

## Corporate

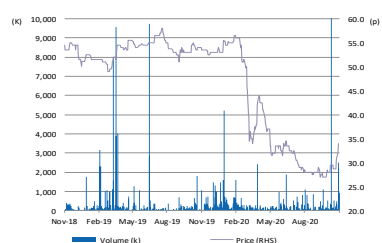
Current price **33.50p**

Sector **Real Estate - REIT**

Code **RLE.L**

AIM **AIM**

### Share Performance



— RLE 19.3% 19.3% -36.4%

Source: Thomson Reuters, Allenby Capital

### Share Data

Market Cap (£m) **60.30**

Shares in issue (m) **186.40**

52 weeks High Low

**56.5 27.0**

Financial year end **December**

Source: Company Data, Allenby Capital

### Key Shareholders

J O Hambro Capital Mgt 10.13%

Ruffer 7.60%

M&G Investment Mgt 7.02%

Hargreaves Lansdown AM 6.71%

PPS Bassi 6.67%

Source: Company Data, Allenby Capital

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## Real Estate Investors (RLE.L)

*90% of Q4 rent collected, sales above book values*

RLE's recent updates address two concerns expressed by investors: security of rent and the reliability of appraised asset values.

Rent collection is arguably the key measure of portfolio performance for a REIT, particularly in a period of uncertainty and on that basis the first update is reassuring. It confirmed 89.92% collection of rent due for the September quarter (Oct-Dec), including monthly and deferred agreements, broadly in line with the two prior quarters at the same stage. That provides evidence of tenants' ability to deliver, the durability of RLE's rental income (and dividend cover) and demonstrates management's ability to influence events in the short term.

The second announcement relates to the sale of properties for £9.725m, all at prices at or above book value. These disposals, some of which will complete in FY21 will reduce net debt and put the group in a strong position to capitalise upon opportunities to acquire assets, which meet its criteria, at attractive prices in a distressed market.

- **Rent collection:** Detail of rent collection is set out in the table overleaf, including 'Deferred Arrangements' and 'Debtors'. The latter relates to tenants which have delayed payment of rent, by taking advantage of government restrictions on landlords. RLE remains confident that (a) these tenants have resources to pay what's due and (b) it will recover outstanding rents in due course. Indeed, some tenants have already engaged in dialogue and agreed settlement arrangements.
- **COVID-19:** The second lockdown is expected to have a much more limited impact than the first one. A large proportion of the group's retail tenants are 'essential' and expect to continue to trade satisfactorily during the important Christmas period. Office occupiers anticipate that they will continue to operate their staff rotas on current arrangements.
- **Valuation:** The current 46% NAV (FY20e) discount and prospective yield reflect a hugely pessimistic outlook for a portfolio with a dedicated focus on a regional economy - the West Midlands - with a vibrant growth outlook, quite distinct from the picture for some London/South East based REITs. RLE paid a 0.5p/share dividend in each of the first two quarters, equivalent to a 6.0% FY20e yield. However, we believe that the rent collected justifies a larger Q4 distribution in April 2021, suggesting an aggregate fully covered FY20e dividend will be above 3.0p/share. End H120 cash was £9m, with a similar amount due from contracted sales. **RLE announced a share buyback program on 20 October, which could consume up to £2m of that by the end of 2020.**

### Year End: December

(£'000)	2017	2018	2019	2020E	2021E
REVENUE	14,880	15,642	16,596	16,300	16,500
ADJ. PBT	6,167	7,160	8,045	7,370	7,600
ADJ. DILUTED EPS (p)	3.18	3.72	4.24	3.95	4.00
DIVIDEND/SHARE (p)	3.13	3.56	3.82	3.50	3.60
DIVIDEND YIELD (%)	9.3	10.6	11.4	10.4	10.7
EPRA NAV/SHARE (P)	68.9	69.3	67.4	62.4	58.8
DISCOUNT TO NAV (%)	51%	52%	50%	46%	43%

Allenby Capital acts as Nomad & Broker to Real Estate Investors plc (RLE.L).

Please refer to the last page of this communication for all required disclosures and risk warnings.

