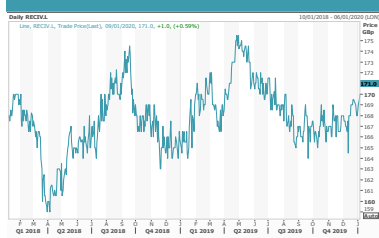


Diversified Financial Services


Source: Refinitiv

Market data

EPIC/TKR	RECI
Price (p)	168.5
12m High (p)	175.5
12m Low (p)	164.0
Shares (m)	209.4
Mkt Cap (£m)	352
NAV p/sh. (p)	167.1
Premium to NAV	0.8%
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
	www.recreditinvest.com

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	January Factsheet
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Analyst

Mark Thomas 020 7194 7622
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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.

RECI pays investors a high (7.1%) dividend yield, covered by predictable income streams generated by an increasingly diversified portfolio of real-estate-backed debt. Its credit record has been exemplary. Our 28 August 2019 initiation report *7%+ yield from well-secured property debt portfolio* detailed how this was achieved. In our 17 December note *Delivering on its promises*, we updated investors on the portfolio and looked, in detail, at why developments in the UK and France mean the pipeline is likely to see material completions in the next few months. Assuming this is correct, further equity issues may be expected. RECI now trades on a small premium to NAV.

- **RECI news flow:** RECI's *end-November factsheet* announced a monthly return of 0.5% (slightly below the long-run average as cash holdings are above average – October fund raise and there was material repayment in mid-November). As noted above, full deployment of existing cash resources is expected in the near term.
- **Peer news flow:** ICG Longbow gave a *portfolio update* on 16 December noting the full deployment of cash, restoration of full dividend cover and the October NAV rising to 98.1p. SWEF's *November NAV* was 102.33p and is fully invested.
- **Valuation:** RECI trades at a 0.8% premium to NAV, broadly in line with its secured lending peers, while its yield, at 7.1%, 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 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	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	4%	3%	3%	3%	2%	2%	1%
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	6.4%	6.9%	6.6%	7.1%	7.1%	7.1%	7.1%

Source: Hardman & Co Research