

Diversified Financial Services


Source: Refinitiv

Market data

EPIC/TKR	RECI
Price (p)	129.0
12m High (p)	175.5
12m Low (p)	94.4
Shares (m)	229.3
Mkt Cap (£m)	296
NAV p/sh (p)	147.6
Discount to NAV	13%
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, and France.

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 (31 Mar'20)

Close Bros	8.55%
AXA SA	8.50%
Premier Miton	8.09%
Bank Leumi	7.82%
Fidelity	7.59%
Canaccord Genuity Group	7.36%
Smith and Williamson	6.84%

Diary

Mid-Sep	Aug factsheet
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Analysts

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

REAL ESTATE CREDIT INVESTMENTS

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RECI released its *quarterly investor update* on 17 August and its end-July factsheet on 7 August. The key messages are i) robust performance of existing portfolio through COVID-19, ii) the continuation of some modest mark-to-market volatility on the bond portfolio (July effect -1p on NAV), but full interest and capital repayments are expected in due course, iii) strong early repayment and pipeline volumes – the latter have now started to be complete, iv) lower-risk business is being added, v) pricing on new business is 2%-5% above pre-COVID-19 levels like-for-like, vi) low gearing, and vii) stable 3p per quarter dividends. This seems anomalous with the 13% discount to NAV.

- ▶ **RECI news flow:** RECI's end-July factsheet reported a -0.2% monthly performance, with 0.9p from regular interest income and -1.0p from bond mark-to-market gains. Gross debt was £71m, 21% of NAV (net debt £18m, 5% of NAV). Cash (£53m) included the successful re-financing of its largest (Paris) exposure.
- ▶ **Peer news flow:** ICG Longbow's 10 August *portfolio update* reported that 82% of interest payments had been made on time. It still believes that all contractual interest, principal and fees will be repaid in full. In its end-June *Factsheet*, SWEF, with material hospitality exposure, reported full repayments on time, and no impairments.
- ▶ **Valuation:** Despite a strong share price recovery from mid-May lows, RECI still trades at a 13% 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. 74% of loans are senior-secured, providing a downside cushion. We believe RECI has appropriate policies to reduce the probability of default and 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	2020	2021E	2022E
Interest income	17.7	15.3	18.4	22.3	26.4	32.1	37.6
Operating income	15.1	15.7	20.6	25.3	-10.4	36.3	42.1
Management fee	-2.0	-2.0	-2.6	-3.0	-4.1	-4.4	-4.6
Performance fee	-0.2	-0.1	-0.3	-0.7	1.0	0.0	0.0
Operating expenses	-3.1	-3.2	-3.7	-4.8	-5.6	-5.4	-5.6
Total comprehensive inc.	8.5	9.1	14.9	19.2	-17.4	30.2	35.8
EPS (p)	11.7	12.4	13.0	13.1	-8.7	13.6	13.2
NAV per share (p)	163.2	163.2	164.0	165.1	147.0	148.2	151.1
S/P prem./disc. to NAV	-21%	-21%	-21%	-22%	-12%	-13%	-15%
Debt to equity	35%	29%	34%	40%	29%	14%	11%
Dividend (p)	11.6	11.1	12.0	12.0	12.0	12.0	12.0
Dividend yield	9.0%	8.6%	9.3%	9.3%	9.3%	9.3%	9.3%

Source: Hardman & Co Research