Siena Market Line
3rd week of April 2015

Kennedy Wilson Holdings, Inc.

NYSE:KW

Analyst: Tom Kaczmarek
Sector: Financials

BUY

Price Target: $38.75

Key Statistics as of 4/17/2015

Market Price:	$25.40
Industry:	Property Management
Market Cap:	$2.44B
52-Week Range:	$20.89 - $28.33
Beta:	0.82

Thesis Points:

- Realized gains from expansion soon
- Extremely favorable scaling
- Reduced risk through spinoff
- Favorable debt refinancing

Company Description:

Founded in 1977, Kennedy Wilson is a global real estate investment company headquartered in Beverly Hills, CA. The company's vertical integration business model allows them to provide investment services in: properties, auctioning, brokerage and research. The company's real property investments are diversified in: commercial, multifamily, loan purchases, residential properties and hotels. The company currently invests primarily in the US and Europe, with expansion occurring in their growing Japan segment. KW has experienced tremendous growth in the past two years, and well timed investments will prove to be profitable over the next twelve months.

Source	Target Price	Recommendation
Siena	$38.75	BUY
Bloomberg	$34.58	BUY
Capital IQ	$34.00	BUY
Yahoo Finance	$34.79	BUY

Date	Total Liabilities
FY2014	3.288B
FY2013	0.980B
FY2012	0.765B
FY2011	379.208M
FY2010	174.942M
FY2009	156.921M
FY2008	84.353M
FY2007	10.476M

Thesis

KW oversees $18 B in assets under management, diversified into: commercial, residential, and hotel properties. The company specializes in distressed assets, searching for properties to renovate in order to create value. Over the course of the past year, KW took full advantage of low interest rates in order to acquire as many properties as possible. Following the restructuring and spinoff of the company's European subsidiary (KWE), Kennedy Wilson is very different than it has ever been in the past. Although the company's high increase in liabilities is concerning, the management team's approach towards restructuring this debt will become increasingly more effective as the company's new scale of operations bring the company to profitability.

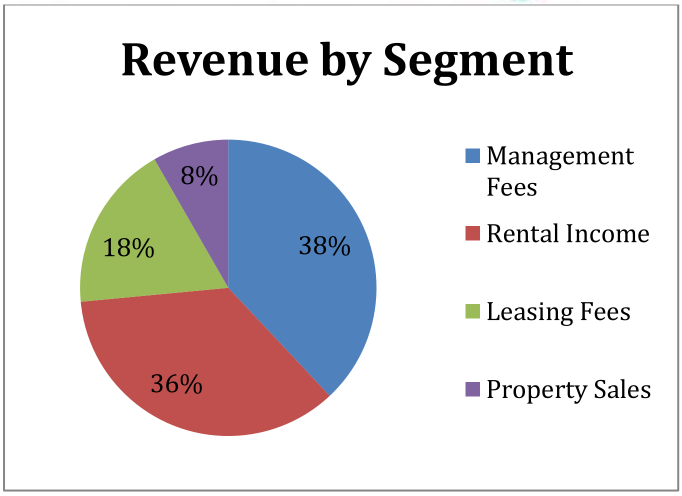
New Acquisitions

2014 was a landmark year for Kennedy Wilson, with revenue growing at a staggering 224%. The old adage "what you borrow today you'll be worth tomorrow" has become the mantra of the management team. In order to take full advantage of the company's expertise and resources, the firm significantly increased their borrowing and completed $3.2 B of acquisitions in 2014. These funds were used to expand KW's holdings in real property, which now accounts for 86% of the company's asset mix. Approximately half of KW's holdings are US properties, with Ireland and the UK comprising almost all of the other properties. Expansion into the Japanese market has begun with multifamily properties, now composing 14% of the company's multifamily properties. In order to obtain these properties, the company acquired a significant amount of liability, with more than 60% of total liabilities added in the past year. This is representative of the firm's growth mindset, and the impact of these purchases will become evident over the course of 2015 as distressed assets are renovated and occupied.

