

RCM Beteiligungs

Real estate

7 May 2020

Realising value through disposals

RCM continues to pursue its broadened investment mandate including both residential and commercial properties, focusing on the greater Dresden area. FY19 results were again marked by a high level of property disposals, translating into c €18.5m in revenues. Further realisations were closed in 2020, leading to reduced leverage (53% equity ratio at group level at end March 2020) and improved liquidity. Management proposed a dividend of €0.06 per share (c 3% yield), in line with the previous year.

FY19 earnings up on higher property sales

RCM's pre-tax profit was €4.35m (up 52% y-o-y), bolstered by higher revenue from property disposals (€18.48m vs €14.02m in FY18), largely assisted by the closure of deals agreed in FY18. Deals agreed in FY19 mostly related to smaller properties, allowing RCM to focus on larger projects and thus reducing its asset management workload. The company also benefited from the cost optimisation measures introduced in recent years, although FY19 operating expenses were also marked by some one-off charges. In Q120, somewhat lower disposal activity and risk provisions translated into a pre-tax profit of €2.15m (vs €3.45m in Q119). RCM deployed some of its proceeds into new properties (€7m in FY19 and a further €2.3m was spent on a production, warehouse and office complex in January 2020), while the remaining funds were invested in fixed income securities.

FY20 guidance realisation dependent on COVID-19

Back in early March, management guided to FY20 financial results similar to FY19. So far, COVID-19 has not translated into reduced rental revenues (based on April data), but the company is open to discussions with its tenants, which potentially may result in at least a temporary decline in rental income. The recent capital markets downturn affected RCM's securities portfolio (with the creation of a risk provision in Q120 of €751k). Following recent higher disposal activity, RCM's focus will now be on expanding its portfolio, seeking to exploit opportunities in the current distressed environment.

Valuation: Offering a dividend yield of c 3%

While a 2019 P/E of 9.4x (when adjusted for treasury shares/buyback) seems undemanding, RCM's prospective multiples will depend on the extent of the COVID-19 impact. Its 2019 P/BV ratio of c 2.0x does not account for hidden reserves (as RCM reports under HGB standards).

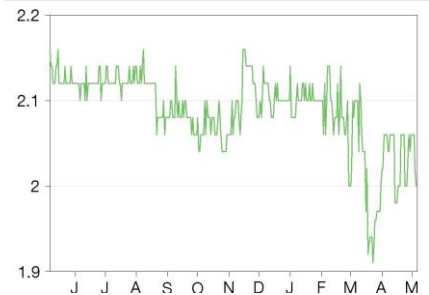
Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	11.4	1.8	0.11	0.04	18.4	2.0
12/17	19.4	2.1	0.11	0.06	18.4	3.0
12/18	17.6	2.9	0.18	0.06	11.2	3.0
12/19	21.1	4.4	0.19*	0.06	10.6*	3.0

Source: Company accounts, Edison Investment Research; Note: *Based on 14.0m shares (not adjusted for treasury shares and buyback post reporting date).

Price €2.02
Market cap €27m

Share price graph



Share details

Code	RCMN
Listing	Deutsche Börse Scale
Shares in issue at end-2019	13.1m
Last reported net debt at end-2019	€19.5m

Business description

RCM Beteiligungs is a property developer, acquiring rental income-producing assets in and around Dresden and investing in refurbishment with the aim of improving the tenant mix to enhance value. RCM also invests in financial assets. It is a large shareholder in KST Beteiligungs, a financial investor.

Bull

- Low unemployment levels in Dresden.
- Focus on a defined region leads to greater understanding of opportunities.
- Established business concept and strong partner network in the region.

Bear

- Small company, largely dependent on development of the Dresden region.
- Low interest rate environment may end.
- Dependence on positive macro environment in the region and attractive sourcing potential.

Analyst

Milosz Papst +44 (0)20 3077 5700
financials@edisongroup.com
[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

FY19 results assisted by profitable property disposals

RCM's pre-tax profit increased by 52% y-o-y to €4.35m, while its net income was up to €3.61m from €2.55m in FY18 (or €2.64m vs €1.72m when adjusted for minorities). Group revenue increased by 20% to €21.12m on the back of €18.48m from property disposals (€14.02m in FY18), predominantly (€17.87m) from deals already agreed in FY18. Having said that, the company's transactional activity this year has also benefited from the favourable demand/supply balance in the German property markets, with the disposal of 11 properties agreed in the period. These were mostly smaller assets (with average floorspace slightly above 500sqm) and the transactions will be reflected in FY20 results (they have already been closed). Consequently, RCM's shift towards larger properties (enhancing asset management efficiency) in the greater Dresden area has been largely completed. Management has highlighted that it was able to realise a profit margin ahead of expectations on the transactions concluded in FY19 and also on deals finalised in FY20.