## Rent Collection

The update, released on 3 November, provided the following breakdown of rent collected:

Exhibit 1: Rent Collection Table			
Rent Collections	March Quarter (April-June)	June Quarter (July-September)	September Quarter (October-December)
Collected	83.08%	85.59%	85.31%
Deferred arrangement	10.36%	4.64%	4.61%
<b>Total</b>	<b>93.44%</b>	<b>90.23%</b>	<b>89.92%</b>
Debtors	6.56%	9.77%	10.08%

Source: Company

Deferred Arrangements' relate to variations to terms, generally RLE's agreement to accept monthly rather than quarterly instalments in advance. The bottom line 'Debtors' covers tenants which continue to delay payment of rent by taking full advantage of government restrictions on landlords. **RLE remains confident that these tenants have the resources to pay what's due and will recover these outstanding rents in due course. Some of the tenants have engaged in dialogue and agreed settlement arrangements.**

Positive momentum is reflected in the fact that collection for the March (April to June) quarter at 93.44%, is above previously reported numbers i.e. 90.7% on 21 September, 90.16% (15 July) and 81% (15 June). Collection for the June quarter (July to September) exhibits similar momentum. On the same inclusive basis, the 90.23% of rent now collected compares with 86.9% (21 September) and 81.94% (15 July).

## Asset sales at or above book value

On 11 November the group announced that it had unconditionally exchanged contracts to sell properties at or above book value, for £9.725m in total. This provides some underpinning for management's assertion that its asset values will prove more resilient than its equity valuation implies.

The combined assets contribute £0.4575m to RLE's rent roll, £0.3m of which will still be receivable during the first nine months of FY21.

Exhibit 2: Property sales announced 11 November 2020	
Aldi supermarket Bearwood, Edgbaston	Aldi acquired the freehold for £5.350m, at a 5.26% yield. The sale price is 32% above the December 2019 year end valuation. RLE negotiated an extended completion date of September 2021 and will continue receive £0.3m pa rent until that date.
315-317 & 319 High Street, West Bromwich	Vacated offices in need of refurbishment, sold for £0.625m. Contracted to complete in January 2021.
Land at Coseley, West Midlands	Sold for £1.150m minimum, with a potential additional £0.35m subject to the completion of a local authority grant application by the purchaser, Countryside Properties PLC. Completion is contracted to take place in December 2020.
City Gate House, Leicester	Sold for £2.6m, due to complete in December 2020, following exchange in 2018.

Source: Company

The group reports that other disposals are at advanced stages and anticipates that it will exchange contracts before the year end, again at book value or better.

## Investment focus on UK's fastest growing regional economy

The outlook is underpinned by RLE's focus on one of the UK's strongest regional economies. A recent NatWest West Midlands PMI report confirmed that the region has seen the fastest growth in new business across the UK in the period following the pandemic. Business activity recovered quickly in July. Growth was at the second-fastest level since the survey started in 1996 and the fastest across the 12 regions monitored.

### Portfolio

RLE's portfolio has a broadly diversified asset base, no department stores, and a provincial West Midlands weighting away from city centres. That profile should enable it to manage changes in occupier tastes and habits, limit the impact on portfolio returns, both rental income and asset values/NAV.

Around 24% of the portfolio represents key worker/essential services, many of which continued to trade during lockdown with government permission and its retail assets are underpinned by neighbourhood and convenience stores. Nationally, some of this category was reported to have seen a rise in trade during lockdown. RLE anticipates that its convenience and neighbourhood retail assets will remain stable and is seeing interest from investors for both these and government tenanted assets.

#### Exhibit 3: Portfolio Sector Distribution - % by Income – 30 June 2020

Office	29.8%
Essential/key services/food stores etc.	24.0%
Traditional Retail	19.6%
Government	8.1%
Restaurant/Bar/Coffee – Costa Coffee etc	6.3%
Leisure - The Gym Group etc	3.2%
Financial/Licences/Agency - Ladbrokes etc	2.6%
Car Park	2.5%
Medical and Pharmaceutical – Boots etc	1.4%
Hotel	1.2%
Charity	0.6%
Discount Retail - Poundland/B&M etc	0.4%
Industrial	0.3%
Assured Shorthold Tenancy	0.1%
<b>TOTAL</b>	<b>100.0%</b>

Source: Company

It also reports active dialogue with interested parties seeking the type of out-of-town office space it can provide. Enquiries from prospective tenants suggest that there is limited supply to satisfy demand for offices located closer to employees' homes, away from city centres, accessible without the need to travel by public transport.

