



### Market data

EPIC/TKR	RECI
Price (p)	173.5
12m High (p)	176.0
12m Low (p)	163.5
Shares (m)	209.4
Mkt Cap (£m)	363
NAV p/sh. (p)	165.2
Premium to NAV	5.0%
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
	<a href="http://www.recreditinvest.com">www.recreditinvest.com</a>

### Key shareholders

Bank Leumi	8.6%
AXA SA	8.4%
Close Bros	8.2%
Premier AM	8.2%
Fidelity	8.0%
Canaccord Genuity Group	7.7%
Smith and Williamson	6.7%

### Diary

Early Feb'20	Jan Factsheet
Jun'20	Year-end Mar results

### Analysts

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## REAL ESTATE CREDIT INVESTMENTS

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RECI pays investors a high (6.9%) dividend yield, covered by predictable income streams generated by an increasingly diversified portfolio of real-estate-backed debt. Our 28 August 2019 initiation report, *7%+ yield from well-secured property debt portfolio*, detailed how this was achieved. In our 17 December 2019 note, *Delivering on its promises*, we updated investors on why developments in the UK and France meant the pipeline was likely to see material completions in the next few months. The latest factsheet noted £106m of commitment in December alone. RECI *announced*, on 30 January 2020, a proposed issue of new ordinary shares. RECI now trades at a small premium to NAV.

- ▶ **RECI news flow:** RECI's *end-December factsheet* showed a monthly return of 0.6%. The £106m commitments were across four new deals in the UK (£38m), France (£64.1m) and Italy (£3.6m). A further £3.9m was drawn in the month for existing loans. The December detailed quarterly *update presentation* was also released.
- ▶ **Peer news flow:** ICG Longbow gave a *portfolio update* on 16 December 2019 noting the full deployment of cash, restoration of full dividend cover and the October NAV rising to 98.1p. It now has 10 investments at an average coupon of 7.1% and LTV of 67%. SWEF's *December NAV* was 103.24p, and it is also now fully invested.
- ▶ **Valuation:** RECI trades at a 0.8% premium to NAV, broadly in line with its secured lending peers, while its yield, at 6.9%, is the highest of its peers and above-average compared with debt investment companies. It is covered by largely 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 Repo 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	7%	6%	6%	6%	5%	5%	3%
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	6.2%	6.7%	6.4%	6.9%	6.9%	6.9%	6.9%

Source: Hardman & Co Research