Corporate

Current price	32.5p
Sector	Real Estate - REIT
Code	RLE.L
AIM	AIM

Share Performance

	1m	3m	12m
RLE.L	-0.9%	-27.5%	-39.1%

Source: Thomson Reuters, Allenby Capital

Share Data

Market Cap (£m)		60.6
Shares in issue (m)		186.2
52 weeks	High	Low
	58.0p	31.5p
Financial year end		December

Source: Company Data, Allenby Capital

Key Shareholders

Invesco	15.31%
JO Hambro	9.92%
Premier Miton Group	9.72%
Ruffer Investment Mgt	8.21%
M&G Investment Mgt	6.78%

Source: Company Data, Allenby Capital

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Real Estate Investors plc (RLE.L)

Solid rent outlook underpins attractions

As a REIT, RLE must distribute at least 90% of its recurring income to meet its tax status obligations, so rent collection is arguably the key valuation metric. As at 15 June, it had received 81% of rent due for the March quarter (the three months commencing 25 March 2020) and indicated that it expects to collect the 19% balance, a proportion via deferred monthly instalments over the next 12 months alongside ongoing rents.

RLE announced a reduced 0.5p/share Q1 dividend and indicated that Q2/Q3 will be the same. That acknowledges uncertainty but points to a larger Q4 distribution on the back of the FY20 result as the dividend is adjusted in line with the minimum REIT requirement. Even assuming a hypothetical 10% shortfall in net rental income this year, which we regard as very unlikely, our model suggests that there would still be capacity for a much larger covered distribution i.e. well above the 6.2% prospective FY20e yield implied by the Q1 dividend.

- **Net income outlook remains stable.** Thus far, 81% of group tenants (by rent roll) have paid 100% of their quarterly rent. The vast majority of the 19% balance comprises occupiers that took advantage of a Covid-19 prompted UK government ruling, which prevents landlords from taking any action in respect of unpaid rent for a 90-day period.

- **Tenants have stabilised their finances.** RLE still expects to collect overdue rent post detailed discussions with its tenants. This assumes that (a) all those tenants can recommence trading and (b) there is no extension of the 90-day period or a negative new code of conduct. RLE believes that, having reviewed their own cashflows, its occupiers have now planned how to cover their ongoing rent obligations.

- **No exposure to weakest asset classes.** UK-REIT sector equity valuations primarily reflect concern over underlying cashflows and their impact on asset values. RLE has no portfolio weighting to the weakest assets i.e. large shopping centres or department stores.

- **Valuation underpinned by rental income profile and cash** RLE has £7m cash after paying the final dividend and ongoing costs. Management would regard any serious adjustment in real asset values as an opportunity to grow its portfolio, and higher rental yields would further underpin distributions. The group typically distributes more than the stipulated REIT minimum of 90% of recurring income. Based upon RLE's analysis of its rental outlook and despite uncertainty regarding the next few quarters for the UK economy, the valuation discounts an overly pessimistic view of the prospective yield.

Year End: December				
(£'000)	**2016**	**2017**	**2018**	**2019**
REVENUE	13,453	14,880	15,642	16,596
ADJ. PBT	4,672	6,167	7,160	8,045
EPRA EPS (p)	2.80	3.31	3.85	4.32
DPS (p)	2.625	3.130	3.560	3.813
EPRA NAV/SHARE (p)	66.2	68.9	69.3	67.4
DIVIDEND YIELD (%)	8.1%	9.6%	11.0%	11.7%
DISCOUNT TO NAV (%)	51%	53%	53%	52%

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

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

Trading & Dividend Update

Rent Collection & Lease Events

The update confirmed that the group's diverse portfolio performed well despite extremely challenging market conditions and indeed, unhelpful government restrictions placed on commercial landlords.

Rent collection for the March quarter so far is 81%. Management's dialogue with its occupiers over the last few months suggests that the 19% rent outstanding mainly relates to tenants which chose to take advantage of a government initiative i.e. requested a delay until they could restart trading, or to the end of the specified 90-day period.

Many of these are waiting for their businesses to re-open. RLE anticipates that it will agree the repayment of arrears alongside tenants' ongoing rental payments.

Dividend policy & outlook

As a REIT the group is required to pay 90% of its rental taxable profit in dividends; REI currently distributes over 90%. It announced a reduced 0.5p/share quarterly dividend and indicated that this will be the level for Q2 and Q3. This is a pragmatic response to ongoing uncertainties surrounding the Covid-19 pandemic and potential for its key markets to deteriorate. It does however leave it with the option to adjust dividends in line with the minimum REIT requirement via a larger Q4 dividend post the year end. Our forecast model illustrates capacity for a materially higher FY20e distribution, even if we build in a hypothetical and we believe, very unlikely 10% fall in net rent received this year.

Portfolio: lease extensions improve WAULT

Negotiations with tenants during the last quarter include lease extensions (18 new lease events) that improve the Weighted Average Unexpired Lease Term (WAULT) to 4.96 years to break and 6.63 years to expiry (end FY19: 3.82 years to break, 5.79 years to expiry). This should provide some underpinning for asset values.

The group portfolio consists of 58 assets and 277 occupiers, £17.3m contracted rental income. Occupancy is 95.14% (End FY19: 96.3%). It has no material reliance on any single sector, asset, or tenant. Its largest sector (by rental income) is offices (38.12%) and largest occupier the UK government (7.98%). The portfolio is mostly located out-of-town, in vibrant markets where rents and capital values have benefited from both strong demand and all-time-low space availability.

Exhibit 1: Portfolio by sector

	Rent (£)	31 Dec 19 % by Income	31 Dec 18 % by Income
Office	6,659,625	37.70%	37.86%
Traditional Retail	3,785,116	21.43%	19.60%
Discount Retail - Poundland/B&M etc	1,650,902	9.35%	10.07%
Medical and Pharmaceutical – Boots etc	1,135,300	6.43%	6.69%
Food Stores - Sainsburys, Lidl etc	1,011,150	5.72%	5.94%
Restaurant/Bar/Coffee – Costa Coffee etc	1,035,150	5.86%	6.12%
Financial/Licences/Agency - Ladbrokes etc	845,002	4.78%	4.62%
Leisure - The Gym Group etc	537,596	3.04%	3.16%
Hotel	511,000	2.89%	3.00%
Car Park	424,613	2.40%	2.50%
Industrial	52,500	0.30%	0.34%
Assured Shorthold Tenancy	16,520	0.09%	0.10%
Total	17,664,474	100.00%	100.00%

Source: RLE FY19 results

Exhibit 2: Income statement

Year ended December	2017	2018	2019
Revenue	14,880	15,642	16,596
Cost of sales	(1,727)	(1,478)	(1,485)
Gross profit	13,153	14,164	15,111
Administrative expenses	(3,548)	(3,322)	(3,553)
(Loss)/surplus on sale of investment properties	176	(42)	8
Change in FV of investment properties	4,212	578	(4,349)
Profit from operations	13,993	11,378	7,217
Finance income	19	31	41
Finance costs	(3,457)	(3,713)	(3,554)
Surplus on financial liabilities at FV through P&L	725	706	(41)
Pre-tax profit	**11,280**	**8,402**	**3,663**
Adj. (underlying) PBT	**6,167**	**7,160**	**8,045**
Tax	(145)	(113)	0
Net profit	11,135	8,289	3,663
EPS			
Basic	5.97	4.45	1.96
EPRA EPS	3.31	3.85	4.32

Source: Company; Allenby Capital

Exhibit 3: Balance Sheet

Year ended December	2017	2018	2019
Assets			
Non-current			
Intangible assets	0	0	0
Investment properties	209,421	221,040	225,075
Property, plant and equipment	12	11	8
Deferred tax	540	405	405
	209,973	**221,456**	**225,488**
Current			
Inventories	3,708	3,764	3,780
Trade and other receivables	3,663	2,277	2,423
Cash and cash equivalents	4,339	10,843	10,092
	11,710	**16,884**	**16,295**
Total assets	**221,683**	**238,340**	**241,783**
Liabilities			
Current			
Bank loans	(20,378)	(364)	(7,368)
Provision for current taxation	(23)	(1)	(1)
Trade and other payables	(6,146)	(7,883)	(8,113)
	(26,547)	**(8,248)**	**(15,482)**
Non-current			
Bank loans	(64,213)	(98,411)	(97,807)
Financial liabilities	(3,869)	(3,010)	(3,051)
	(68,082)	(101,421)	(100,858)
Total liabilities	**(94,629)**	**(109,669)**	**(116,340)**
Net assets	**127,054**	**128,671**	**125,443**
NAV per share	**67.1**	**69.0**	**67.3**

Source: Company; Allenby Capital

Exhibit 4: Cash flow

Year ended December	2017	2018	2019
Cash flows from operating activities			
Profit after tax	11,135	8,289	3,663
Adjustments for:			
Depreciation	5	6	5
Net (surplus)/deficit on valuation of investment property	(4,212)	(578)	4,349
Loss/(surplus) on sale of investment property	(176)	42	(8)
Share-based payment	350	(148)	100
Finance income	(19)	(31)	(41)
Finance costs	3,457	3,713	3,554
(Surplus)/loss on financial liabilities at FV through P&L	(725)	(706)	41
Tax charge	145	113	0
Increase in inventories	(13)	(56)	(16)
Decrease/(increase) in trade and other receivables	(738)	1,386	(146)
Increase/(decrease) in trade and other payables	(87)	1,504	113
	9,122	13,534	11,614
Cash flows from investing activities			
Purchase of investments properties	(20,353)	(16,744)	(10,384)
Purchase of property, plant and equipment	(3)	(5)	(2)
Proceeds from sale of investment properties	13,522	5,661	2,008
Interest received	19	31	41
	(6,815)	(11,057)	(8,337)
Cash flows from financing activities	**0**	**0**	**0**
Interest paid	(3,457)	(3,713)	(3,554)
Hedge payment	0	(153)	0
Equity dividends paid	(5,359)	(6,291)	(6,874)
Proceed from new bank loans	0	14,570	8,500
Payment of bank loans	(927)	(386)	(2,100)
	(9,743)	**4,027**	**(4,028)**
Net increase/(decrease) in cash and cash equivalents	(7,436)	6,504	(751)
Cash and cash equivalents at beginning of period	11,775	4,339	10,843
Cash and cash equivalents at end of period	4,339	10,843	10,092

Source: Company; Allenby Capital

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