

RCM Beteiligungs

Real estate

8 April 2021

Ready for portfolio expansion

In FY20 RCM largely completed the portfolio repositioning process it launched in 2019, resulting in combined income from property disposals in FY20 and FY19 of c €31m. Until end-December 2020, RCM had reinvested only €9.3m in new real estate assets, which could be due to the pandemic-driven slowdown in market transactions. The healthy liquidity situation, coupled with net debt decreasing to €13.6m as at end-December 2020, puts RCM in a strong position to execute transactions in the residential and commercial sectors, which are the areas it considers have the best potential.

Slight earnings decline due to €1.5m write-down

In FY20 RCM reported EBT and net income of €4.1m and €3.1m respectively, which were slightly below FY19 (€4.4m and €3.6m). Despite recording a c 20.3% y-o-y decline in revenues, RCM improved its overall performance due to the increased profitability of its property disposals and higher revenues from the advisory and management units. However, the beneficial impact of the declining cost base was more than offset by a €1.5m write-down on RCM's financial assets, reflecting increased risk levels across currency and securities markets.

Resilient income from rental activity

COVID-19 had a limited impact on the asking rent level in the German residential real estate market segment, according to JLL, which was also reflected in RCM's results. In FY20, the company reported €1.6m in rental income, on a par with FY19. Due to its successful active asset management, RCM avoided any significant lease losses over the year, with a vacancy rate across its portfolio amounting to c 5% as at end-2020.

Valuation: Increased dividend payment

Management announced a dividend payout from FY20 earnings amounting to €0.07 per share, c 17% above previous years' distributions of €0.06 per share and translates into a healthy dividend yield of 3.1%. RCM's shares are trading at 2020 P/E and P/BV multiples of 9.5x and 1.2x respectively, implying a discount to its closest peer Noratis, which trades at 14.2x and 1.3x respectively, although we note that Noratis's multiples are based on last 12 months (LTM) figures to 30 June 2020.

Historical financials						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	19.4	2.1	0.11	0.06	20.4	2.7
12/18	17.6	2.9	0.18	0.06	12.4	2.7
12/19	21.1	4.4	0.28	0.06	8.0	2.7
12/20	16.8	4.1	0.23	0.07	9.5	3.1

Source: RCM Beteiligungs accounts

Price €2.24
Market cap €29m

Share price graph



Share details

Code	RCMN
Listing	Deutsche Börse Scale
Shares in issue	13.1m
Last reported net debt as at 31 December 2020	€13.6m

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.

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
[Edison profile page](#)

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Financials: Repeatable healthy earnings

RCM reported a 20.3% y-o-y decrease in revenue, in part due to the pandemic-driven transaction market halt in Q220 and consequently lower property disposal income. However, RCM has largely completed the portfolio repositioning process, which left it with a limited number of properties available for sale. We also note that c €8.4m in sales from property disposals had already been agreed in 2019 but were concluded and recognised in the FY20 figures, together with new transactions amounting to c €4.2m. According to the management, nearly all of the disposals completed in FY20 exceeded the expected profit margin, which led to a net result on real estate divestment (calculated as sales net of acquisition cost) decreasing by less than €1.0m, despite significantly lower volume. The decline was more than offset by an increase in other revenue which includes income from Apollo Hausverwaltung Dresden (property management subsidiary) and Krockner (real estate advisory), with both units earning €675k in combined fee income on a single external transaction concluded in 2020. It is also worth noting that rental income in FY20 is broadly in line with the previous year's total of €1.7m, as RCM was able to avoid any major rental income losses related to COVID-19, despite the vacancy rate increasing to c 5% as at end-2020, from less than 3% as at end-2019. According to the company it was achieved on the back of successful active asset management, which included early negotiations with tenants potentially affected by the pandemic. We note that on our calculations, the gross margin in the rental business segment declined from c 89% in FY19 to c 83% in FY20. However, the pandemic has increased the risk levels across currency and securities markets, leading to a €1.5m write-down on RCM's financial assets. This includes €0.7m attributable to FX risks and €0.4m related to marketable securities valuation risks.

