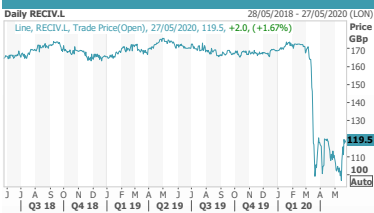


Diversified Financial Services


Source: Refinitiv

Market data

EPIC/TKR	RECI
Price (p)	119.5
12m High (p)	175.5
12m Low (p)	94.4
Shares (m)	229.3
Mkt Cap (£m)	274
NAV p/sh (p)	147
Discount to NAV	19%
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-Jun	May factsheet
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Analysts

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REAL ESTATE CREDIT INVESTMENTS

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We published a note, *Getting a balanced view on outlook*, on 21 May. RECI's 19% 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 are expected by RECI to be repaid at par, but priced at 17% below par, and vi) borrowers have been injecting equity into their deals. The stable 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* (12 May), showed its confidence by *declaring an unchanged dividend* and no change to its dividend policy for the current financial year ending 31 March 2021, and gave a detailed *update presentation*. The Chairman has also been buying shares.
- ▶ **RECI corporate update:** In addition to the points above, the 36-page corporate update 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:** RECI trades at a 19% discount to NAV, when, normally, it has traded at a modest premium. We believe the current discount reflects concerns about an uncertain outlook. 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	13.6	13.1
NAV per share (p)	163.2	163.2	164.0	165.1	147.0	148.2	150.7
S/P premium to NAV	-27%	-27%	-27%	-28%	-19%	-19%	-21%
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	9.7%	9.3%	10.0%	10.0%	10.0%	10.0%	10.0%

Source: Hardman & Co Research