

PARTNERS REIT (PAR.UN-TSX, \$8.15)

Rating: Buy
New 12-Month Target: \$9.00

VALUATION UPDATE FOLLOWING QUARTERLY RESULTS AND FINANCING

Previous 12-Month Target: \$8.50

PARTNERS REIT		TSX:PAR.UN	
<i>(Currency is C\$ unless noted otherwise)</i>			
MARKET INFO			
Last Price	\$8.15		
12 Month Target Price	\$9.00		
Return to Target Price (incl. distribution)	18.3%		
52-Week Trading Range	\$6.04 - \$8.43		
Units Outstanding (m, b/fd)	21.4 / 21.4		
Market Capitalization - Basic (\$m)	\$175.3		
Enterprise Value (\$m)	\$440.1		
Implied Cap Rate (Last Price/Target)	6.9%/6.6%		
Distribution Yield	7.9%		
FYE: DEC. 31	2011	2012E	2013E
Revenue (\$m)	\$24.2	\$46.8	\$70.4
Net Operating Income (\$m)	\$15.5	\$29.5	\$43.6
NOI Margin	60.1%	63.2%	62.0%
FFO Per Unit (FD)	\$0.65	\$0.67	\$0.71
FFO Payout Ratio	99.0%	94.9%	90.7%
AFFO Per Unit (FD)	\$0.60	\$0.60	\$0.64
AFFO Payout Ratio	106.6%	106.0%	99.3%
Distribution Per Unit	\$0.64	\$0.64	\$0.64
MOST RECENT QUARTER	Jun-12		
Revenue (\$m)	\$11.3		
Net Operating Income (\$m)	\$7.3		
NOI Margin	65.0%		
FFO Per Unit (FD)	\$0.18		
FFO Payout Ratio	90.3%		
AFFO Per Unit (FD)	\$0.16		
AFFO Payout Ratio	99.8%		
Debt-to-Gross Book Value	60.9%		
Interest Coverage Ratio	1.89x		
Debt Service Coverage Ratio	1.37x		
Gross Leasable Area (m/sqft)	2.2		
Occupancy	94.1%		
Weighted Average Interest Rate	4.63%		
Lease Term Maturity (yrs)	6.0		
VALUATION	2011	2012E	2013E
P/BV (x)	1.1x	1.2x	1.1x
P/FFO (x)	12.5x	12.1x	11.5x
P/AFFO (x)	13.6x	13.5x	12.7x
DISCLOSURE CODE:	6		
<i>(Please refer to applicable disclosures on the back page)</i>			

Source: M Partners, Capital IQ



Figure 2: Peer Analysis

Company	Ticker	Last Price	52 Wk Hi	52 Wk Lo	Market Cap (m)	Yield	Current FY			Next FY		
							FFO/sh	P/FFO	FFO Payout Ratio	FFO/sh	P/FFO	FFO Payout Ratio
Riocan Real Estate Investment Trust	TSX:REI.UN	\$28.64	\$29.20	\$24.11	\$8,110	4.8%	\$1.42	20.2	97.5%	\$1.59	18.0	86.6%
Retrocom REIT	TSX:RMM.UN	\$5.64	\$5.90	\$3.50	\$283	8.0%	\$0.44	12.9	103.2%	\$0.52	10.8	85.8%
Crombie Real Estate Investment Trust	TSX:CRR.UN	\$15.28	\$15.37	\$12.14	\$1,307	5.8%	\$1.04	14.7	85.9%	\$1.08	14.2	82.6%
Calloway REIT	TSX:CWT.UN	\$29.88	\$31.25	\$24.46	\$3,730	5.2%	\$1.77	16.9	87.6%	\$1.85	16.2	83.9%
First Capital Realty Inc.	TSX:FCR	\$19.29	\$19.71	\$15.76	\$3,645	4.1%	\$1.00	19.3	79.9%	\$1.06	18.2	75.4%
Primaris Retail Real Estate Investment Trust	TSX:PMZ.UN	\$24.18	\$24.93	\$19.22	\$2,188	5.0%	\$1.52	15.9	80.3%	\$1.57	15.4	77.7%
PlazaCorp Retail Properties Ltd.	TSXV:PLZ	\$4.99	\$5.05	\$3.99	\$297	4.1%	\$0.27	18.4	79.3%	\$0.35	14.3	64.7%
Mean						5.3%	16.9	87.7%	15.3	15.3	79.5%	
Median						5.0%	16.9	85.9%	15.4	15.4	82.6%	
Partners Real Estate Investment Trust	TSX:PAR.UN	\$8.15	\$8.43	\$6.04	\$175	7.9%	\$0.67	12.2	94.9%	\$0.71	11.5	90.7%

