GIBRALTAR ASSET MANAGEMENT

STOCKBROKERS & INVESTMENT MANAGERS

Fixed Interest

Regional REIT 4.5% 06/08/2024 - Buy

26th July 2018

Issue Price	100
Credit Rating	N/A
Risk Rating	Medium
GRY	4.5%

The Issuer:

The Issuer:
Regional REIT Limited ("RGL") is an investment trust listed on the LSE with a NAV of £393m that invests and manages high quality commercial properties predominantly in principal UK regions, outside of London.

Business Description
RGL offers investors a unique exposure to the broad regional commercial property market. The portfolio consists of 164 properties and over 1,025 tenants with a combined contracted rent roll of £61.9m per annum reflecting a net initial yield of 6.5%. The managers make the case that nationwide there is a steady stream of property conversions from offices to residential and very little new office space is built (Central London excepted). Therefore, there is a good chance that rents will increase in the coming years.

The company targets regional offices (67%) and light industrial (25%) property markets and has built a portfolio that includes properties in the Midlands (15%), Scotland (22%), South East (27%), North East (13%), North West (11%), South West (8%) and Wales (4%).

The properties are typically let to strong tenants such as Barclays, Glasgow University, Balfour Beatty, Scottish Widows, Aviva, E.On, Halfords etc with a lease length average of over 5 years to expiry (3.5 years to first break). The occupancy rate at 85% represents the fact that new purchases of buildings, although partially let, are normally not fully let.

Management
The company's external management team (London & Scottish) has a combined 150 years' experience and originally ran a property business called Credential Investment Holdings. Their skill at maximising tenant retention rates and minimising void space was severely tested during the last downturn (whilst rental values typically fell by ~15%, the assets within Credential grew their income). They are a co-founder of the fund and a major shareholder.

Purpose of Bond
This bond is designed as a minimum to replace a loan of £47m that is maturing early next year and any additional amount raised will be used to pay off secured debt.

The reason for replacing bank debt (which currently costs the company just 3.3%) is to get banks off the companies' back and for that they are prepared to pay a little extra.

And paying off secured debt is a good thing for unsecured bondholders; the more secured debt is replaced by unsecured debt the less the unsecured debt is disadvantaged by having debt ahead of it.

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Fixed Interest (cont)

Credit Analysts View:

The bond will not be rated at issue.

Terms of the bond:

Denomination

The bond has a face value of just £100, although it is not possible to purchase for less than £2,000 nominal during the Offer Period. Thereafter, the bonds can be bought and sold in multiples of just £100.

Coupon

The bond pays a 4.5% coupon in two semi-annual instalments in arrears on 6th February and 6th August in each year until the bonds mature.

Redemption

Subject to credit risk, the bonds will be repaid at par on the maturity date, 6th August 2024.

Dealing

The bonds are traded on the London Stock Exchange's electronic Order Book for Retail Bonds (ORB), which was launched in response to private investor demand for easier access to trading bonds with the aim of providing a transparent and efficient mechanism for UK retail investors to access the bond markets. The bonds are tradeable instruments and prices are quoted in the market during trading hours. The bonds can be sold before maturity on the ORB and the prices are supported by prominent investment firms in a market-making capacity.

Stamp Duty

No UK stamp duty is payable on the purchase or transfer of the bond or on its redemption.

Security

The bonds are unsecured.

Negative Pledge

Under this provision RGL will not create or at any time have outstanding, any security interest over any of its present or future business, undertakings, assets or revenues to secure certain financial indebtedness without securing the Bonds equally, subject to certain exemptions.

Covenants

RGL has agreed to:

(a) A maximum Loan-to-Value of 75% (Mgmt's target is 40% vs the current 45%);

(b) Meet an interest cover of 2x (currently 3.8x); and

(c) Not take any action that would directly result in it losing its status as a UK REIT.

Summary:

We believe this bond offers a safe and simple investment. The interest is covered 3.8 times by the company's earnings, pretty safe-looking from a bond holder's perspective. With a coupon of 4.5%, we believe the bond represents good value and may well trade at a modest premium in the secondary market.

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