

## RCM Beteiligungs

Real estate

20 October 2021

### Muted transaction activity in H121

RCM Beteiligungs (RCM) recorded group revenues of €1.6m in H121 (versus €10.2m in H120), as the group has not sold any property in the period. In H120 disposals contributed €8.4m to revenue and translated into €3.5m disposal gains. RCM reported rental income of €0.7m in H121 derived from its residential and commercial property portfolio valued at c €18.5m (based on company data as at August 2021). According to management the H221 results will be assisted by €1.9m in revaluation gains on its equity holdings.

### Net profit driven by investments in securities

In H121, RCM reported €0.5m in pre-tax profit versus €2.1m in H120. The standalone earnings before tax and net profit fell to €0.6m and €0.5m respectively, versus €1.6m and €1.1m in H120. At the parent company level, the lack of capital gains on property disposals (amounting to €2.7m in H120) has been partially offset by a positive result from its investments in securities (€804k versus €165k in H120) and lower costs of trading in financial instruments (€9k versus €450k).

### Commercial real estate leads market revival

Although volume of investments in the German real estate market declined by c 20% y-o-y to €34.1bn in H121 according to Jones Lang LaSalle (JLL), activity is gradually picking up from the pandemic slowdown. The €17.5bn of investment recorded in Q221 is 5.9% above the Q121 figure (though this is still 9.8% below the five-year quarterly average of €19.4bn). The revival is driven by an increase in transaction volumes within the commercial real estate segment, with office properties having the largest share in overall transaction volumes in Q221 (34%). Total investments in commercial real estate during 9M21 reached €38.3bn, according to Colliers, which forecasts Q421 volume ranging from c €16.7bn to €21.7bn.

### Valuation: 3.2% dividend yield

With limited RCM group data available with H121 reports and a lack of consensus estimates for the company, we compare its valuation to Noratis (the closest peer) based on a market cap to the last 12 months' earnings before tax (LTM EBT) multiple. This implies a c 40% premium reflecting the low levels of activity during the period. On 24 August 2021, RCM paid a dividend of €0.07 per share, which translates into a 3.2% yield compared to 2.4% recorded by Noratis.

#### Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	19.4	2.1	0.11	0.06	20.0	2.7
12/18	17.6	2.9	0.18	0.06	12.2	2.7
12/19	21.1	4.4	0.28	0.06	7.9	2.7
12/20	16.8	4.1	0.23	0.07	9.6	3.2

Source: RCM Beteiligungs accounts

Price €2.20  
Market cap €29m

#### Share price graph



#### Share details

Code RCMN  
Listing Deutsche Börse Scale  
Shares in issue 13.1m  
Last reported net debt at 30 June 2021\* €7.5m

\*Calculated on a standalone basis

#### 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

- Focus on a defined region leads to greater understanding of opportunities.
- Established business concept and strong partner network in the region.
- Healthy level of liquid resources available for portfolio expansion during market revival.

#### 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 3681 2519  
Michal Mierzwiak +44 (0) 20 3077 5700

[financials@edisongroup.com](mailto: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.

## Financials: Property disposals on hold

In H121 RCM group reported c 84.3% y-o-y decline in revenues to €1.6m, including €0.7m in rental income (versus €0.8m in H121) with the rest mostly attributable to property management, as it has not recorded any income from property sales (versus €8.4m in H120, which translated into disposal gains of €3.5m). We note that the broader German real estate market is already showing some signs of revival with transaction activity picking up (please see below for details). Therefore, we believe that the halt in the company's disposals may be at least partially attributable to the completion of the portfolio repositioning process in FY20, which left it with a more limited number of properties ready for sale. The group posted €0.5m in interest and dividend income in H121 (in line with H120), which was ahead of the group's interest expense of €0.3m (versus €0.4m in H120). At the same, write-downs of securities stood at €0.2m versus €0.8m in H120. Management highlighted that the group will recognise €1.9m of revaluation gains on its equity holdings in Q321. We note that as at end-June 2021, the group's equity ratio remained strong, sitting at 52% – on a par with H120.

<b>Exhibit 1: Financial highlights</b>			
<b>RCM Group results (in €m)</b>	<b>H121</b>	<b>H120</b>	<b>change y-o-y</b>
Group revenue, of which:	1.6	10.2	-84.3%
<i>Rental income</i>	0.7	0.8	-12.5%
<i>Property disposal</i>	0.0	8.4	-100.0%
Group pre-tax profit	0.5	2.1	-76.2%
Equity ratio	52%	52%	-
<b>RCM Beteiligungs standalone results (in €000's)</b>	<b>H121</b>	<b>H120</b>	<b>change y-o-y</b>
<b>Total revenue, of which</b>	<b>251.2</b>	<b>5,798.3</b>	<b>-95.7%</b>
<i>Rental revenue</i>	240.0	246.3	-2.6%
<i>Property disposal</i>	0.0	5,552.0	-100.0%
<i>Other revenue</i>	11.3	0.0	N/M
Change in inventories of property available for sale	0.0	(2,814.1)	-100.0%
<b>Total performance</b>	<b>251.2</b>	<b>2,984.2</b>	<b>-91.6%</b>
Other operating income	804.3	165.1	387.1%
Costs of goods and services	(27.7)	(180.0)	-84.6%
Personnel expenses	(155.8)	(165.2)	-5.7%
Depreciation and amortization	(18.6)	(16.1)	15.2%
Other operating expense	(281.5)	(737.7)	-61.8%
Income from associates	0.0	0.0	N/M
Income from other securities and loans	387.4	388.6	-0.3%
Other interest and similar income	2.1	5.4	-61.8%
Write-downs on financial assets and securities	(147.5)	(607.2)	-75.7%
Interest and similar expenses	(173.7)	(207.3)	-16.2%
<b>Pre-tax profit</b>	<b>640.2</b>	<b>1,629.7</b>	<b>-60.7%</b>
Income taxes	(176.3)	(521.9)	-66.2%
Other taxes	(0.4)	(0.4)	0.0%
<b>Net income</b>	<b>463.5</b>	<b>1,107.4</b>	<b>-58.1%</b>