#### Exhibit 4: Balance Sheet

£m	H1 2020	FY 2019
Property	221.8	228.9
Cash	9.0	10.1
Debt	(105.0)	(105.2)
Other	(7.1)	(8.4)
<b>Net assets</b>	<b>118.7</b>	<b>125.4</b>
Adjustments	3.2	2.7
EPRA NAV	121.9	128.1
<b>EPRA NAV per share</b>	<b>64.3</b>	<b>67.4</b>
Net Debt	96.0	95.1
Loan-to-Value (net of cash)	44.0%	42.2%
Balance Sheet Gearing	80.9%	75.8%

Source: Company

**Debt: 44% aggregate LTV net of cash**

Debt outstanding at end June 2020 was £105m (FY19: £105m). RLE agreed a new £3.5m facility with Barclays Bank in April fixed at 2.2% until December 2023. It repaid a similar facility with Santander, post which its average cost of debt is 3.4%.

Current liabilities increased from £7.37m to £49.19m across the first six months. That reflects two facilities due to mature in H1 2021, provided by RBS and AIB. RLE's discussions with both banks have indicated their willingness renew these facilities.

Weighted average debt maturity is now three years, with 83% of the balance at fixed rates. Portfolio loan to value (LTV) was 48.2% at end June 2020 (FY19: 46.7%), 44% net of cash (FY19: 42.2%), and debt may fall further from the proceeds of contracted asset sales.

Loan covenants are typically 65% LTV and all continue to be met. If any issues did arise RLE could address these by repayment using existing cash (£9m at end June 2020), the proceeds of property sales, or by providing unencumbered assets as additional security.

**Exhibit 5: Income statement**

Year ended December (£000s)	2017	2018	2019	2020E	2021E
Revenue	14,880	15,642	16,596	16,300	16,500
Cost of sales	(1,727)	(1,478)	(1,485)	(1,700)	(1,600)
Gross profit	13,153	14,164	15,111	14,600	14,900
Administrative expenses	(3,548)	(3,322)	(3,553)	(3,600)	(3,800)
(Loss)/surplus on sale of investment properties	176	(42)	8	0	0
Change in FV of investment properties	4,212	578	(4,349)	(14,000)	(4,000)
<b>Profit from operations</b>	<b>13,993</b>	<b>11,378</b>	<b>7,217</b>	<b>(3,000)</b>	<b>7,100</b>
Finance income	19	31	41	29	20
Finance costs	(3,457)	(3,713)	(3,554)	(3,650)	(3,400)
Surplus on financial liabilities at FV through P&L	725	706	(41)	(657)	0
Pre-tax profit	11,280	8,402	3,663	(7,278)	3,720
<b>Adj. (underlying) PBT</b>	<b>6,167</b>	<b>7,160</b>	<b>8,045</b>	<b>7,379</b>	<b>7,720</b>
Tax	(145)	(113)	0	0	0
Net profit	11,135	8,289	3,663	(7,278)	3,720
<b>EPS</b>					
Basic (p)	5.97	4.45	1.96	(3.90)	2.00
<b>EPRA EPS (p)</b>	<b>3.31</b>	<b>3.85</b>	<b>4.32</b>	<b>3.61</b>	<b>4.14</b>

