposal volume of EUR 6.2m, thereby slightly reducing the portfolio to 9,090 units. Mainly private investors were on the buying side.
- KWG aims to optimise its portfolio by gradually selling around 10% of its units (disinvestment portfolio) in FY14E. With approx. 5.5% of the portfolio units sold in 1Q14, good part of the disposal program already took place in the first quarter.
- Total vacancy rate came down to 11.3% vs. 13.5% in 1Q13 and 11.7% as at the end of FY13 due to disposals and refurbishment.
- No FFO figure was released amongst the key figures for 1Q14. The management guidance given in the 1Q14 release of achieving a FFO of approx. EUR 5.0m in FY14E sounds a bit more cautious than the management guidance given in the FY13 report of achieving a slight increase in FY14E vs. last year which was EUR 5.4m. Nevertheless, we leave our FFO estimate for FY14E of EUR 5.57m unchanged and will assess the forecast again when KWG reports its 1H figures (including FFO) on 14 August.
- We confirm our BUY recommendation with an unchanged price target of EUR 8.30.



Source: CBS Research AG, Bloomberg, KWG

Change	2014E		2015E		2016E	
	new	old	new	old	new	old
Tot. Rev.	-	48.7	-	49.9	-	50.5
EBIT	-	20.8	-	20.8	-	21.1
EPS	-	0.47	-	0.50	-	0.51

www.kwg-ag.de

WKN: 522734

Reuters: BIWG.DE

Sector: Real Estate

ISIN: DE0005227342

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>6.75</b>
Shares outstanding (m):	15.9
Market capitalisation (EUR m):	107.2
Enterprise value (EUR m):	335.6
Ø daily trading volume (3 m., no. of shares):	7,495

### Performance data:

High 52 weeks (EUR):	7.41
Low 52 weeks (EUR):	6.02
Absolute performance (12 months):	-4.3%
Relative performance vs. CDAX:	
1 month	-0.7%
3 months	7.9%
6 months	5.1%
12 months	-16.4%

### Shareholders:

conwert	77.0%
Free float	23.0%

### Financial calendar:

AGM	13 June 2014
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### 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%	5.3%	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	0.61	0.59	0.56
P/EPRNA NAV	0.58	0.58	0.56	0.56	0.54	0.51
P/E	5.4	2.1	86.8	14.3	13.5	13.4

Source: KWG Kommunale Wohnen AG, CBS Research AG

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

	IFRS	EURm	1Q 2013	1Q 2014	change	% change
<b>Sales</b>			<b>11.40</b>	<b>10.90</b>	<b>-0.50</b>	<b>-4.4%</b>
<i>thereof Net cold rent</i>			<i>8.00</i>	<i>7.80</i>	<i>-0.20</i>	<i>-2.5%</i>
<b>EBIT</b>			<b>5.20</b>	<b>5.10</b>	<b>-0.10</b>	<b>-1.9%</b>

Source: CBS Research AG; KWG Kommunale Wohnen AG

## KWG Kommunale Wohnen AG

## Profit and loss account

	IFRS	EURm	2011	2012	2013	2014E	2015E	2016E
<b>Total revenues</b>			<b>21.7</b>	<b>27.9</b>	<b>46.0</b>	<b>48.7</b>	<b>49.9</b>	<b>50.5</b>
YoY growth			9.6%	41.2%	112.4%	74.6%	8.4%	3.7%
<b>Sales</b>			<b>21.7</b>	<b>27.9</b>	<b>45.7</b>	<b>46.2</b>	<b>46.9</b>	<b>47.5</b>
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
<b>Total output (subtotal)</b>			<b>34.0</b>	<b>83.2</b>	<b>46.5</b>	<b>50.4</b>	<b>51.6</b>	<b>52.3</b>
COGS			-7.0	-8.4	-15.0	-14.8	-15.0	-15.2
<b>Gross income</b>			<b>27.0</b>	<b>74.8</b>	<b>31.6</b>	<b>35.6</b>	<b>36.6</b>	<b>37.1</b>
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
<b>EBITDA</b>			<b>18.6</b>	<b>63.5</b>	<b>14.6</b>	<b>21.0</b>	<b>21.1</b>	<b>21.3</b>
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
<b>EBIT</b>			<b>18.4</b>	<b>63.3</b>	<b>14.4</b>	<b>20.8</b>	<b>20.8</b>	<b>21.1</b>
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
<b>EBT</b>			<b>11.9</b>	<b>56.2</b>	<b>4.5</b>	<b>10.0</b>	<b>10.1</b>	<b>10.2</b>
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%
<b>Net income including minorities</b>			<b>9.8</b>	<b>45.8</b>	<b>1.2</b>	<b>7.7</b>	<b>8.1</b>	<b>8.2</b>
Minority interests			0.0	-1.9	-0.1	0.0	0.0	0.0
<b>Net income attributable to shareholders</b>			<b>9.8</b>	<b>43.9</b>	<b>1.2</b>	<b>7.6</b>	<b>8.1</b>	<b>8.2</b>
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
<b>Earnings per share (EUR)</b>			<b>0.91</b>	<b>3.02</b>	<b>0.07</b>	<b>0.47</b>	<b>0.50</b>	<b>0.51</b>
<b>FFO I</b>			<b>1.1</b>	<b>2.0</b>	<b>5.4</b>	<b>5.6</b>	<b>5.6</b>	<b>5.7</b>
<b>FFO I per share (EUR)</b>			<b>0.10</b>	<b>0.14</b>	<b>0.33</b>	<b>0.34</b>	<b>0.35</b>	<b>0.35</b>
<b>Dividend per share (EUR)</b>			<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