Source: M Partners, Capital IQ

QUARTERLY RESULTS IN-LINE

Partners reported in-line Q2/12 results on August 14, 2012, with NOI of \$7.3 million and FFO per unit (FD) of \$0.18; this compared to our estimates of \$7.2 million and \$0.17 respectively. During the quarter Partners also reduced its payout ratio to 99.8% of AFFO, down from 103.0% in Q1/12 and 126.6% in Q2/11.

The REIT reported occupancy of 94.1% as at June 30, 2012; however this number is misrepresentative as approximately 4.1% of the REIT's total GLA is newly vacant at its Mega Centre property in Montreal, Quebec as an anchor space of 90,000 square feet is being prepared for a new tenancy, which is expected to be a major national retailer.

Figure 1: Key Financial Metrics

	Reported		M Partners			
	Q2/12A	Q2/12E	Q1/12A	Q2/11A	Q/Q %	Y/Y %
Rental Revenue (\$m)	\$11.3	\$11.5	\$9.1	\$5.6	24.2%	101.8%
Net Operating Income (\$m)	\$7.3	\$7.2	\$5.8	\$3.7	25.9%	97.3%
NOI Margin	65.0%	62.5%	63.8%	65.6%	1.2%	-0.6%
FFO Per Share (FD)	\$0.18	\$0.17	\$0.18	\$0.15	0.0%	20.0%
FFO Payout Ratio	90.3%	93.0%	88.9%	104.0%	1.4%	-13.7%
AFFO Per Share (FD)	\$0.16	\$0.16	\$0.16	\$0.13	0.0%	23.1%
AFFO Payout Ratio	99.8%	102.5%	103.0%	126.6%	-3.2%	-26.8%

Source: Company Reports, M Partners

STRONG DEMAND FOR CONVERTIBLE DEBENTURE OFFERING

Yesterday Partners announced the closing of its \$34.5 million convertible debenture offering. The debentures have a maturity date of September 30, 2017 and a coupon of 6.0% per annum; the \$10.35 conversion price represented approximately a 30% premium to the unit price at the time of offering. Demand for the offering was strong, illustrated by the exercise of the full over-allotment option.

We view the financing as a positive development given the lower cost of capital associated with the debentures at 6.0% relative to the REIT's equity, which is currently slightly less than 8.0%. In addition, the financing is non-dilutive and the 30% premium compares favourably to its recent offerings.

VALUATION UPDATE INCREASES PRICE TARGET TO \$9.00

We have updated our estimates to reflect Q2/12 results and the impact of the financing. As a result, our FY 2012E numbers decrease slightly due to recent debenture offering and the equity offering which closed in June 2012. These financings have not been accompanied by acquisitions, which has created a temporary cash drag on earnings in the near-term. As the quarter was largely in-line, our FY 2013E estimates do not materially change; this is however predicated on the REIT meeting our acquisition targets of \$100 million for H2/12E and \$200 million for FY 2013E.

We are updating our valuation to reflect the increase in multiples experienced throughout the sector. When we initiated coverage of Partners in April, its peer group was trading on average at 14.5 times on a FWD P/FFO basis; the average is currently 15.3 times. As such, we are increasing our target price multiple from 12.0 times to 12.5 times to maintain the same discount to its peers. As a result, our price target increases from \$8.50 to \$9.00 based on our FY 2013E FFO per unit (FD) estimate of \$0.71.

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Rating System	
Buy:	Price expected to rise
Sell:	Price is inflated and expected to decrease
Hold:	Properly priced
Speculative Buy:	Price expected to rise; material risk to the investment exists
Under Review:	Not currently rated

Summary of Recommendations		
As of June 30, 2012		
Buy	52	85%
Hold	7	12%
Sell	2	3%
Total	61	100%