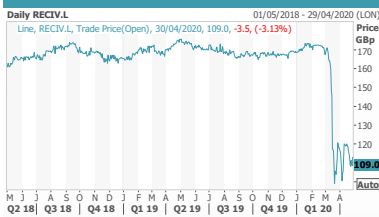


**Diversified Financial Services**


Source: Refinitiv

**Market data**

EPIC/TKR	RECI
Price (p)	<b>112</b>
12m High (p)	175.5
12m Low (p)	97.0
Shares (m)	229.3
Mkt Cap (£m)	257
NAV p/sh (p)	147
Discount to NAV	24%
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
	<a href="http://www.recreditinvest.com">www.recreditinvest.com</a>

**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**

12 May	Apr factsheet
12 May	Quarterly update

**Analysts**

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# REAL ESTATE CREDIT INVESTMENTS

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RECI's March *Factsheet* saw a 16.8p, 10%, fall in NAV to 147p per share, 10.1p of which was marked-to-market losses on the bond portfolio, which includes sentiment-driven sensitivity. The bond portfolio includes Italian exposure (primarily malls and cinemas in the North), which were valued well below par. Two loan exposures were written down – a UK housebuilder (effect £12.4m, -5.4p per share) and a retail park (£1.8m, -0.8p per share). Again, these losses have not been realised (yet). RECI announced a detailed review, assuming an extended recession. Net gearing is 13.3% NAV (cash £37m). Multiple directors have bought shares.

- ▶ **Liquidity:** RECI has £37m of cash after paying its most recent dividend (£7m) and continuing FX hedging (£8.9m). The fact it did both is evidence of the confidence it has in its balance sheet strength. Repos funding is £81.7m (against bonds valued in the market at £86.5m), with net leverage of £45m, 13.3% NAV.
- ▶ **RECI can hold assets until markets improve:** LTVs may currently be less robust than normal, as there is no certainty of buyers (RECI did not complete several deals itself). However, it is highly unlikely to be a forced seller, and can take time to re-structure deals and wait for more normal conditions to sell assets, if repossessed.
- ▶ **Valuation:** RECI trades at a 24% discount to NAV, when normally it has traded at a modest premium. The discount reflects investors' concerns (further losses may be incurred, whether pre-sold or pre-let development assets will complete), although it is worth noting that no senior positions have required any writedown.
- ▶ **Risks:** Any lender is exposed to credit risks 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 reinvestment risk. 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. In the medium term, 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 the ability to take time to realise assets make RECI lower-risk than the average debt investment.

**Financial summary and valuation (forecasts under review)**

Year-end Mar (£m)	2015	2016	2017	2018	2019
Interest income	15.8	17.7	15.3	18.4	22.3
Operating income	21.6	15.1	15.7	20.6	25.3
Management fee	0.0	-2.0	-2.0	-2.6	-3.0
Performance fee	0.0	-0.2	-0.1	-0.3	-0.7
Operating expenses	-4.2	-3.1	-3.2	-3.7	-4.8
Total comprehensive inc.	13.8	8.5	9.1	14.9	19.2
EPS (p)	18.9	11.7	12.4	13.0	13.1
NAV per share (p)	162.3	163.2	163.2	164.0	165.1
S/P premium to NAV	-31%	-31%	-31%	-32%	-32%
Debt to equity	35%	35%	29%	34%	40%
Dividend (p)	10.8	11.6	11.1	12.0	12.0
Dividend yield	10.0%	10.7%	10.3%	11.1%	11.1%

Source: Hardman &amp; Co Research