EDISON

Scale research report - Update

RCM Beteiligungs

Real estate

14 August 2019

Building strongly

RCM Beteiligungs continues to please with H119 PBT of €4.1m comfortably exceeding management's guidance of an improvement in full-year PBT (€2.9m+). Although the driver may have been a bumper c €10m disposal in Q1, the second quarter also saw a y-o-y step-change in PBT, boosted by markedly lower finance costs thanks to interim reinvestment of asset sale proceeds. Even if 2019 guidance has not been updated, favourable macro factors and scope for efficiencies and asset development support RCM's positive outlook, as does its commitment to re-build its portfolio (both commercial and residential), as confirmed by two recent deals of size.

H119: Another a tale of two quarters

The half to June followed the pattern of its y-o-y comparative with a flying start reflecting an unusually large disposal (a well-invested 8,900 sqm development for c €10m), which was reported late last year but recognised in Q1. The transaction was also particularly profitable (would increase 2018 asset sale margin from 33% to 49%). Q2 was predictably quieter than Q1 but again driven by property disposals, so revenue and PBT were well ahead of Q218. Significantly, a halving of rental income owing to rationalisation was made good by lower finance costs (c €0.5m gain in H1) as sale proceeds (properties cut from 47 to 19 in 2017 and 2018) were reinvested, notably in high-yielding bonds. The impact was further curbed by efficiencies (rental admin costs down by a third) and enhanced unit returns.

Set fair

Even without elaboration of March guidance H119 looks to have assured a 2019 profit 'beat' by clearly exceeding management's full-year target (PBT €4.1m vs €2.9m+). Moreover, the company is confident about the rest of the year, given market conditions and increasing benefits from restructuring its portfolio, eg fewer locations, a focus on its Dresden core and higher average unit size. Longer-term growth is being secured by active portfolio expansion, eg in Q2 two properties amounting to c 6,500 sqm, which increases the estate by over a third.

Valuation: Long-term appeal

2018 P/E of under 12x is undemanding and likely to reduce visibly in FY19 given a strong H1 performance, positive guidance and continued share buybacks. A 1.3x 2018 P/BV ratio is also unchallenging as it compares with the book value, which does not take into account hidden reserves (RCM reports under HGB standards).

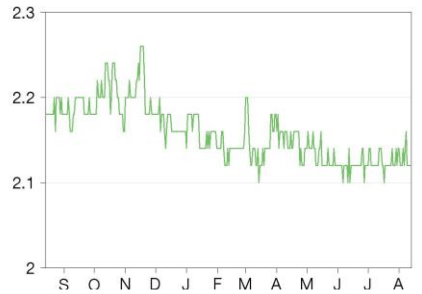
Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	14.7	1.3	0.08	0.04	26.5	1.9
12/16	11.4	1.8	0.11	0.04	19.3	1.9
12/17	19.4	2.1	0.11	0.06	19.3	2.8
12/18	17.6	2.9	0.18*	0.06	11.8	2.8

Source: RCM Beteiligungs. Note: *Based on 14.0m shares (14.7m shares in 2015–17).

Price	€2.12
Market cap	€30m

Share price graph



Share details

Code	RCMN
Listing	Deutsche Börse Scale
Shares in issue	14.0m
Net bank debt at December 2018	€24.2m

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

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Review of H119 results

Exhibit 1: Analysis of quarterly revenue and profit

Year end December (€m)	Q118	Q218	H118	Q119	Q219	H119
Asset sales	11.30*			12.09**		
Rental income	0.64	0.57	1.21	0.50	0.29	0.79
Change (%)	-14%	-22%	-18%	-30%	-49%	-35%
Revenues	**12.13**	**1.75**	**13.88**	**12.80**	**6.36**	**19.16**
Pre-tax profit	**2.33**	**0.07**	**2.40**	**3.45**	**0.65**	**4.10**
Margin (%)	19%	4%	17%	27%	10%	21%

Source: RCM Beteiligungs. Notes: *Including c €11m disposal. **Including €9.8m transaction.

As evident in Exhibit 1, the half to June 2019 continued to be marked by opposing trends of an upward step-change in asset sales and a reduction in rental income as a function of higher transaction business (the portfolio was c 14,800 sqm at end 2018 against c 38,000 sqm a year earlier). Although the breakdown of revenues is not disclosed other than with regard to rental income, Q1 was notable for the substantial recognition of a c €10m sale of a residential and commercial complex, originally reported in Q418 and broadly matching another bumper deal in the y-o-y comparative. Further significant asset sales followed in Q2. Rental income (down by 35% in the half) was a casualty of such disposals but the company remains committed to building the share of recurrent income as a key component of its business model.

In keeping with this financial discipline, RCM managed to limit the top-line rental impact with significantly lower admin costs (€0.09m against €0.17m y-o-y or 11% of rental income compared with 14% in H118 and 23% in 2014). Such operating efficiency is attributed to streamlining activities after the sale of residual assets away from the company’s core Dresden area. 2018 saw further active implementation of strategic focus with a virtual elimination in the number of properties outside Dresden (from nine to two) and in the number of investment locations (just two against seven at the end of 2017). This process continued in H119.

In the absence of a balance sheet at June 2019, we highlight a reported c €0.5m interest benefit in H1 from reinvestment of asset sale proceeds, notably in high-yielding bonds. This may be a temporary factor as portfolio expansion is newly reiterated to be a business priority.

Continued optimism

The lack of elaboration on guidance for 2019, introduced in March, is arguably disappointing, given the apparent profit excess in H1. However, the relative vagueness of the PBT forecast (to exceed €2.9m) leaves scope for positive surprise.

Management remains positive about the real estate market, thanks to persistently low interest rates and the growing appeal of second-tier locations such as Dresden, which still offer attractive rental yield despite rising prices. It has broadened its business policy to embrace commercial properties.

Strong finances allow a resumption in expansion after a pause in 2017 and 2018, notwithstanding a continued commitment to investment in existing holdings to enhance value (c €2.5m spend last year).

Valuation

RCM’s business model sits between that of an asset holder and a developer, making direct comparisons to listed companies somewhat difficult. Its FY18 P/E ratio is at a premium to Noratis, which has a similar model (trailing 8.1x). However, its P/BV (2018) ratio is markedly lower at 1.3x, vs 3.0x for Noratis.

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