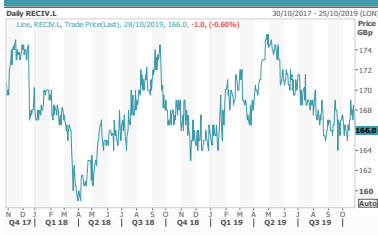


Diversified Financial Services


Source: Refinitiv

Market data

EPIC/TKR	RECI
Price (p)	166.5
12m High (p)	175.5
12m Low (p)	162.5
Shares (m)	209.4
Mkt Cap (£m)	349
NAV p/sh. (p)	165.2
Premium to NAV	0.8%
Market	Premium equity closed-ended investment funds

Description

Real Estate Credit Investments (RECI) is a closed-ended investment company that aims to deliver a stable quarterly dividend via a levered exposure to real estate credit investments, primarily in the UK, France and Germany.

Company information

Chairman	Bob Cowdell
NED	Susie Farnon
NED	John Hallam
NED	Graham Harrison
Inv. Mgr.	Cheyne Capital
Head of Team	Ravi Stickney
Main contact	Richard Lang
	+44 207 968 7328
	www.recreditinvest.com

Key shareholders

AXA SA	8.4%
Close Bros	8.2%
Canaccord Genuity Group	8.1%
Fidelity	7.7%
Premier AM	7.1%
Smith and Williamson	6.0%
Bank Leumi	4.5%

Diary

Early Nov'19	October Factsheet
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Analyst

Mark Thomas	020 7194 7622
	mt@hardmanandco.com

REAL ESTATE CREDIT INVESTMENTS

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We gave a detailed review of RECI in our initiation, *7%+ yield from well-secured property debt portfolio*, published on 28 August. In summary, RECI pays investors a high dividend yield covered by predictable income streams, generated by a diversified portfolio of real-estate-backed debt. Its credit record has been exemplary. In the report, we detailed the procedures that delivered this performance. The superior revenue yield is generated, *inter alia*, from service skills, one of many synergies obtained from having Cheyne Capital as the manager. Corporate governance appears robust. RECI is exposed to the credit cycle, some of its loan assets may prove illiquid, and the (modest) gearing is low-cost but short-term.

- ▶ **RECI news flow:** On 1 October, RECI announced that it had *placed 10.2m shares* at 167p. The rise in NAV in September (£1.652 vs. £1.640) was due partly to a restructuring of one of RECI's loans to a UK regional housebuilder, which enhanced RECI's return. There are now 50 positions with an average 9.1% yield.
- ▶ **Peer news flow:** ICG Longbow gave a *portfolio update* on 9 September noting that, when the latest expected loans complete, dividend cover will be restored. SWEF's *September NAV* was 102.85p (August 102.18p), with £397m loans and £32m cash.
- ▶ **Valuation:** RECI trades at a 0.8% premium to NAV, broadly in line with its secured lending peers, while its yield, at 7.2%, is the highest of its peers and above-average compared with debt investment companies. As we outline below, it is covered by predictable income streams and below-average downside risk from credit losses.
- ▶ **Risks:** Any lender is exposed to the credit cycle and individual loans going wrong. We believe RECI has appropriate policies to reduce the probability of default and the loss in the event thereof. The book is relatively short, creating re-investment risk. Some assets are illiquid, and Repos financing has a short duration.
- ▶ **Investment summary:** RECI generates an above-average, but sustainable, dividend yield from well-managed credit assets. It should deliver this return with a relatively modest correlation to equity and bond markets. For property investors, there is less downside risk than in direct real estate exposure. To debt/fixed-income investors, the presence of physical security (and excellent management controls) makes RECI lower-risk than the average debt investment.

Financial summary and valuation

Year-end Mar (£m)	2015	2016	2017	2018	2019	2020E	2021E
Interest income	15.8	17.7	15.3	18.4	22.3	28.8	38.0
Operating income	21.6	15.1	15.7	20.6	25.3	31.2	40.4
Management fee	0.0	-2.0	-2.0	-2.6	-3.0	-3.8	-5.0
Performance fee	0.0	-0.2	-0.1	-0.3	-0.7	-0.9	-1.1
Operating expenses	-4.2	-3.1	-3.2	-3.7	-4.8	-5.7	-7.1
Total comprehensive income	13.8	8.5	9.1	14.9	19.2	24.3	32.1
EPS (p)	18.9	11.7	12.4	13.0	13.1	12.4	12.4
NAV per share (p)	162.3	163.2	163.2	164.0	165.1	165.9	166.8
S/P premium to NAV	3%	2%	2%	2%	1%	0%	0%
Debt to equity	35%	35%	29%	34%	40%	29%	23%
Dividend (p)	10.8	11.6	11.1	12.0	12.0	12.0	12.0
Dividend yield	6.5%	7.0%	6.7%	7.2%	7.2%	7.2%	7.2%

Source: Hardman & Co Research