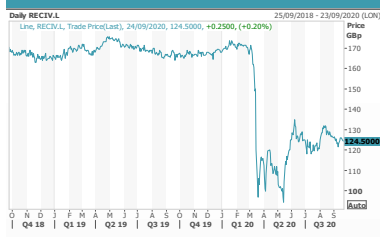


## Diversified Financial Services



Source: Refinitiv

## Market data

EPIC/TKR	RECI
Price (p)	125.25
12m High (p)	175.5
12m Low (p)	94.4
Shares (m)	229.3
Mkt Cap (£m)	285
NAV p/sh (p)	147.6
Discount to NAV	15%
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
	<a href="http://www.recreditinvest.com">www.recreditinvest.com</a>

## 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
	<a href="mailto:mt@hardmanandco.com">mt@hardmanandco.com</a>
Mike Foster	020 7194 7622
	<a href="mailto:mf@hardmanandco.com">mf@hardmanandco.com</a>

## REAL ESTATE CREDIT INVESTMENTS

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RECI released its *quarterly investor update* on 17 August and its end-August factsheet on 8 September. We reviewed these documents and the market outlook in our 14 September report *Improving returns on new opportunities*. The key messages are i) robust performance of existing portfolio through COVID-19, ii) full interest and capital repayments expected on bond portfolio, iii) strong volume in investment pipeline, iv) lower-risk business is being added, v) pricing on new business 2%-5% above pre-COVID-19 levels like-for-like, vi) low gearing, and vii) stable dividends. All this appears anomalous with the 15% discount to NAV.

- **Current portfolio:** Realised losses have been 1% of NAV, reflecting Cheyne's strong credit assessment and security. Some borrowers have extended facilities (at an appropriate interest cost) but, also, there have been early repayments. We understand all borrowers are paying in full and on time on their (revised) terms..
- **New business:** Against these realised losses, new business pricing has widened and terms have improved. The extra value of new business to be added is likely to exceed realised losses, implying that the overall value of the company should have risen. This may be valued by investors as stable returns reduce uncertainty..
- **Valuation:** Despite a strong share price recovery from mid-May lows, RECI still trades at a 15% 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	-24%	-24%	-24%	-25%	-15%	-16%	-18%
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	9.3%	8.9%	9.7%	9.7%	9.7%	9.7%	9.7%

Source: Hardman &amp; Co Research