Kennedy Wilson Europe

In February of 2014, Kennedy Wilson successfully spun off their European operations in order to raise additional funds for expansion. The $1.7 B IPO was the second largest real estate IPO in the history of the LSE, and all proceeds from the IPO were used in order to purchase real estate properties and related investments in Europe. Following the IPO, KW still retains approximately 15% of KWE, maintaining ownership of some of the company's European assets.

With the spin-off of KWE, Kennedy Wilson has created a diversified stake in the European market, but currently also has great expansion potential in Asian markets. KW's strong position in multi-family housing will prove to be a rewarding investment as the rental market expands in 2015. Zillow predicts that there will be a 3.5% increase in rental costs as opposed to a 2.5% growth in home prices over the next year. While this figure is not indicative of the high growth expectations set for KW, the continued growth of the renter's market over home buyers signals continued favorability for KW's rental properties. KW's impressive occupancy rate of 95% on their 20,721 multi-family units represents their knowledge of the rental market and their ability to retain customers at a higher rate than competitors. As this trend continues, KW's occupancy efficiency will translate into a more efficient operation process. The rental segment is especially important for KW as currently rental income is not only a consistent revenue stream but also significant, accounting for 36% of revenue.



Capital Structure

KW's recent expansion efforts have spurred a restructuring of the company's capital structure. Credit worthiness was especially significant given the amount of debt incurred, but also was mitigated through the large amount of property as collateral. The company has retained a stable BB- rating from Standard & Poor since the company's IPO, with a B2 rating from Moody's in March of 2014. The company's current capital structure yields a 55% debt based structure, with secured debt at 2.72x EBITDA. A majority of the company's debt is held within the $2.181 B non-recourse secured debt from property purchases. Given the security of this debt, the company's remaining debt is less alarming considering that $188 M of the remaining debt is also secured guarantees. KW has recently been successful at refinancing this debt, with only $170 M reaching maturity over the course of the next two years. The company's revolving credit has allowed KW to borrow their way to future stability, with cost of borrowing very significantly tied to profitability. As a result of recent debt refinancing, the company will benefit from a $10.1 million reduction in interest expense from now until 2024.

As a result of the recent restructuring, KW has been able to achieve a WACC of 4%. Although this WACC is the lowest in the company's public history, the management team is confident that additional leverage paired with organic growth will generate a WACC for the firm below 4% as debt is constantly rolled through the revolving credit policy. As the company increases in scale, it is possible that additional refinancing efforts will allow the cost of borrowing to decrease even more dramatically.

Insider Holdings

Insiders and institutional investors combine to hold over 92% of the KW shares outstanding. Insiders currently hold over 19% of KW shares, with CEO William McMorrow holding 13.7% personally. McMorrow's hold of the firm has increased by 600,000 shares over the past year as a result of award acquisition. Share awards in the amount of 1.925 million shares have been awarded in the past year amongst insiders for stock based performance. While insiders have gained considerable stake in the company, institutional investors have also increased their positions. Institutional hold has increased over 10% in the past year, currently at 73.2% of shares outstanding. Additionally, the number of institutions holding positions has increased by 28% over the past year, signaling increased confidence in KW's ability to execute upon their business model. Sentiment in the firm is increasingly positive, with short interest dropping to approximately 3% of float. The short interest ratio for KW decreased by 8 in the past month to only 2.88 days.

Following last quarter's impressive growth, KW's management made the decision to increase dividend payouts by 33%, which would be expected to continue if current revenue projections are met in the next two quarters. With large interest from the company's management team and from institutional investors, outlook is positive that this growth story will continue through 2015.