Some of the disposal proceeds (€7m) have already been invested in new properties in FY19. A further €2.3m was invested in January 2020 in a production, warehouse and office complex with usable space of c 5,700sqm for c €2.3m. This property currently generates rental income of around €250k pa (partially restoring rental income lost due to last year's asset disposals) and, according to the company, has further development potential. Moreover, management highlighted that the property will have a positive impact on RCM's cost income ratio of its property portfolio.

As expected by management, RCM's higher transaction activity led to a decline in rental income to €1.66m from €2.37m in FY18. However, this was offset by net positive financial income of €0.25m (vs -€0.56m in FY18), as part of the proceeds from property disposals were invested in fixed income securities (including high-yield bonds).

Moreover, RCM's operating expenses reflect the cost optimisation and efficiency measures it has introduced in recent years, although this was distorted by some non-recurring items. Personnel expenses went up by 12% y-o-y to €1.9m, but this includes a one-off €267k effect at one of RCM's subsidiaries related to one development project (which was however coupled with additional income). While other operating expenses increased by 26.6% y-o-y to €2.4m, this was mostly due to a €0.52m risk provision related to the redesign of one of RCM's property projects. After adjusting for this and expenses associated with financial transactions (coupled with corresponding higher other operating income), other operating expenses declined by c 15% to €1.28m. Costs related to RCM's rental activities declined by c 30% y-o-y to €190k in FY19, in line with the fall in rental revenue.

As a consequence of the disposals completed in FY19, RCM's net debt went down to €19.5m from €24.2m at end 2018 and its equity ratio increased to c 50.4% from 45.9% at end 2018. At the same time, however, we note that 63% of RCM's debt at end 2019 was due within a year. Management recommended a dividend payout of €0.06 per share (in line with the prior year), while RCM continues to execute its buyback programme (c 76.3k shares repurchased in 2020 ytd).

Exhibit 1: RCM's FY19 results highlights

€000s unless otherwise stated	2019	2018	Change y-o-y
Total revenue, of which	21,120	17,595	20.0%
<i>Rental revenue</i>	1,660	2,370	-30.0%
<i>Property disposal</i>	18,477	14,023	31.8%
<i>Other revenue</i>	983	1,202	-18.2%
Change in inventories of property available for sale	(12,100)	(10,523)	15.0%
Other own work capitalized	53	83	-36.1%
Total performance	9,073	7,155	26.8%
Other operating income	1,102	1,092	0.9%
Costs of goods and services, of which:	(653)	(834)	-21.7%
Costs related to rental business	(190)	(270)	-29.5%
Cost of property sold	(144)	(91)	59.1%
Other costs of goods and services	(319)	(474)	-32.7%
Personnel expenses	(1,919)	(1,713)	12.0%
Depreciation and amortization	(1,122)	(363)	209.0%
Other operating expense	(2,419)	(1,911)	26.6%
Income from associates	52	60	-13.1%
Income from other securities and loans	975	657	48.4%
Other interest and similar income	56	68	-16.9%
Write-downs on financial assets and securities	(11)	(64)	-82.4%
Interest and similar expenses	(778)	(1,283)	-39.4%
Pre-tax profit	4,354	2,862	52.1%
Income taxes	(741)	(303)	144.3%
Other taxes	(3)	(4)	-24.7%
Net income	3,610	2,554	41.3%

Source: RCM accounts

Q120 results: No rental income drag from COVID-19 yet

The company has already provided some details of its Q120 results, posting a pre-tax profit of €2.15m (vs €3.45m in Q119), which was again mostly driven by property disposals. Q120 revenue stood at €9.37m vs €12.77m in Q119, including €8.43m from property sales (Q119: €12.09m) and €0.38m rental revenue (Q119: €0.45m). The debt reduction translated into net positive financial income of €45k (vs -€28k in Q119).

So far, RCM has not experienced any decline in visible rental revenue as a result of COVID-19, with April warm rents (ie including all costs recharged to tenants) at 97% of the budgeted value. Having said that, the company acknowledges that this may change in subsequent months and is ready to seek constructive solutions together with its tenants. Meanwhile, the recent market sell-off weighed on RCM's securities portfolio, translating into risk provisioning of €751k (vs €89k in Q119). At the same time, management emphasised that the current environment also creates new buying opportunities.

Following higher disposal activity in recent years, RCM's management plans to focus more on new project acquisitions (both residential and commercial) in the near term, in particular in the greater Dresden area. Its equity ratio at group level improved further to 53% at end March 2020 (and to c 66–74% for its key subsidiaries). Management highlighted that dividends from subsidiaries are expected in the second half of the year due to postponed AGMs.

Valuation

RCM's business model sits between that of an asset holder and a developer, making direct comparisons to listed companies somewhat difficult. Its FY19 P/E ratio (9.4x) is at a premium to Noratis (8.0x), which has a similar model. Similarly, its FY19 P/BV ratio is higher at 2.0x vs 1.3x for Noratis.

General disclaimer and copyright

Any Information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally.

Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia