

Hold (unchanged)

Share price: MYR0.97
Target price: MYR0.91 (from MYR0.95)

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Stock Information

Description: REIT with asset portfolio in retail, office and industrial. As at Mar 2012, the trust has MYR944.8m worth of investment properties.

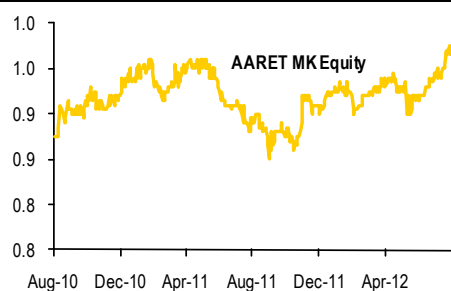
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|-----------------------------------|----------|
| Ticker: | AARET MK |
| Shares Issued (m): | 573.2 |
| Market Cap (MYR m): | 556.0 |
| 3-mth Avg Daily Turnover (USD m): | 0.05 |
| KLCI: | 1,648.22 |
| Free float (%): | 34.1 |

| | |
|----------------------------|------|
| Major Shareholders: | % |
| KUMPULAN WANG BERSAM | 60.2 |
| ROYAL BANK OF SCOTLA | 6.7 |
| PERBADANAN KEMAJUAN | 5.7 |

Key Indicators

| | |
|----------------------------|---------|
| Net cash / (debt) (MYR m): | (343.6) |
| NTA/shr (MYR): | 1.05 |
| Gearing (x): | 0.35 |

Historical Chart



Performance:

52-week High/Low MYR0.975/MYR0.845

| | | | | | |
|--------------|-------|-------|-------|-------|-------|
| | 1-mth | 3-mth | 6-mth | 1-yr | YTD |
| Absolute (%) | 3.2 | 3.7 | 10.9 | 8.4 | 7.2 |
| Relative (%) | 2.4 | (0.4) | (2.2) | (4.1) | (0.5) |

AmanahRaya REIT

Expect An Uninspiring Quarter

Maintain HOLD. ARREIT's 1H12 results will be released tonight. The results are likely to be uninspiring (but within our expectations) due to the loss of rental income at Wisma UEP since Jul 2011. We lower our earnings forecasts by 2-4% and DCF-based TP to MYR0.91sen (-4sen). Following the Wisma UEP sale, new acquisitions will be crucial for ARREIT to maintain dividend payments at 2011 levels. A special dividend is likely if more asset disposals materialise.

A subdued 2Q? We expect ARREIT to post a stronger sequential net profit of around MYR10m-10.3m (+5% QoQ, -7% YoY) driven by positive rental reversions at its existing assets. However, YoY earnings performance is likely to be weak owing to the loss of rental income at Wisma UEP since Jul 2011. 2Q DPU is estimated at 1.8sen, lifting YTD DPU to 3.6sen (51% of our 2012 dividend forecast).

New acquisitions crucial for sustaining dividend payments. ARREIT is actively seeking new properties. We understand that it is eyeing an industrial property worth MYR40-60m. Assuming a 7% net property yield, we estimate an additional DPS of 0.14sen (assuming 3-month contribution) in 2012, cushioning the loss of rental income at Wisma UEP. ARREIT subsequently sold Wisma UEP to Tenaga Nasional Bhd (TNB) for MYR40m cash in Jun 2012.

More asset sales, higher dividend? The sale of Wisma UEP resulted in a net gain of MYR3.6m (0.6sen/unit). Management has indicated its intention of retaining the proceeds for future acquisitions, but we think a special dividend is still in the offing as ARREIT aims to further streamline its asset portfolio by disposing less strategically-located properties (e. MYR122m in asset value).

Earnings adjustments. We lower our 2012-14 earnings forecasts by 2-4% after factoring in a lower rental assumption of MYR570k/month (-6%) for the Silver Bird Group's (SBG) factory. SBG's payment issue remains unresolved. The shortfall in rentals is currently covered by SBG's 24-month security deposit. The loss of SBG's rentals could result in a 15.5% decline in our 2014 DPU forecasts, we estimate.

AmanahRaya REIT – Summary Earnings Table

Source: Maybank KE

| FYE Dec (MYR m) | 2010A | 2011A | 2012F | 2013F | 2014F |
|------------------------------|-------|-------|-------|-------|-------|
| Revenue | 59.5 | 65.3 | 64.7 | 65.7 | 67.2 |
| EBITDA | 56.5 | 59.5 | 60.0 | 60.7 | 62.0 |
| Recurring Net Profit | 41.4 | 42.5 | 43.0 | 43.7 | 45.0 |
| Recurring Basic EPS (cents) | 7.2 | 7.4 | 7.5 | 7.6 | 7.9 |
| EPS growth (%) | 1.0 | 2.7 | 1.1 | 1.7 | 2.9 |
| DPS (cents) | 7.3 | 7.2 | 7.1 | 7.2 | 7.5 |
| PER | 13.4 | 13.1 | 12.9 | 12.7 | 12.4 |
| EV/EBITDA (x) | 16.3 | 15.5 | 15.3 | 15.1 | 0.0 |
| Div Yield (%) | 7.5 | 7.4 | 7.3 | 7.5 | 7.7 |
| P/BV(x) | 1.0 | 0.9 | 0.9 | 0.9 | 0.9 |
| Net Gearing (%) | 36.4 | 34.9 | 34.9 | 34.8 | 34.7 |
| ROE (%) | 7.4 | 7.1 | 7.1 | 7.2 | 7.4 |
| ROA (%) | 4.1 | 4.1 | 4.1 | 4.2 | 4.3 |
| Consensus Net Profit (MYR m) | - | - | 44.0 | 45.2 | 46.6 |
| Earnings Revision (%) | - | - | (1.9) | (3.1) | (3.7) |

Table 1: ARREIT's asset portfolio

| Assets | Location | Property type | GFA/NLA (sq ft) | Net Book value (RMm) | Occupancy rate | Unexpired lease (years) | Tenant profile |
|--|--------------------|----------------------|--------------------|----------------------|----------------|-------------------------|----------------------------------|
| 1 Holiday Villa Alor Setar | Kedah | Hotel | 150,000 | 35.0 | 100% | 4.5 | Alor Setar Holiday Villa Sdn Bhd |
| 2 Holiday Villa Langkawi | Kedah | Resort Hotel | 176,590 | 58.8 | 100% | 4.5 | Langkawi Holiday Villa Sdn Bhd |
| 3 Segi Colleague Subang Jaya | Subang Jaya | Education | 131,387 | 55.1 | 100% | 9.5 | SEG International Bhd |
| 4 Segi Colleague Kota Damansara | Petaling Jaya | Education | 337,710 | 154.0 | 100% | 6.0 | SEG International Bhd |
| 5 Block A&B, South City Plaza | Seri Kembangan | Office & Commercial | 66,605 | 20.1 | 100% | 4.3 | SEG International Bhd |
| 6 Wisma AmanahRaya | Jalan Ampang | Office | 166,902 | 74.7 | 100% | 0.7 | Amanah Raya Bhd |
| 7 Wisma AmanahRaya Bhd | Damansara Heights | Office | 125,227 | 63.9 | 100% | 3.0 | CIMB Investment Bank Bhd |
| 8 Wisma UEP | Subang Jaya | Office | 90,541 | 39.0 | 30% | 3.0 | - |
| 9 Dana 13 | Petaling Jaya | Office | 268,850 | 108.8 | 100% | 8.3 | Symphony House Bhd |
| 10 Permanis Factory | Bangi | Industrial Factory | 262,607 | 28.5 | 100% | 9.5 | C.I. Holdings Bhd |
| 11 Kontena Nasional Distribution Centre 11 | Port Klang | Industrial Warehouse | 247,840 | 30.7 | 100% | 7.5 | Kontena Nasional Bhd |
| 12 AIC Factory | Shah Alam | Industrial Factory | 130,252 | 21.3 | 100% | 4.3 | AIC Corporation Bhd |
| 13 Silver Bird Factory | Shah Alam | Industrial Complex | 274,238 | 98.0 | 100% | 4.2 | Silver Bird Group Bhd |
| 14 Gurun Automotive Warehouse | Gurun, Kedah | Industrial Warehouse | 214,450 | 25.0 | 100% | 6.0 | Teras Globalmas Sdn Bhd |
| 15 Selayang Mall | Selayang, Selangor | Shopping mall | 380,032 | 132.0 | 100% | 5.0 | Seal Incorporated Bhd |
| Total | | | 3,023,231.0 | 944.8 | | | |

Source: Annual Report 2011

Table 2: M-REITs' 2012-13 yield comparison

| | Price (MYR) @ 24 Aug 2012 | Market cap (RMm) | Gross Div (sen) CY12 | Gross Div (sen) CY13 | Gross Yield (%) CY12 | Gross Yield (%) CY13 |
|---------------------------|---------------------------|------------------|----------------------|----------------------|----------------------|----------------------|
| AL-Aqar KPJ REIT | 1.47 | 1,023.5 | 8.3 | 8.6 | 5.6 | 5.9 |
| AL-Hadharah Boustead REIT | 2.15 | 1,347.8 | 12.0 | 12.5 | 5.6 | 5.8 |
| Amanah Raya ^ | 0.97 | 556.0 | 7.1 | 7.2 | 7.4 | 7.5 |
| AMFirst REIT | 1.06 | 727.6 | 9.3 | 9.3 | 8.8 | 8.8 |
| Atrium | 1.21 | 147.4 | 8.0 | 9.0 | 6.6 | 7.4 |
| Axis-REIT ^ | 3.05 | 1,384.1 | 17.7 | 18.3 | 5.8 | 6.0 |
| Hektar | 1.51 | 483.2 | 11.0 | 11.0 | 7.3 | 7.3 |
| Quill Capita ^ | 1.15 | 448.7 | 8.7 | 9.0 | 7.5 | 7.8 |
| Starhill | 1.05 | 1,390.6 | 8.3 | 9.5 | 7.9 | 9.0 |
| Tower | 1.45 | 406.7 | 11.0 | 11.0 | 7.6 | 7.6 |
| UOA | 1.44 | 608.9 | 11.0 | 11.0 | 7.6 | 7.6 |
| SunREIT ^ | 1.49 | 4,017.7 | 7.6 | 7.8 | 5.1 | 5.3 |
| CMMT ^ | 1.71 | 3,019.0 | 8.6 | 8.7 | 5.0 | 5.1 |
| Pavilion^ | 1.39 | 4,170.8 | 6.5 | 6.7 | 4.7 | 4.8 |
| Average | | | | | 6.6 | 6.9 |

^ Maybank-IB forecasts

Source: Bloomberg, Maybank-IB

INCOME STATEMENT (MYR m)

| FY Dec | 2011A | 2012F | 2013F | 2014F |
|---|-------------|-------------|-------------|-------------|
| Gross Rental Income | 65.3 | 64.7 | 65.7 | 67.2 |
| Interest Income | 0.8 | 1.1 | 1.2 | 1.3 |
| Gross Income | 66.1 | 65.7 | 66.9 | 68.5 |
| Property Operating Expenses | (2.0) | (3.3) | (3.6) | (3.7) |
| Non-Property Expenses | (3.8) | (4.7) | (2.5) | (2.5) |
| Net Trust Income | 42.5 | 43.0 | 43.7 | 45.0 |
| Revaluation of Investment | 31.1 | - | - | - |
| Income before taxation | 73.7 | 43.0 | 43.7 | 45.0 |
| Distribution To Unitholders | (40.2) | (40.9) | (41.6) | (42.8) |
| Taxation | - | - | - | - |
| Income after taxation | 73.7 | 43.0 | 43.7 | 45.0 |
| Income after taxation (ex-valuation) | 42.5 | 43.0 | 43.7 | 45.0 |
| Payout Ratio | 97.3 | 95.0 | 95.0 | 95.0 |
| Distribution per Unit (sen) | 7.2 | 7.1 | 7.2 | 7.5 |

CASH FLOW (MYR m)

| FY Dec | 2011A | 2012F | 2013F | 2014F |
|----------------------------------|---------------|---------------|---------------|---------------|
| Pretax Profit | 73.7 | 43.0 | 43.7 | 45.0 |
| Net interest receipts/(payments) | 16.1 | 15.9 | 15.8 | 15.7 |
| Revaluation (non-cash item) | (31.1) | - | - | - |
| Working capital change | (3.3) | (0.6) | 1.0 | 1.5 |
| Cash tax paid | - | - | - | - |
| Cash flow from operations | 55.4 | 58.3 | 60.5 | 62.2 |
| Capex | - | - | - | - |
| Disposal/(purchase) | - | - | - | - |
| Others | 0.8 | 1.1 | 1.2 | 1.3 |
| Cash flow from investing | 0.8 | 1.1 | 1.2 | 1.3 |
| Debt raised/(repaid) | - | - | - | - |
| Equity raised/(repaid) | - | - | - | - |
| Dividends (paid) | (30.3) | (40.9) | (41.6) | (42.8) |
| Others | (17.0) | (17.0) | (17.0) | (17.0) |
| Cash flow from financing | (47.3) | (57.8) | (58.5) | (59.7) |
| Change in cash | 8.9 | 1.5 | 3.2 | 3.7 |

BALANCE SHEET (MYR m)

| FY Dec | 2011A | 2012F | 2013F | 2014F |
|--------------------------------|----------------|----------------|----------------|----------------|
| Total Assets | 1,040.5 | 1,039.5 | 1,042.7 | 1,046.5 |
| Non Current Assets | | | | |
| Investment Properties | 944.8 | 944.8 | 944.8 | 944.8 |
| Current Assets | | | | |
| Cash | 29.7 | 31.3 | 34.4 | 38.2 |
| Receivables | 66.0 | 63.5 | 63.5 | 63.5 |
| Total Liabilities | 438.8 | 436.1 | 437.1 | 438.6 |
| Current Liabilities | | | | |
| Short term borrowings | - | - | - | - |
| Creditors | 75.6 | 73.2 | 74.2 | 75.7 |
| Non Current Liabilities | | | | |
| Long term borrowings | 363.3 | 363.0 | 363.0 | 363.0 |
| Net Assets | 601.6 | 603.4 | 605.6 | 607.8 |
| Unitholders' Capital | 519.7 | 519.7 | 519.7 | 519.7 |
| Undistributed income | 82.0 | 83.7 | 85.9 | 88.1 |
| Unitholders' Funds | 601.6 | 603.4 | 605.6 | 607.8 |
| Units in issue (million) | 573.2 | 573.2 | 573.2 | 573.2 |
| Net Asset Value per unit | 1.05 | 1.05 | 1.06 | 1.06 |

WACC ASSUMPTION

| | |
|--------------------------|------------|
| Risk-free Rate of Return | 4.0 |
| Long Term Cost of Debt | 5.0 |
| Market Risk | 10.5 |
| Beta | 0.7 |
| Target Wd | 0.3 |
| Target We | 0.7 |
| Cost of Equity | 8.2 |
| WACC | 7.3 |
| Terminal Value Discount | 8.4 |

Source: Company, Maybank KE

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| CAGR = Compounded Annual Growth Rate | FY = Financial Year | PER = PE Ratio |
| Capex = Capital Expenditure | FYE = Financial Year End | QoQ = Quarter-On-Quarter |
| CY = Calendar Year | MoM = Month-On-Month | ROA = Return On Asset |
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| DPS = Dividend Per Share | NTA = Net Tangible Asset | ROSF = Return On Shareholders' Funds |
| EBIT = Earnings Before Interest And Tax | P = Price | WACC = Weighted Average Cost Of Capital |
| EBITDA = EBIT, Depreciation And Amortisation | P.A. = Per Annum | YoY = Year-On-Year |
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