Source: CBS Research AG, KWG Kommunale Wohnen AG

## KWG Kommunale Wohnen AG

## Balance Sheet

	IFRS	EURm	2011	2012	2013	2014E	2015E	2016E
<b>Assets</b>								
<b>Noncurrent assets</b>			<b>230.8</b>	<b>424.5</b>	<b>420.7</b>	<b>426.5</b>	<b>433.3</b>	<b>440.0</b>
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
<b>Current assets</b>			<b>8.1</b>	<b>45.3</b>	<b>16.5</b>	<b>11.3</b>	<b>17.3</b>	<b>23.4</b>
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
<b>Total Assets</b>			<b>238.8</b>	<b>469.7</b>	<b>437.2</b>	<b>437.8</b>	<b>450.5</b>	<b>463.4</b>
<b>Shareholders' equity and liabilities</b>								
<b>Total equity</b>			<b>87.8</b>	<b>171.0</b>	<b>172.6</b>	<b>180.3</b>	<b>188.4</b>	<b>196.5</b>
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
<b>Special items</b>			<b>2.3</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			0.3	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
<b>Noncurrent liabilities</b>			<b>112.8</b>	<b>177.0</b>	<b>240.4</b>	<b>205.9</b>	<b>209.9</b>	<b>213.9</b>
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
<b>Current liabilities</b>			<b>36.0</b>	<b>119.5</b>	<b>21.9</b>	<b>49.4</b>	<b>50.0</b>	<b>50.7</b>
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
<b>Total equity and liabilities</b>			<b>238.8</b>	<b>469.7</b>	<b>437.2</b>	<b>437.8</b>	<b>450.5</b>	<b>463.4</b>

Source: CBS Research AG, KWG Kommunale Wohnen AG

## KWG Kommunale Wohnen AG

### Cash flow statement

	IFRS	EURm	2011	2012	2013	2014E	2015E	2016E
<b>Group result before deduction of income tax</b>			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
<b>Cash flow from operating activities</b>			<b>0.0</b>	<b>1.7</b>	<b>3.8</b>	<b>4.2</b>	<b>6.6</b>	<b>6.7</b>
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
<b>Cash flow from investing activities</b>			<b>-21.6</b>	<b>-24.1</b>	<b>-87.4</b>	<b>-3.1</b>	<b>-3.5</b>	<b>-3.5</b>
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
<b>Cash flow from financing activities</b>			<b>16.5</b>	<b>49.2</b>	<b>60.3</b>	<b>-5.0</b>	<b>3.6</b>	<b>3.6</b>
<b>Total change in cash and cash equivalents</b>			<b>-5.2</b>	<b>26.7</b>	<b>-23.3</b>	<b>-3.8</b>	<b>6.7</b>	<b>6.9</b>
Cash and cash equivalents at the start of the period			8.7	3.6	30.3	7.0	3.3	10.0
<b>Cash and cash equivalents at the end of the period</b>			<b>3.6</b>	<b>30.3</b>	<b>7.0</b>	<b>3.3</b>	<b>10.0</b>	<b>16.8</b>

Source: CBS Research AG, KWG Kommunale Wohnen AG

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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
19 May 2014	BUY	EUR 6.75	EUR 8.30
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

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