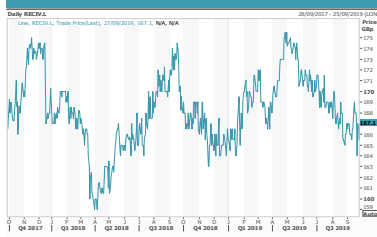


**Diversified Financial Services**


Source: Refinitiv

**Market data**

	RECI
EPIC/TKR	167.0
Price (p)	167.0
12m High (p)	175.5
12m Low (p)	162.5
Shares (m)	199.2
Mkt Cap (£m)	332.7
NAV p/sh. (p)	164.0
Premium/Disc	1.8%
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
	<a href="http://www.recreditinvest.com">www.recreditinvest.com</a>

**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 Oct'19	Sep Factsheet
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**Analyst**

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# 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 11 September, RECI hosted an investor day, which confirmed the messages in our initiation report. On 19 September, it announced a *proposed placing of new shares* (close expected 30 September). The price is 167p (a discount of 0.6% to the closing share price and a premium of 1.8% to the latest NAV).
- ▶ **Peer news flow:** ICG Longbow gave a *portfolio update* on 9 September noting that, on completion of the latest expected loans, full dividend cover will be restored. SWEF's end-August NAV was 102.18p with loans of £369m and net cash of £64m.
- ▶ **Valuation:** RECI trades at a 1.8% premium to NAV, broadly in line with 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	27.8	35.7
Operating income	21.6	15.1	15.7	20.6	25.3	30.2	38.1
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	-0.4	-0.6
Operating expenses	-4.2	-3.1	-3.2	-3.7	-4.8	-5.1	-6.6
Total comprehensive income	13.8	8.5	9.1	14.9	19.2	23.8	30.3
EPS (p)	18.9	11.7	12.4	13.0	13.1	12.4	12.6
NAV per share (p)	162.3	163.2	163.2	164.0	165.1	166.2	166.5
Share price premium to NAV	3%	2%	2%	2%	1%	0%	0%
Debt to equity	35%	35%	29%	34%	40%	30%	24%
Dividend (p)	10.8	11.6	11.1	12.0	12.0	12.0	12.0
Dividend yield	6.5%	6.9%	6.6%	7.2%	7.2%	7.2%	7.2%

Source: Hardman &amp; Co Research