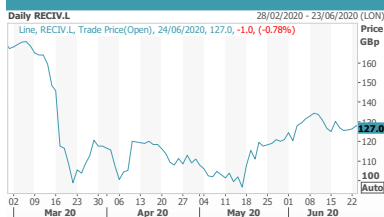


Diversified Financial Services


Source: Refinitiv

Market data

EPIC/TKR	RECI
Price (p)	127.5
12m High (p)	175.5
12m Low (p)	94.4
Shares (m)	229.3
Mkt Cap (£m)	292
NAV p/sh (p)	149.1
Discount to NAV	14%
Market	Premium equity closed-ended inv. 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 (pre-placement)

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

Mid-Jul	Jun factsheet
---------	---------------

Analysts

Mark Thomas	020 7194 7622	mt@hardmanandco.com
Mike Foster	020 7194 7622	mf@hardmanandco.com

REAL ESTATE CREDIT INVESTMENTS

THE MATERIALS CONTAINED HEREIN MAY NOT BE DISTRIBUTED, FORWARDED, TRANSMITTED OR OTHERWISE MADE AVAILABLE, AND THEIR CONTENTS MAY NOT BE DISCLOSED, TO ANY US PERSON OR IN, INTO OR FROM THE UNITED STATES, AUSTRALIA, CANADA, JAPAN, SOUTH AFRICA OR IN, INTO OR FROM ANY OTHER JURISDICTION WHERE TO DO SO WOULD CONSTITUTE A VIOLATION OF THE RELEVANT LAWS OR REGULATIONS OF SUCH JURISDICTION.

We published a note, *Getting a balanced view on outlook*, on 21 May 2020. RECI's 14% discount to NAV, we believe, reflects the uncertain outlook, security values and potential impairments. When considering if this discount is excessive, we noted i) a relatively low-risk profile, ii) strong liquidity means RECI can optimise recovery returns, iii) restructuring is a core competency, iv) realised losses to date are just 2.1p, v) bond valuations were then priced at 17% below par but RECI expects them to be repaid at par, and vi) borrowers have injected equity into their deals. The 3p 4Q dividend and unchanged policy show confidence. Re-investment returns are rising.

- ▶ **RECI news flow:** In a busy month, RECI published its usual *factsheet* (5 June), showing a 1.5p increase in NAV in May. Most of this was attributable to MTM recoveries in the prices of bonds, which RECI believes will be fully repaid at par over the next couple of years, but which are still priced at material discounts.
- ▶ **RECI corporate update:** On 15 May 2020, RECI released a 36-page *corporate update*, which went through COVID-19 exposures in detail, noting especially loss-mitigating factors, such as security, high-quality borrowers, with good rent flows, and diversification. Potential new deals are on ca.2%-3% higher margins.
- ▶ **Valuation:** Despite a strong recovery from mid-May lows, RECI still trades at a 14% discount to NAV, when, normally, it has traded at a modest premium. We recommend that investors consider the range of factors identified above in concluding whether such a discount is excessive.
- ▶ **Risks:** Any lender is exposed to credit risks and individual loans going wrong. 76% of loans are senior-secured, providing a downside cushion. We believe RECI has appropriate policies to reduce the probability of default and the loss in the event thereof. Some assets are illiquid. Short term, investor sentiment may be an issue.
- ▶ **Investment summary:** RECI generates an above-average dividend yield from well-managed credit assets. Management has confirmed no change to dividend policy, showing its confidence in its sustainability. Bond pricing includes a discount reflecting uncertainty, which should unwind when conditions normalise. Market-wide credit risk is currently above-average, but RECI's strong liquidity and debt restructuring expertise should allow it time to manage problem accounts. Borrowers have, to date, injected further equity into deals.

Financial summary and valuation

Year-end Mar (£m)	2016	2017	2018	2019	2020E	2021E	2022E
Interest income	17.7	15.3	18.4	22.3	28.6	34.7	37.7
Operating income	15.1	15.7	20.6	25.3	-11.4	36.2	42.2
Management fee	-2.0	-2.0	-2.6	-3.0	-4.0	-4.4	-4.6
Performance fee	-0.2	-0.1	-0.3	-0.7	0.0	0.0	0.0
Operating expenses	-3.1	-3.2	-3.7	-4.8	-5.0	-5.4	-5.6
Total comprehensive inc.	8.5	9.1	14.9	19.2	-17.6	30.2	36.0
EPS (p)	11.7	12.4	13.0	13.1	-8.9	13.7	13.4
NAV per share (p)	163.2	163.2	164.0	165.1	147.0	148.2	151.1
S/P discount to NAV	-22%	-22%	-22%	-23%	-13%	-14%	-16%
Debt to equity	35%	29%	34%	40%	24%	14%	11%
Dividend (p)	11.6	11.1	12.0	12.0	12.0	12.0	12.0
Dividend yield	9.1%	8.7%	9.4%	9.4%	9.4%	9.4%	9.4%

Source: Hardman & Co Research