Source: RCM Beteiligungs accounts

On a standalone basis, RCM Beteiligungs' H121 results were also shaped by a standstill in property divestment activity, which contributed €5.5m to the top line in H120 and resulted in a €2.7m gain on disposals. Consequently, total parent company's performance for the period fell by 91.6% y-o-y to €251k. The decline has in part been offset by other operating income reaching €804k (versus €165k in H120) on the back of positive result from its investments in securities, which contributed €511k in H121 versus €110k in the previous year (which we assume covers both debt and equity securities). As RCM recorded a 61.8% y-o-y decline in other operating expenses, driven by lower costs of trading in financial instruments, it reported pre-tax and net profit amounting to €640k and €464k respectively (compared to €1,630k and €1,107k respectively in H120). We note, however, that AGMs of RCM's subsidiaries have been postponed to Q321 and as a result dividend income from associates of c €0.7m will be recognised after the balance sheet date.

## Focus on larger commercial and residential projects

---

According to the last available release, dated 16 August 2021, the group's portfolio value, calculated based on the purchase price increased by any subsequent renovation costs already incurred, sits at c €18.5m (representing leasable space of 20.4k sqm). The repositioning process, completed in FY20, saw the company's investment focus shift away from relatively small residential properties with additional commercial space towards higher-volume residential complexes or larger apartment buildings. The company has also added investments in commercial properties with development potential through the implementation of tailored-use concepts to its investment scope. Due to recent price developments in the broad real estate market, the company's current focus in terms of new investments is mostly or even exclusively in the later segment.

## Investments shift towards commercial real estate

---

Total investment volume in the German real estate market declined in H121 by c 20% y-o-y to €34.1bn, according to JLL data. The decrease is largely attributable to Q121 (€16.6bn versus €27.9bn) as it is compared with the robust Q120, which was the last pre-pandemic quarter. In Q221, the market has already shown some signs of revival as the investment volume of €17.5bn was 21% higher than in the corresponding period last year. Having said that, we note that the first two quarters of 2021 are both below the five-year quarterly average of €19.4bn.

With persisting market uncertainties surrounding the new COVID-19 variants and incomplete vaccination process, the resilient 'living' sector (including residential, student housing and micro living) continues to see the highest demand, with €11.9bn in transactions in H121 (35% share) according to JLL's research. We note, however, that the German investment real estate market is slowly returning to its pre-pandemic structure, with the living sector's share of overall trade volume in Q221 alone falling to 25% ranking it second to the office segment (c 34% share). Among commercial properties, it is worth highlighting the healthy performance of logistic properties, benefiting from increasing private consumption, with a significant role played by e-commerce expansion. The €3.5bn trade volume within the segment in H121 constitutes over 10% of the broad market total, which is above the pre-pandemic level of c 8% in 2019.

According to a recent [Colliers report](#) (published on 11 October 2021), which is focused on commercial properties only, the investment volume in 9M21 reached €38.3bn, which fell only just short of the €40bn threshold that was exceeded during the first nine months in each of the three previous years. Having said that, Colliers expects further improvement in investment activity in Q421, as it forecasts transaction volume for the year reaching €55bn to €60bn.

## Valuation

---

RCM continues the share buyback programme that it started in 2017, currently limited to 1.31m shares, which until 15 October 2021 (last available data) resulted in the repurchase of over 540k shares at an average price of €2.15 per share (open market transactions only). In 2021 ytd alone, the company repurchased c 56.3k shares at an average price of €2.18 per share. In August 2021 RCM announced an increase in its share in SM Wirtschaftsberatung from 72% to 75% in exchange for a consideration of 500k of RCM's treasury shares. RCM reported that the parent company held c 496k own shares as at 30 June 2021. Consequently, we calculate that the total number of treasury shares currently held almost exclusively by RCM's subsidiaries amounts to c 1.1m or c 8% of all outstanding shares.

As RCM's business model is positioned between that of an asset holder and a developer, and is similar to Noratis, we continue to use this company as a comparator for valuation purposes. Due to

lack of consensus estimates for RCM in Refinitiv and limited group level reporting we have calculated a market cap to LTM EBT multiple for the purpose of RCM's relative valuation. Based on this measure, RCM's shares trade at a c 40% premium to Noratis as RCM's market cap/LTM EBT multiple sits at 11.6x, compared to 8.3x recorded by Noratis.

On 19 August 2021, RCM's AGM approved a dividend payment amounting to €0.07 per share, which is slightly higher than €0.06 paid between 2017 and 2019 and translates into 3.2% dividend yield. It also sits above the 2.4% yield for Noratis, based on the last dividend payment from FY20 earnings.

---

## 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 2021 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  
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