

Hold (unchanged)

Share price: MYR0.93
Target price: MYR0.95 (from MYR0.91)

Wong Wei Sum, CFA
weisum@maybank-ib.com
(03) 2297 8679



Stock Information

Description: REIT with asset portfolio in retail, office and industrial. As at Sep 2012, the trust has MYR948.4m worth of investment properties.

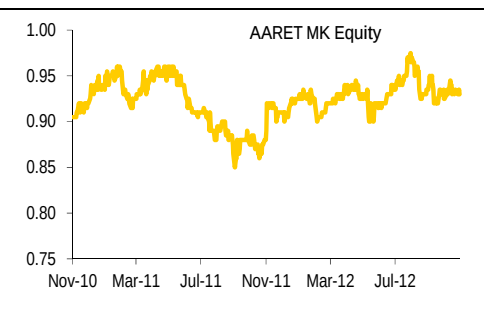
Ticker:	AARET MK
Shares Issued (m):	573.2
Market Cap (MYR m):	533.1
3-mth Avg Daily Turnover (USD m):	0.07
KLCI:	1,618.55
Free float (%):	34.1

Major Shareholders:	%
Kumpulan Wang Bersama	60.2
RBS	6.7
Perbadanan Kemajuan Negeri	5.7

Key Indicators

ROE – annualised (%)	7.1
Net cash (MYR m):	(329.4)
NTA/shr (MYR):	1.05

Historical Chart



Performance:

52-week High/Low	MYR0.975/MYR0.885				
	1-mth	3-mth	6-mth	1-yr	YTD
Absolute (%)	(0.5)	(4.6)	0.5	5.7	2.8
Relative (%)	2.2	(2.6)	(4.0)	(7.3)	(3.0)

AmanahRaya REIT

Flattish Sequential Growth

Maintain HOLD. ARREIT's 9M12 results were within our expectations but slightly below consensus estimates. We remain cautious on the sustainability of its rental income as the Silver Bird non-payment issue remains unresolved, and the lease agreement for Wisma Amanahraya will expire in Jul 2013. New acquisitions will be crucial to sustain its earnings growth. Our DCF-based TP is raised to MYR0.95 as we roll over our valuation base to 2014.

Results in line. 3Q12 net profit of MYR10.8m (+4% YoY) took 9M12 earnings to MYR30.7m (-5% YoY), accounting for 71% of our and 70% of consensus full-year estimates. The YoY decline in 9M earnings was due to: 1) the loss of rental income at Wisma UEP owing to the non-renewal of Sime UEP Properties Bhd's tenancy upon its expiry in Jul 2011, 2) higher property expenses at Wisma UEP and Selayang Mall as well as provisions for landslip management at Wisma ARB.

No change to dividend payments. 3Q12 net profit grew by 5.6% QoQ thanks to positive rental reversions at existing assets. ARREIT has proposed a 1.8sen DPU for 3Q (YTD: 5.4sen, +1.1% YoY); in line. ARREIT intends to maintain the same level of DPU as 2011. It may use its cash reserve (MYR34m or 5.9sen as at Sep 2012) to cover any shortfalls arising from a decline in rental income.

Rising rental risk. The issue of non-payment of rent by Silver Bird Factory (11% of gross rental income) remains unresolved; the rental shortfall is currently covered by its 24-month security deposit. Also, CIMBIB's lease of Wisma Amanah Raya (WAR) is expiring in Jul 2013 (extended from Jan 2013), when CIMBIB will move to its new office tower in KL Sentral. ARREIT is actively looking for new tenants for the building and may dispose WAR should it receive an attractive offer.

Eyeing new assets. New acquisitions will be crucial to sustain dividend payments/earnings growth. ARREIT is eyeing an industrial property worth MYR40-60m with a long lease agreement and rental guarantee, we understand. It is also scouting for office buildings in the Klang Valley. As at Sep 2012, ARREIT's gearing ratio was unchanged at 0.35x – implying new debt capacity of MYR310m at the 50% statutory limit.

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
NPI	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 EPU (cents)	7.2	7.4	7.5	7.6	7.9
EPS growth (%)	1.0	2.7	1.1	1.7	2.9
DPU (cents)	7.3	7.2	7.1	7.2	7.5
PER	12.9	12.5	12.4	12.2	11.8
EV/EBITDA (x)	15.8	15.1	14.9	14.8	0.0
Div Yield (%)	7.9	7.8	7.7	7.8	8.0
P/NAV(x)	1.0	0.9	0.9	0.9	0.9
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

Table 1: AAREIT – Results Summary

FY Dec (MYR m)	Quarterly results					Cumulative			Comments
	3Q12	3Q11	% YoY	2Q12	% QoQ	9M12	9M11	% YoY	
Gross revenue	16.8	16.2	3.7	16.7	0.6	50.1	48.9	2.4	YoY growth due to positive rental revisions in existing assets, offsetting the loss of rental income in Wisma UEP.
Net rental income	15.9	15.5	2.7	15.4	3.4	46.1	47.3	(2.5)	
Total Trust income	16.2	15.7	3.0	15.6	3.8	46.8	47.9	(2.3)	
Change in fair value of borrowing/ revaluation gains	0.0	0.0	NA	0.0	NA	0.0	0.0	NA	
Income before tax	10.8	10.4	4.0	10.2	5.6	30.7	32.2	(4.7)	
Tax	0.0	0.0	NA	0.0	NA	0.0	0.0	NA	In line with our expectation but slightly below consensus estimates
Income after tax	10.8	10.4	4.0	10.2	5.6	30.7	32.2	(4.7)	
Income after tax (realised)	10.8	10.4	4.0	10.2	5.6	30.7	32.2	(4.7)	
EPU- realised (sen)	1.9	1.8	4.0	1.8	5.6	5.4	5.6	(4.7)	
DPU (sen)	1.8	1.7	4.0	1.8	(0.6)	5.4	5.3	1.1	
	3Q12	3Q11	+/- ppt	2Q12	+/- ppt	9M12	9M11	+/-ppt	
Property exp ratio (%)	5.1	2.6	2.5	0.0	5.1	7.9	3.2	4.6	
Trust exp ratio (%)	32.2	37.0	(4.8)	0.0	32.2	32.2	32.2	0.1	
Trust income margin (%)	96.5	97.2	(0.7)	93.6	2.9	93.5	98.0	(4.5)	

Sources: Trust, Maybank KE

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-revaluation)	42.5	43.0	43.7	45.0
Payout Ratio	97.3	95.0	95.0	95.0

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

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

WACC ASSUMPTIONS

Risk-free Rate of Return	4.0
Long Term Cost of Debt	5.5
Market Risk	10.5
Beta	0.8
Target Wd	0.3
Target We	0.7
Cost of Equity	9.2
WACC	8.1

Source: Company, Maybank KE

RESEARCH OFFICES

REGIONAL	ECONOMICS
P K BASU Regional Head, Research & Economics (65) 6432 1821 pk.basu@maybank-ke.com.sg WONG Chew Hann, CA Acting Regional Head of Institutional Research (603) 2297 8686 wchewh@maybank-ib.com THAM Mun Hon, CFA Regional Strategist (852) 2268 0630 thammunhon@kimeng.com.hk ONG Seng Yeow Regional Products & Planning (852) 2268 0644 ongsengyeow@maybank-ke.com.sg	Suhaimi ILIAS Chief Economist ▪ Singapore Malaysia (603) 2297 8682 suhaimi_ilias@maybank-ib.com Luz LORENZO Economist ▪ Philippines Indonesia (63) 2 849 8836 luz_lorenzo@maybank-atrke.com
MALAYSIA	SINGAPORE
WONG Chew Hann, CA Head of Research (603) 2297 8686 wchewh@maybank-ib.com ▪ Strategy ▪ Construction & Infrastructure Desmond CH'NG, ACA (603) 2297 8680 desmond.chng@maybank-ib.com ▪ Banking - Regional LIAW Thong Jung (603) 2297 8688 tjliaw@maybank-ib.com ▪ Oil & Gas ▪ Automotive ▪ Shipping ONG Chee Ting, CA (603) 2297 8678 ct.ong@maybank-ib.com ▪ Plantations Mohshin Aziz (603) 2297 8692 mohshin.aziz@maybank-ib.com ▪ Aviation ▪ Petrochem ▪ Power Yin Shao Yang, CPA (603) 2297 8916 samuel.y@maybank-ib.com ▪ Gaming – Regional ▪ Media ▪ Power TAN Chi Wei, CFA (603) 2297 8690 chiwei.t@maybank-ib.com ▪ Construction & Infrastructure ▪ Power WONG Wei Sum, CFA (603) 2297 8679 weisum@maybank-ib.com ▪ Property & REITs LEE Yen Ling (603) 2297 8691 lee.yl@maybank-ib.com ▪ Building Materials ▪ Manufacturing ▪ Technology LEE Cheng Hooi Head of Retail chenghooi.lee@maybank-ib.com ▪ Technicals	Stephanie WONG Head of Research (65) 6432 1451 swong@maybank-ke.com.sg ▪ Strategy ▪ Small & Mid Caps Gregory YAP (65) 6432 1450 gyap@maybank-ke.com.sg ▪ Technology & Manufacturing ▪ Telcos - Regional Wilson LIEW (65) 6432 1454 wilsonliw@maybank-ke.com.sg ▪ Hotel & Resort ▪ Property & Construction James KOH (65) 6432 1431 jameskoh@maybank-ke.com.sg ▪ Logistics ▪ Resources ▪ Consumer ▪ Small & Mid Caps YEAK Chee Keong, CFA (65) 6433 5730 yeakcheekong@maybank-ke.com.sg ▪ Healthcare ▪ Offshore & Marine Alison Fok (65) 6433 5745 alisonfok@maybank-ke.com.sg ▪ Services ▪ S-chips Bernard CHIN (65) 6433 5726 bernardchin@maybank-ke.com.sg ▪ Transport (Land, Shipping & Aviation) ONG Kian Lin (65) 6432 1470 ongkianlin@maybank-ke.com.sg ▪ REITs / Property Wei Bin (65) 6432 1455 weibin@maybank-ke.com.sg ▪ S-chips ▪ Small & Mid Caps
THAILAND	INDONESIA
Mayuree CHOWVIKARN Head of Research (66) 2658 6300 ext 1440 mayuree.c@maybank-ke.co.th ▪ Strategy Maria BRENDA SANCHEZ LAPIZ Co-Head of Research Dir (66) 2257 0250 (66) 2658 6300 ext 1399 Maria.L@maybank-ke.co.th ▪ Consumer/ Big Caps Andrew STOTZ Strategist (66) 2658 6300 ext 5091 Andrew@maybank-ke.co.th Suttatip PEERASUB (66) 2658 6300 ext 1430 suttatip.p@maybank-ke.co.th ▪ Media ▪ Commerce Sutthichai KUMWORACHAI (66) 2658 6300 ext 1400 sutthichai.k@maybank-ke.co.th ▪ Energy ▪ Petrochem Termporn TANTIVIVAT (66) 2658 6300 ext 1520 termporn.t@maybank-ke.co.th ▪ Property Woraphon WIROONSRI (66) 2658 6300 ext 1560 woraphon.w@maybank-ke.co.th ▪ Banking & Finance Jaroontan WATTANAWONG (66) 2658 6300 ext 1404 jaroontan.w@maybank-ke.co.th ▪ Transportation ▪ Small cap. Chatchai JINDARAT (66) 2658 6300 ext 1401 chatchai.j@maybank-ke.co.th ▪ Electronics Pongrat RATANATAVANANANDA (66) 2658 6300 ext 1398 pongrat.R@maybank-ke.co.th ▪ Services/ Small Caps	Katarina SETIAWAN Head of Research (62) 21 2557 1125 ksetiawan@kimeng.co.id ▪ Consumer ▪ Strategy ▪ Telcos Lucky ARIESANDI, CFA (62) 21 2557 1127 lariesandi@kimeng.co.id ▪ Base metals ▪ Coal ▪ Oil & Gas Rahmi MARINA (62) 21 2557 1128 rmarina@kimeng.co.id ▪ Banking ▪ Multifinance Pandu ANUGRAH (62) 21 2557 1137 panugrah@kimeng.co.id ▪ Auto ▪ Heavy equipment ▪ Plantation ▪ Toll road Adi N. WICAKSONO (62) 21 2557 1130 anwicaksono@kimeng.co.id ▪ Generalist Anthony YUNUS (62) 21 2557 1134 ayunus@kimeng.co.id ▪ Cement ▪ Infrastructure ▪ Property Arwani PRANADJAYA (62) 21 2557 1129 apranadjaya@kimeng.co.id ▪ Technicals
VIETNAM	PHILIPPINES
Michael KOKALARI, CFA Head of Research (84) 838 38 66 47 michael.kokalari@kimeng.com.vn ▪ Strategy Nguyen Thi Ngan Tuyen (84) 844 55 58 88 x 8081 tuyen.nguyen@kimeng.com.vn ▪ Food and Beverage ▪ Oil and Gas Ngo Bich Van (84) 844 55 58 88 x 8084 van.ngo@kimeng.com.vn ▪ Banking Trinh Thi Ngoc Diep (84) 844 55 58 88 x 8242 diep.trinh@kimeng.com.vn ▪ Technology ▪ Utilities ▪ Construction Dang Thi Kim Thoa (84) 844 55 58 88 x 8083 thoa.dang@kimeng.com.vn ▪ Consumer Nguyen Trung Hoa +84 844 55 58 88 x 8088 hoa.nguyen@kimeng.com.vn ▪ Steel ▪ Sugar ▪ Resources	Luz LORENZO Head of Research (63) 2 849 8836 luz_lorenzo@maybank-atrke.com ▪ Strategy Laura DY-LIACCO (63) 2 849 8840 laura_dyliacco@maybank-atrke.com ▪ Utilities ▪ Conglomerates ▪ Telcos Lovell SARREAL (63) 2 849 8841 lovell_sarreal@maybank-atrke.com ▪ Consumer ▪ Media ▪ Cement Kenneth NERECINA (63) 2 849 8839 kenneth_nerecina@maybank-atrke.com ▪ Conglomerates ▪ Property ▪ Ports/ Logistics Katherine TAN (63) 2 849 8843 kat_tan@maybank-atrke.com ▪ Banks ▪ Construction Ramon ADVIENTO (63) 2 849 8842 ramon_adviento@maybank-atrke.com ▪ Mining
INDIA	
Jigar SHAH Head of Research (91) 22 6623 2601 jigar@kimeng.co.in ▪ Oil & Gas ▪ Automobile ▪ Cement Anubhav GUPTA (91) 22 6623 2605 anubhav@kimeng.co.in ▪ Metal & Mining ▪ Capital goods ▪ Property Ganesh RAM (91) 226623 2607 ganeshram@kimeng.co.in ▪ Telecom ▪ Contractor	

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Definition of Ratings

Maybank Kim Eng Research uses the following rating system:

BUY	Total return is expected to be above 10% in the next 12 months (excluding dividends)
HOLD	Total return is expected to be between -10% to +10% in the next 12 months (excluding dividends)
SELL	Total return is expected to be below -10% in the next 12 months (excluding dividends)

Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Some common terms abbreviated in this report (where they appear):

Adex = Advertising Expenditure	FCF = Free Cashflow	PE = Price Earnings
BV = Book Value	FV = Fair Value	PEG = PE Ratio To Growth
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
DCF = Discounted Cashflow	NAV = Net Asset Value	ROE = Return On Equity
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
EPS = Earnings Per Share	PAT = Profit After Tax	YTD = Year-To-Date
EV = Enterprise Value	PBT = Profit Before Tax	

 Malaysia

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

 Philippines

Maybank ATR Kim Eng Securities
Inc.
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 849 8888
Fax: (63) 2 848 5738

 South Asia Sales Trading

Connie TAN
connie@maybank-ke.com.sg
Tel: (65) 6333 5775
US Toll Free: 1 866 406 7447

 Singapore

Maybank Kim Eng Securities Pte Ltd
Maybank Kim Eng Research Pte Ltd
9 Temasek Boulevard
#39-00 Suntec Tower 2
Singapore 038989

Tel: (65) 6336 9090
Fax: (65) 6339 6003

 Hong Kong

Kim Eng Securities (HK) Ltd
Level 30,
Three Pacific Place,
1 Queen's Road East,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104

 Thailand

Maybank Kim Eng Securities
(Thailand) Public Company
Limited
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)

 North Asia Sales Trading

Eddie LAU
eddielau@kimeng.com.hk
Tel: (852) 2268 0800
US Toll Free: 1 866 598 2267

 London

Maybank Kim Eng Securities
(London) Ltd
6/F, 20 St. Dunstan's Hill
London EC3R 8HY, UK

Tel: (44) 20 7621 9298
Dealers' Tel: (44) 20 7626 2828
Fax: (44) 20 7283 6674

 Indonesia

PT Kim Eng Securities
Plaza Bapindo
Citibank Tower 17th Floor
Jl Jend. Sudirman Kav. 54-55
Jakarta 12190, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

 Vietnam

In association with
Kim Eng Vietnam Securities
Company
1st Floor, 255 Tran Hung Dao St.
District 1
Ho Chi Minh City, Vietnam

Tel : (84) 838 38 66 36
Fax : (84) 838 38 66 39

 New York

Maybank Kim Eng Securities
USA Inc
777 Third Avenue, 21st Floor
New York, NY 10017, U.S.A.

Tel: (212) 688 8886
Fax: (212) 688 3500

 India

Kim Eng Securities India Pvt Ltd
2nd Floor, The International 16,
Maharishi Karve Road,
Churchgate Station,
Mumbai City - 400 020, India

Tel: (91).22.6623.2600
Fax: (91).22.6623.2604

 Saudi Arabia

In association with
Anfaal Capital
Villa 47, Tujjar Jeddah
Prince Mohammed bin Abdulaziz
Street P.O. Box 126575
Jeddah 21352

Tel: (966) 2 6068686
Fax: (966) 26068787

www.maybank-ke.com | www.kimengresearch.com.sg