Competition

Given that barriers to entry in the property management and real estate markets are limited, KW must rely upon the firm's professional know-how and network of investment institutions to locate and acquire additional properties. KW differs from many of its publicly traded competitors in that holding long positions on distressed assets is the company's primary business segment. Additionally, KW has created a more diversified revenue mix by creating a services product line which compliments the firm's commercial and multifamily properties. Some direct competitors of KW include:

- Jones Lang Lasalle (JLL)
- Marcus Millichap Inc. (MMI)
- CBRE Group (CBG)
- Realogy Holdings (RLGY)

While 2014 was an unprecedented year of growth for the company, continued growth throughout 2015 will remain at levels much higher than competitors. As KW's new properties begin to generate revenue, the company expects growth at a rate of 52.5% over last year. The firm's efficiency is evident through their gross margin of 94.8% which positions the company on the high end of their competition. While profitability has been a challenge for the growing company in the past, the company's increasingly diminishing WACC allows the company to undertake more projects than other firms. While KW has a cost of capital of 4%, most competitors' average 9% cost of borrowing. KW also far surpasses competitors with regards to occupancy. KW is able to boast an impressive 90% occupancy rate on a majority of their properties, in part due to their business model which integrates real estate services and management into their properties. Despite the company's high level of debt, the firm has established a business model which will allow the company to be competitive in the marketplace as investment returns become material.

Summary

Kennedy Wilson Inc. is a very different company in 2015 than it was one year ago. With record-breaking expansion and acquisitions, along with a new capital structure and a spinoff of European assets, KW took full advantage of the opportunities in the real estate market in 2014. Cost of debt will continue to decline as the company restructures and ensured new debt, and simultaneously the impact of the purchases will become evident in the company's financials. KW will ultimately be profitable within the next two years given the company's all-in-one approach towards property investments. The long-term vision of the management will become evident over the next twelve months, with renovated properties becoming inhabited and new properties using KW management services. For those reasons a BUY is recommended.

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Kennedy-Wilson Holdings, Inc.	KW	Analyst Tom Kaczmarek	Current Price $25.40	Intrinsic Value $26.99	Target Value $38.65	Divident Yield 2%	Target Return 1-y Return: 54.05%	BULLISH

General Info

Sector	Financials
Industry	Real Estate Management and Development
Last Guidance	Feb-25-2015
Next earnings date	5/6/2015

Market Data

Enterprise value	$6,801.25
Market Capitalization	$2,629.25
Daily volume	0.31
Shares outstanding	103.51
Diluted shares outstanding	91.56
% shares held by institutions	86.97%
% shares held by insiders	19.40%
Short interest	2.20%
Days to cover short interest	5.41
52 week high	$28.33
52-week low	$20.89
5y Beta	0.89
6-month volatility	24.02%

Peers

Peers	Market Cap.
Jones Lang LaSalle Incorporated	$7,328.12
Marcus & Millichap, Inc.	$1,356.09
CBRE Group, Inc.	$12,792.25
Realogy Holdings Corp.	$6,607.92
Hopefluent Group Holdings Ltd.	$1,800.50
FelCor Lodging Trust Incorporatec	$1,589.04

Current Capital Structure

Total debt/market cap	114.99%
Cost of Borrowing	3.27%
Interest Coverage	0.7x
Altman Z	0.67
Debt Rating	D
Levered Beta	1.01
WACC (based on market value we	8.39%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
McMorrow, William	Chairman and Chief Executiv	$16,042,121	$8,083,478	$0
Enbody, Justin	Chief Financial Officer and Pr	$2,036,725	$1,670,883	$0
Mouton, Kent	General Counsel and Directo	$0	$1,648,414	$0
Windisch, Matthew	Executive Vice President	$4,377,019	$1,990,867	$0
Ricks, Mary	Chief Executive Officer of Ke	$13,267,406	$7,556,639	$0
Cha, Christina	Vice President of Corporate	$0	$0	$0

Historical Median Performance

	KW	Peers	Industry	All U.S. firms
Growth	46.8%	8.1%	9.1%	7.4%
ROE	6.0%	19.6%	6.4%	9.9%
Net Profit Margin	17.7%	2.8%	7.8%	6.9%
Revenue/Common Equity	0.34	7.06	0.81	1.45
Excess Cash/Rev.	N/A	8.3%	13.5%	12.9%
Total Cash /Rev.	204.9%	8.3%	12.3%	15.2%
Unlevered Beta	0.53	1.40	1.29	0.95
TEV/REV	13.6x	1.8x	1.8x	2.5x
TEV/EBITA	342.1x	25.2x	14.2x	13.1x
PE (normalized and diluted EF	66.6x	21.6x		23.5x
P/BV	1.9x	4.1x	3.2x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	28.4%	1.0%	NM
Last Quarter-1	67.3%	25.6%	NM
Last Quarter -2	49.4%	208.7%	NM
Last Quarter -3	41.4%	61.6%	NM
Last Quarter -4	-10.3%	119.0%	NM