Exhibit 1: Financial highlights

	FY20	FY19	change y-o-y
Total revenue, of which	16,828	21,120	-20.3%
<i>Rental revenue</i>	1,636	1,660	-1.4%
<i>Property disposal</i>	12,647	18,477	-31.6%
<i>Other revenue</i>	2,545	983	159.0%
Change in inventories of property available for sale	(7,225)	(12,100)	-40.3%
Other own work capitalised	7	53	-86.4%
Overall performance	9,611	9,073	5.9%
Other operating income	1,460	1,102	32.5%
Costs of goods and services	(935)	(653)	43.1%
Personnel expenses	(1,649)	(1,919)	-14.1%
Depreciation and amortisation	(567)	(1,122)	-49.5%
Other operating expense	(2,511)	(2,419)	3.8%
Income from associates	(17)	52	NM
Income from other securities and loans	979	975	0.4%
Other interest and similar income	12	56	-79.1%
Write-downs on financial assets and securities	(1,559)	(11)	NM
Interest and similar expenses	(733)	(778)	-5.8%
Earnings before tax	4,089	4,354	-6.1%
Income taxes	(1,022)	(741)	38.0%
Other taxes	(3)	(3)	-5.3%
Net income	3,064	3,610	-15.1%

Source: RCM Beteiligungs accounts

While RCM's EBT and net income for FY20 fell short of the previous year's figures, reaching €4.1m and €3.1m respectively (versus €4.4m and €3.6m in FY19), management decided to increase the dividend to €0.07 per share, versus the €0.06 per share paid out in 2020. This puts the dividend yield at a healthy 3.1%. The decision was based on a further improvement in RCM's capital structure and liquidity position, as liabilities to banks at 31 December 2020 fell to €19.4m from €21.2m at end-2019, while cash and cash equivalents increased to €5.8m at end-2020 from €1.7m a year earlier. As a result, net debt at 31 December 2020 was reduced to €13.6m from €19.5m and RCM's equity ratio improved to 52.6% from 50.4%. According to management, the healthy financial position allows RCM to pursue new investment opportunities.

Building purchasing capacity to use in Dresden area

The company largely completed its reorganisation process in FY20, which involved shifting the focus of its real estate portfolio towards higher-volume projects. RCM's current focus is on commercial properties with development potential through the implementation of tailored-use concepts (where management sees higher return potential at present), but also residential complexes or larger apartment buildings, located within the greater Dresden area. This change in focus contributed to significant property disposal volumes in FY19 and FY20 amounting to c €31m combined, with c €12m capital gains, per our calculations. Only €2.3m was reinvested in FY20, in a production, warehouse and office complex bought in January 2020, whereas €7m was spent on new investments in FY19. We understand that this may have been influenced by the broad investment market slowdown due to the pandemic, with a potential pick-up in RCM's activity in FY21. In the meantime, RCM may temporarily invest excess liquidity in high yield bonds and other securities to generate recurring income. According to management, RCM is currently avoiding exposure to the retail segment given its uncertain outlook. It is worth noting that some of the properties sold by RCM remain under Apollo Hausverwaltung's management, which brings additional fee income recognised in other revenue.

Resilient residential and commercial property markets

Despite COVID-19, overall investment volumes in the German real estate market fell by only 11% year-on-year to €81.6bn, with the Q420 deal value (€23.3bn) already exceeding the quarterly average for the last five years (€19.5bn), according to JLL. The resilient 'living' sector (including residential, student housing and micro living) was the most sought-after, with transactions totalling €25.2bn in FY20 (31% share of investment volume in the German real estate market), slightly ahead of the office segment (€24.5bn, c 30%). While the office segment could be disrupted by a higher adoption of home office and hybrid working models, the recent pick-up in transaction volume and continued yield compression suggests that this segment remains popular among investors.

According to JLL, COVID-19 had a limited impact on asking rents in the German residential property market, which further increased in H220 by c 3.5% y-o-y. This rate is on a par with the one reported over the previous 12 months, although it is slightly below the five-year average of c 4.9% per annum. This led to c 9.3% y-o-y increase in condominium prices at end-2020, just short of the 10.2% growth achieved in 2019. Pandemic-driven changes in the real estate market (ie the increasing trend towards working from home and savings on commuting costs) were especially favourable to the sub-urban residential segment. According to JLL, the average increase in purchase prices in suburban zones around the Big8 German cities is almost 50% higher than in the city centres.

Valuation

RCM's share buyback programme continues; it acquired c 149.5k shares in the open market in FY20 at an average price of €2.06 per share, with an additional 315k shares bought in the over-the-counter market for €2.02 per share. As a result, c 3.7% of RCM's outstanding shares as at end-2019 were repurchased in FY20. This brings the total number of treasury shares held by all group companies as at end-December 2020 to c 1.5m.

Based on the 2020 reported figures (no Refinitiv consensus estimates are available), RCM shares trade at a P/E multiple of 9.5x, while the P/BV multiple sits at 1.2x. The dividend payment of €0.07 per share translates into 3.1% yield. As RCM's business model is positioned between that of an asset holder and a developer, it is somewhat difficult to build a peer group of listed companies.

Therefore, we use Noratis (which has a similar operating model) as a comparator for valuation purposes. We note however, that it has not yet released its FY20 report, so our calculations are based on LTM data to 30 June 2020. Noratis shares trade at a P/E multiple of 14.3x, while the P/BV multiple sits at 1.3x, putting RCM's shares at a discount to its peer.

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