

RCM Beteiligungs

Real estate

25 June 2019

Strong delivery

A flying start to 2019 offers room for surprise as management's guidance of an improvement in full-year PBT (€2.9m+) has already been secured in Q1 (€3.4m). The c €10m sale of a residential and commercial complex reiterated the success of RCM Beteiligungs' asset development record and its focus on selected well-defined projects. Favourable macro factors and scope for efficiencies and asset appreciation support RCM's positive outlook, evident in maintaining a dividend, raised by 50% last year. Solid finances (6x 2018 interest cover and an above industry-average equity ratio of 46%), boosted by Q1 disposal proceeds, allow significant reinvestment as well as further share buybacks (0.55m in May for €1m after 2018's 0.7m capital reduction).

H218 consolidation

After 2018's bumper start, H2's absence of meaningful property disposals and sharply lower rental income as a result of asset sales led to a slight profit 'miss' (PBT €2.9m against €3m+ guidance). This reduction in rental volume may be regarded as temporary, ie dictated by the lure of high disposal prices, as RCM remains intent on growing recurrent revenues. Moreover, the transaction impact was again mitigated by enhanced rent per square metre (14% for the year) and much lower rental admin costs (down by half in H2). Although not disclosed for H2, the annual asset sale margin was 33%, which is well ahead of 2016 (20%+), if not a strong 2017 (40%). Corporate restructuring yielded expected tax efficiencies and thus a disproportionate rise in net profit (2018 up 62% vs PBT up 37%).

Another good year in prospect

FY19 has followed the pattern of last year with the inclusion of an unusually large disposal (a well-invested 8.900sqm development for c €10m), which was reported late last year but recognised in Q1. However, the transaction was even more profitable (would increase 2018 asset sale margin from 33% to 49%). Despite Q1 exceeding targeted full-year PBT (€3.4m vs €2.9m+), guidance is unchanged as any gain on last year will depend on transactions.

Valuation: Attractive

The 2018 P/E of under 12x is undemanding and likely to reduce visibly, given the strong Q1 performance, positive guidance and continued share buybacks. A P/BV (2018) ratio of 1.3x is also unchallenging as it compares with the book value of assets (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	26.3	1.9
12/16	11.4	1.8	0.11	0.04	19.1	1.9
12/17	19.4	2.1	0.11	0.06	19.1	2.9
12/18	17.6	2.9	0.18*	0.06	11.7	2.9

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

Price €2.10
Market cap €29m

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.

Analyst

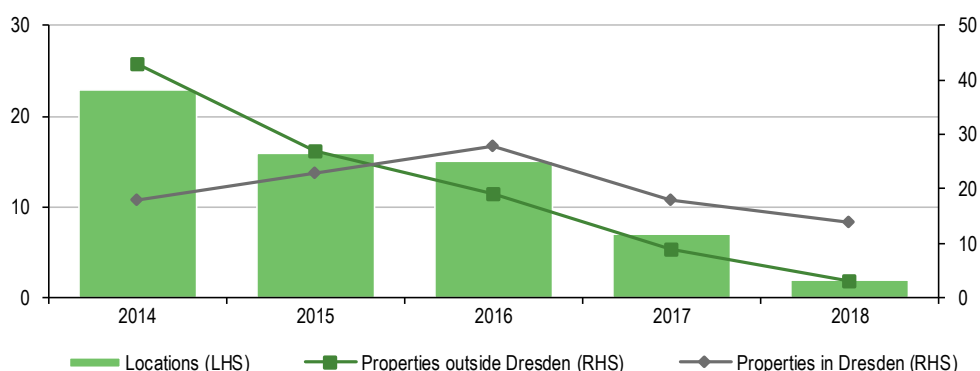
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Review of 2018 results

FY18 saw continued implementation of RCM's strategic focus on investment in its Dresden core (now only one other location). As shown in Exhibit 1, this compares with a predominance of properties outside Dresden just four years ago. In 2018 more than 60% (c 15,000sqm) of disposals were from outside the Greater Dresden area, including the withdrawal from four locations. The sale of 10 properties in the period reduced year-end 2018 stock to c 17 properties (over 60 at end 2014) with a total space of 14,800sqm. Such a diminution in the portfolio reflects a reluctance to pay up in the face of sharp price rises as well as the goal of maximising disposal proceeds. In Q119 RCM acquired a +1,500sqm well-located property with significant rent increase potential as well as clear development opportunities, therefore overall 16,300sqm stock at April.

Exhibit 1: Streamlining of investment locations and properties



Source: RCM accounts

Such active streamlining with associated efficiencies again drove the company's improved financial performance in 2018, although importantly the bulk of the aforementioned disposals, notably the c €11m development project sale (9,500sqm) in Q3, was not recognised in the accounts of the period, ie not until Q119. This is confirmed in Exhibit 2 with a y-o-y step-change in H1 revenue (€13.9m against €4.2m), even if total asset sales revenue is not disclosed. By contrast, H2 saw quieter, more normal transaction revenues (also not quantified).

Rental income is inevitably affected by transaction business. However, management is at pains to minimise the impact of rationalisation through efficiencies and enhanced unit returns. In 2018 a c 20% decline in rental revenue was curbed at the profit level to c 15% thanks to a near halving of admin costs from geographical focus and targeted enhancement of rent per square metre (up 14%).

Significant expenses such as labour costs, other operating expenses and net interest remained similar to 2017.

Exhibit 2: Analysis of revenue and profit

Year end December (€m)	H117	H217	FY17	H118	H218	FY18	Q119
Asset sales	2.2	13.0*	15.2	**		14.0	12.1***
Rental income	1.5	1.5	2.9	1.2	1.2	2.4	0.5
Change (%)			-6%	-18%	-21%	-19%	-30%
Other	0.5	0.8	1.3			1.2	0.2
Revenues	4.2	15.2	19.4	13.9	3.7	17.6	12.8
Change (%)			+71%	n/m	n/m	-9%	+5%
Pre-tax profit	0.70	1.39	2.09	2.40	0.46	2.86	3.45

Source: RCM Beteiligungs. Notes: *Including newly consolidated project company and associated impairment. **Including c €11m disposal in Q1. ***Including €9.8m transaction.

2019 optimism

As Q119 bumper returns were driven by recognition of a disposal package announced in the preceding quarter, it is understandable that guidance for 2019, introduced in March, was not repeated post-Q1. The relative vagueness of management's PBT forecast (to exceed €2.9m) leaves scope for surprise, given the proportion of first-quarter profit delivery.

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.

There should also be increasing benefits from restructuring its portfolio, ie fewer locations with a focus on its Dresden core and a higher average unit size.

Strong finances allow a resumption in property expansion (see small Q1 purchase) after a pause in 2017 and 2018, despite a continued commitment to investment in existing holdings to enhance value (c €2.5m spend last year). Meanwhile there was an encouraging reduction in net interest in Q1 from €0.3m to just €28K.

Valuation

RCM's business model sits between that of an asset holder and that of a developer, making direct comparisons to listed companies somewhat difficult. Its P/E ratio is at a premium to Noratis, which has a similar model (trailing 8x). However, its P/BV (2018) ratio is lower at 1.3x, vs 1.5x for Noratis.

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