

RCM Beteiligungs

Real estate

12 October 2020

Disposal standstill in Q220

In H120, RCM Beteiligungs group reported €10.2m in revenues against €19.2m in H119. The decline was attributable to a lower volume of property disposals, as rental income remained broadly stable at €0.8m. The large volume drop in transaction activity is mostly due to a weak Q220 amid the COVID-19 outbreak, as well as a strong prior-year comparison, which included the €9.8m disposal of a residential and commercial complex. Lower disposal volume translated into a c 48.8% y-o-y decline in consolidated pre-tax profit to €2.1m. However, a €2.4m sale was completed in Q320, suggesting some pick-up in the real estate investment market activity.

Deleveraging supports equity ratio of 52%

RCM Group's equity ratio remained at a healthy 52% (vs 53% at end March 2020 and c 50% at end 2019), assisted by a reduction in the parent company's net debt level (€6.7m at end June 2020 vs €11.0m at end December 2019). The company is continuing its share buyback programme (targeting up to 1.31m shares in total), with c 110.5k shares repurchased ytd up to early October 2020 (representing 0.8% of its share capital). Around 900k treasury shares were cancelled in H120.

Increased parent company earnings

On a standalone basis, RCM improved its H120 figures, reporting c €5.8m revenues against €0.4m in H119. The increase was partially offset by the lack of dividend income from its subsidiaries reported over the period and €0.6m in write-downs on financial assets and securities. Nevertheless, RCM reported H120 net income of €1.1m against a €56.6k loss in H119.

Valuation: Stable dividend yield of 2.9%

During the AGM on 28 September 2020, the decision was made to pay an annual dividend amounting to €0.06 per share, which is on a par with the 2019 and 2018 distributions. It constitutes a 2.9% yield, based on RCM's share price at close on 7 October, which is below the 4.6% yield of its closest comparable company, Noratis, in terms of business model.

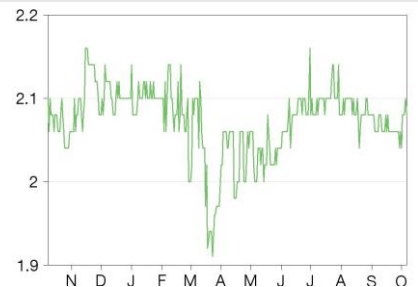
Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	11.4	1.8	0.11	0.04	18.9	1.9
12/17	19.4	2.1	0.11	0.06	18.9	2.9
12/18	17.6	2.9	0.18	0.06	11.6	2.9
12/19	21.1	4.4	0.19*	0.06	10.9*	2.9

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

Price €2.08
Market cap €27m

Share price graph



Share details

Code	RCMN
Listing	Deutsche Börse Scale
Shares in issue	13.1m
Last reported standalone net debt at 30 June 2020	€6.7m

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 with a more than 10% stake in KST Beteiligungs, a financial investor, held by its subsidiary – SM Wirtschaftsberatungs.

Bull

- Low pre-COVID 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.

Analysts

Milosz Papst	+44 (0)20 3077 5700
Michal Mierziak	+44 (0)20 3077 5700

financials@edisongroup.com
[Edison profile page](#)

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H120 Financials: Q2 transaction market weakness

In H120, RCM Beteiligungs group reported a significant y-o-y decrease in the volume of real estate transactions to €8.4m (all booked in Q120) from c €18.4m recorded in H119. We believe this was likely due to the pandemic outbreak, which affected the broad German real estate investment market (see market outlook section below), as no disposal income was generated by RCM in Q220.

Having said that, the company announced in July that it had already completed a €2.4m disposal in Q320, which suggests that transaction opportunities may have returned in the market. We also note that, 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. This includes €2.3m invested in January 2020 in a production, warehouse and office complex with usable space of c 5,700sqm, which currently generates rental income of around €250k pa. Additionally, before end June 2020, RCM completed the acquisition of a 4,400sqm commercial property located in Dresden. H120 rental income was on a par with the H119 figure of €0.8m (with €0.38m booked in Q120). However, management has not provided an update on the impact of the pandemic on rent collection rates in Q220 which, according to earlier management comments, in April alone remained high at c 97%.

Group interest and dividend income reached €447k in H120 (vs €477k in H119) and was ahead of interest expense of €355k (vs €387k in H119). On the other hand, results include the impact of risk provisions to the amount of €834k (of which €751k was booked in Q120) related to the impact of the recent capital markets downturn on RCM's securities portfolio. Consequently, consolidated pre-tax profit fell to €2.1m over the first six months of 2020 from €4.1m in H119.