Non-GAAP Adjustments in estimates computations

Operating Leases Capitalizatic	100%	Straightline	10 years
R&D Exp. Capitalization	0%	N/A	N/A
Expl./Drilling Exp. Capitalizatio	0%	N/A	N/A
SG&A Capitalization	0%	N/A	N/A

Proforma Assumptions

Money market rate as of today	0.59%
Annual increase (decrease) in intere:	0.3%
Yield Spread accelaration	1.2
Marginal Tax Rate	20.0%
Risk-Free rate	2.6%
Tobin's Q	0.80
Op. Cash/Rev.	7%
Growth in PPE	NPPE Growth follows Revenue Growth
Long term Growth	4.0%
Base Year Unlevered Beta	is equal to 0.53
Long term Unlevered Beta	1.29

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Common Equity	Net Margin	ROE	Ke
LTM	223.8%	70.9%	$913.21	28%	12.1%	8.4%
NTM	46.3%	72.3%	$1,005.38	34%	21.7%	6.4%
NTM+1	14.5%	73.7%	$1,136.50	36%	23.6%	7.0%
NTM+2	10.4%	75.1%	$1,291.05	36%	23.5%	7.7%
NTM+3	9.4%	76.5%	$1,463.60	37%	22.8%	8.4%
NTM+4	8.4%	77.9%	$1,657.93	37%	21.9%	9.1%
NTM+5	7.4%	79.4%	$1,870.60	37%	21.0%	9.7%
NTM+6	6.4%	80.8%	$2,098.03	37%	19.9%	10.4%
NTM+7	5.9%	82.2%	$2,340.65	37%	18.8%	11.1%
NTM+8	5.0%	83.6%	$2,592.91	37%	17.7%	11.8%
Continuing Period	4.5%	85.0%	$2,696.63	12%	10.0%	12.0%

Valuation

Period	Common Equity x (ROE-Ke)	Total Debt	ıer non-interest bearing clai	Shares Outstanding
LTM	$0.00	$3,023.30	$12.80	103.51
NTM	$105.68	$3,023.30	$18.72	103.51
NTM+1	$164.41	$3,023.30	$21.44	103.51
NTM+2	$184.79	$3,023.30	$23.67	103.51
NTM+3	$193.40	$3,023.30	$25.90	103.51
NTM+4	$196.72	$3,023.30	$28.08	103.51
NTM+5	$196.97	$3,023.30	$30.16	103.51
NTM+6	$187.60	$3,023.30	$32.10	103.51
NTM+7	$171.64	$3,023.30	$33.99	103.51
NTM+8	$145.74	$3,023.30	$35.69	103.51
Continuing Value	-$707.36			

Pricing Model

DCF (Weight = 0%)	Relative (Weight =	Distress (Weight :	Weighted Average Price P
$9.98	$27.95	$0.14	$27.95
$10.90	$39.40	$0.18	$39.40
$13.11	$44.53	$0.24	$44.53
$10.47	$50.60	$0.32	$50.60
$9.92	$57.37	$0.45	$57.37
$9.73	$65.00	$0.63	$65.00
$11.98	$72.59	$0.66	$72.59
$7.70	$77.54	$0.77	$77.54
$11.47	$82.27	$1.02	$82.27
$20.40	$85.97	$14.51	$85.97

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0	10%	N/A	N/A	Normal
Op. Costs Variation	0	10%	N/A	N/A	Normal
Country Risk Premium	6%	N/A	5%	7%	Triangular
Long term Growth	4%	N/A	3%	47%	Triangular

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$27.95	$39.40
$\sigma(\varepsilon)$	$0.32	$0.25
$\sigma(\varepsilon)$ adjusted pric	$26.99	$38.65
Current Price	$25.40	
Analysts' median est.		$34.79