Source: Company; Allenby Capital

**Exhibit 6: Balance sheet**

Year ended December (£000s)	2017	2018	2019	2020E	2021E
<b>Assets</b>					
<b>Non-current</b>					
Intangible assets					
Investment properties	209,421	221,040	225,075	210,000	195,000
Property, plant, and equipment	12	11	8	4	4
Deferred tax	540	405	405	405	405
	<b>209,973</b>	<b>221,456</b>	<b>225,488</b>	<b>210,409</b>	<b>195,409</b>
<b>Current</b>					
Inventories	3,708	3,764	3,780	3,785	3,785
Trade and other receivables	3,663	2,277	2,423	3,000	2,500
Cash and cash equivalents	4,339	10,843	10,092	12,560	21,874
	<b>11,710</b>	<b>16,884</b>	<b>16,295</b>	<b>19,345</b>	<b>28,159</b>
<b>Total assets</b>	<b>221,683</b>	<b>238,340</b>	<b>241,783</b>	<b>229,754</b>	<b>223,568</b>
<b>Liabilities</b>					
<b>Current</b>					
Bank loans	(20,378)	(364)	(7,368)	(45,000)	(2,000)
Provision for current taxation	(23)	(1)	(1)	0	0
Trade and other payables	(6,146)	(7,883)	(8,113)	(8,000)	(8,000)
	<b>(26,547)</b>	<b>(8,248)</b>	<b>(15,482)</b>	<b>(53,000)</b>	<b>(10,000)</b>
<b>Non-current</b>					
Bank loans	(64,213)	(98,411)	(97,807)	(55,801)	(100,000)
Financial liabilities	(3,869)	(3,010)	(3,051)	(4,200)	(4,000)
	<b>(68,082)</b>	<b>(101,421)</b>	<b>(100,858)</b>	<b>(60,001)</b>	<b>(104,000)</b>
<b>Total liabilities</b>	<b>(94,629)</b>	<b>(109,669)</b>	<b>(116,340)</b>	<b>(113,001)</b>	<b>(114,000)</b>
<b>Net assets</b>	<b>127,054</b>	<b>128,671</b>	<b>125,443</b>	<b>116,753</b>	<b>109,568</b>
<b>Basic NAV per share (diluted) (p)</b>	<b>67.1</b>	<b>67.9</b>	<b>66.0</b>	<b>60.7</b>	<b>57.8</b>
<b>EPRA NAV per share(p)</b>	<b>68.9</b>	<b>69.3</b>	<b>67.4</b>	<b>63.3</b>	<b>59.5</b>

Source: Company; Allenby Capital

<b>Exhibit 7: Cashflow</b>					
<b>Year ended December (£000s)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>
<b>Cash flows from operating activities</b>					
Profit after tax	11,135	8,289	3,663	(7,278)	3,720
<b>Adjustments for:</b>					
Depreciation	5	6	5	6	5
Net surplus on valuation of investment property	(4,212)	(578)	4,349	10,000	5,000
Loss/(surplus) on sale of investment property	(176)	42	(8)	1,200	1,300
Share-based payment	350	(148)	100	(93)	0
Finance income	(19)	(31)	(41)	(29)	(20)
Finance costs	3,457	3,713	3,554	3,650	3,400
Surplus on financial liabilities at FV through P&L	(725)	(706)	41	657	0
Tax charge	145	113	0	0	0
Increase in inventories	(13)	(56)	(16)	(5)	0
Decrease/(increase) in trade and other receivables	(738)	1,386	(146)	(1,209)	0
Increase/(decrease) in trade and other payables	(87)	1,504	113	114	0
	<b>9,122</b>	<b>13,534</b>	<b>11,614</b>	<b>7,013</b>	<b>13,405</b>
<b>Cash flows from investing activities</b>					
Purchase of investments properties	(20,353)	(16,744)	(10,384)	(214)	0
Purchase of property, plant and equipment	(3)	(5)	(2)	0	0
Proceeds from sale of investment properties	13,522	5,661	2,008	6,000	6,000
Interest received	19	31	41	30	20
	<b>(6,815)</b>	<b>(11,057)</b>	<b>(8,337)</b>	<b>5,816</b>	<b>6,020</b>
<b>Cash flows from financing activities</b>					
	0	0	0	0	0
Interest paid	(3,457)	(3,713)	(3,554)	(3,650)	(3,400)
Hedge payment	0	(153)	0	0	0
Equity dividends paid	(5,359)	(6,291)	(6,874)	(6,525)	(6,711)
Proceed from new bank loans	0	14,570	8,500	3,500	0
Payment of bank loans	(927)	(386)	(2,100)	(3,686)	0
	<b>(9,743)</b>	<b>4,027</b>	<b>(4,028)</b>	<b>(10,361)</b>	<b>(10,111)</b>
<b>Net increase/(decrease) in cash and equivalents</b>	<b>(7,436)</b>	<b>6,504</b>	<b>(751)</b>	<b>2,468</b>	<b>9,314</b>
<b>Cash and equivalents at beginning of period</b>	<b>11,775</b>	<b>4,339</b>	<b>10,843</b>	<b>10,092</b>	<b>12,560</b>
<b>Cash and equivalents at end of period</b>	<b>4,339</b>	<b>10,843</b>	<b>10,092</b>	<b>12,560</b>	<b>21,874</b>

Source: Company; Allenby Capital

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