Exhibit 1: Financial highlights

	H120	H119	change y-o-y
RCM Group results (in €m)			
Total revenue, of which:	10.2	19.2	-46.9%
Rental revenue	0.8	0.8	0.0%
Property disposal	8.4	18.4	-54.3%
Pre-tax profit	2.1	4.1	-48.8%
RCM Beteiligungs standalone figures (in €'000s)			
Total revenue, of which	5,798.3	419.5	NM
Rental revenue	246.3	391.2	-37.0%
Property disposal	5,552.0	0.0	NM
Other revenue	0.0	28.3	NM
Change in inventories of property available for sale	(2,814.1)	0.0	NM
Total performance	2,984.2	419.5	NM
Other operating income	165.1	207.2	-20.3%
Costs of goods and services	(180.0)	(57.3)	213.9%
Personnel expenses	(165.2)	(241.2)	-31.5%
Depreciation and amortization	(16.1)	(10.2)	58.7%
Other operating expense	(737.7)	(621.3)	18.7%
Income from associates	0.0	105.1	NM
Income from other securities and loans	388.6	384.9	1.0%
Other interest and similar income	5.4	30.2	-82.1%
Write-downs on financial assets and securities	(607.2)	0.0	NM
Interest and similar expenses	(207.3)	(256.3)	-19.1%
Pre-tax profit	1,629.7	(39.5)	NM
Income taxes	(521.9)	(16.3)	NM
Other taxes	(0.4)	(0.8)	-49.9%
Net income	1,107.4	(56.6)	NM

Source: RCM Beteiligungs accounts

As RCM Beteiligungs (the parent company of the group) reports under German accounting standards (HGB), it is not obliged to present consolidated accounts and management reports, which makes detailed top-down analysis of the group's financial statement less meaningful. Nevertheless, we note that on a standalone basis, RCM recorded c €5.6m in revenue from property disposals in H120 vs none in the H119. However, it is worth noting that RCM (both as a single entity

and a group) is relatively small (market cap amounting to €27m at 2 October 2020), and therefore a single transaction may have a significant overall impact on its reported results. The operational improvement of RCM Beteiligungs in H120 was partially offset by €0.6m in write-downs on financial assets and securities (zero in H119). Furthermore, due to the fact that there were delays in holding AGMs at subsidiary company level, RCM did not report any income from associates in H120, which should be delayed to the second half of the year. The company expects an improved dividend from SM Wirtschaftsberatungs in H220, amounting to €0.26 per share (c €0.7m) vs €0.20 in H119. Consequently, RCM's standalone pre-tax profit reached €1.6m in the first six months of 2020 (against a slight loss in the corresponding period of 2019), while net income improved to €1.1m from a €56.6k loss in H119.

Healthy equity ratio of 52%

In H120, the company reported only a slight decline in the consolidated equity ratio, from 53% at end March 2020 to 52% at 30 June. However, it is worth noting that this figure does not reflect the recent dividend payout, amounting to €0.06 per share, made on 1 October 2020. The total distribution amounted to c €0.8m, while cash and cash equivalents at 30 June 2020 were €3.1m vs just €1.2m at end 2019.

As RCM reported its H120 financial statements on a standalone basis only, we are unable to track the development of consolidated net debt, which at end 2019 stood at €19.5m. At parent company level, net debt fell to €6.7m at end June 2020 from €11.0m at end December 2019. At the same time, we note that c 72% of total bank liabilities (amounting to €9.9m at 30 June 2020) mature within the next 12 months.

RCM continues its minor share buyback programme, which targets up to 1.31m shares in total, with another 110.5k shares repurchased ytd, constituting c 0.8% of the company's share capital. The company recently cancelled 900k treasury shares.

Market outlook: Depressed investment volume

While investment volumes in the German real estate market declined by c 15% y-o-y to €14.7bn in Q220 (based on JLL data), the market has so far remained relatively resilient in the face of the COVID-19 crisis, with investor interest remaining strong (particularly in the core segments), fuelled by monetary easing and declining government bond yields. Properties in the living segment (residential, student accommodation, micro apartments etc) were especially sought after in the investment market as investors seem to perceive them as a safe haven. This is reflected in the segment's 35% share of total real estate investment in H120, according to JLL, compared to 24% in 2019.

In contrast, office real estate's share of overall investment volume declined from c 40% in FY19 to 22% in H120, according to JLL. During the first six months of 2020, c 1.28m sqm of office space was either let to tenants or sold to owner-occupiers in the seven largest German cities, which constitutes a c 36% y-o-y drop. It is worth noting that Q220 saw the weakest second quarter take-up since 2009. We also note that the overall impact of the pandemic on the sector could be delayed due to the stimulus package launched by the government, which helped preserve jobs and avoid terminating lease agreements. According to JLL, the aggregate vacancy rate in the office segment at end June 2020 remained very low, at c 3.2%, helping rental prices stay on a par with pre-coronavirus levels. In contrast, demand for office space could be reduced due to the increasing popularity of the working from home business model.

According to German Property Partners (GPP), the investment market started to rebound in Q320, with commercial property trading volumes in the seven largest German cities reaching €6.5bn over

this three-month period (of which 60% is attributable to office properties), exceeding the Q220 total by c €1.8bn (although still down 19% y-o-y). As the broad economic outlook remains uncertain, core properties constitute a significant part of the overall investment volume. GPP forecasts a total commercial property transaction volume for 2020 of €27.6bn (well below the five-year average of €33.1bn), which suggests €8.5bn in Q420, constituting a c 30% q-o-q improvement against Q320.

Valuation

With RCM's business model positioned between that of an asset holder and a developer, we had used Noratis (which has a similar operating model) as a comparator for valuation purposes, as it is somewhat difficult to build a peer group of listed companies. However, due to the limited reporting requirements of German Accounting Standards and limited group-level disclosure provided by the company, there is insufficient information to perform an earnings multiple valuation comparison on a consolidated level for H120 figures. Nevertheless, we note that RCM paid an annual dividend of €0.06 per share, which constitutes a 2.9% yield, well below Noratis's 4.6%.

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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
1185 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