

Lok'nStore (LOK.L)

Disposal proceeds support store rollout

Buy

Flash note

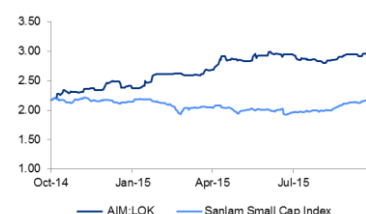
21 October 2015

Lok'nStore reported FY15 results ahead of expectations on the back of a strong performance from the core storage business, where occupancy was up 0.5%, despite the addition of 57,000 sq ft of new space (c.5% of the total). LOK is continuing its new store rollout programme, with three new stores due to open by spring of 2016. Having raised £3.5m from the Swindon sale and £2m additional proceeds from Reading, we expect further projects to be added to the pipeline this year. Despite our previous target being exceeded, our revised forecasts have raised the target price to 351p and we maintain our Buy rating.

- **Results ahead:** LOK reported record FY15 results, which were slightly ahead of expectations, with adjusted EBITDA up 23% to £5.7m and PBT increasing 35% to £2.65m. Self storage was the main driver of performance, with pricing up 4% and occupancy nearly 1% higher at 70%. NAV per share easily exceeded our expectations at 302p, a gain of 11% and the dividend was increased 14% to 8p.
- **Forecasts revised:** We have revised our FY16 forecasts to reflect the better than expected NAV growth and the cash proceeds from the Swindon sale. PBT has increased 44%, boosted by the gain on the sale of the further development profit at Reading. Our NAV forecast is 19% higher at 323p, driven by the higher FY15 asset values. We have also reduced our net debt and gearing forecasts, as a result of the disposal proceeds, which could see another £3m from the sale of the Portsmouth site this year, boosting the funds available for site investment.
- **Target price raised:** The shares have rebounded strongly from their lows in August and have gained 40% in the past year, exceeding our previous target price. However, they still trade on a 5% discount to our forecast FY16E NAV and have an estimated dividend yield of c.3% this year. The discount to peers remains wide, although this can be partly justified by lower liquidity. Our DDM based fair value has increased 14% to 351p, supporting our Buy rating.

Closing price	308p
Target price	351p
Market cap	£78m
Enterprise value	£100m
Share price as at	(20/10/15)

The smallest of the listed self storage operator, with 28 stores and a focus on south east England.



Source: Capital IQ

July Year End	FY13	FY14	FY15	FY16E	FY17E
Total revenues (£m)	13.0	13.9	15.4	16.2	17.2
Adj. EBITDA (£m)	4.1	4.6	5.7	6.1	6.7
EBIT (£m)	2.7	3.2	3.9	4.2	4.8
PBT (£m)	1.4	0.4	2.7	4.9	3.5
Reported EPS (p)	5.8	0.8	7.8	14.3	10.2
EPRA EPS (p)	6.1	4.3	7.8	8.4	10.2
DPS (p)	6.0	7.0	8.0	9.0	10.0
Net (debt)/cash (£m)	(22.5)	(25.3)	(25.1)	(21.6)	(22.9)
Gross LTV (%)	39.3	35.3	31.4	30.7	27.4
EPRA NAVPS (p)	248	271	302	323	359
P/NAV (x)	1.24	1.13	1.02	0.95	0.86
P/E (x)	50.4	70.9	39.2	36.5	30.1
Dividend Yield (%)	2.0	2.3	2.6	2.9	3.3

Source: Company Data, Sanlam Securities UK

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FY15 results ahead of expectations

- ⊙ **Record results:** LOK reported record results, which were slightly ahead of expectations, with adjusted EBITDA up 23% to £5.7m and PBT increasing 35% to £2.65m. This was on the back of 11% growth in revenue to £15.4m, driven by growth in both the self storage and document storage businesses. NAV per share easily exceeded our expectations at 302p, a gain of 11%, while adjusted EPS was up 81%. The dividend was increased 14% to 8p and management's favoured measure, funds from operations, was up 25% to £5m.
- ⊙ **Storage boosted by strong pricing:** Self storage was the main driver of performance, with pricing up 4% and occupancy nearly 1% higher at 70%, despite the addition of 57,000 sq ft of new space during the year. Store EBITDA (pre-overheads) improved 19% to £7.2m, with a margin of 54%. Document storage saw a 36% increase in volumes, which should feed through into revenues as contracts are renegotiated. EBITDA was up 8% to £0.26m.
- ⊙ **Internally funded growth:** Management was keen to stress the internally funded programme of new stores that is continuing to be rolled out. Reading and Aldershot opened in FY15 and Chichester, Southampton and Bristol are due to open within the next year. These can be funded from internal cash flow and debt, as y/e net debt remained low at £25m (a net LTV of 26%) and because of the sale of old stores like Reading. Swindon has also recently been sold for £3.5m, but remains within the Lok'nStore fold on a management contract.

FY15 Results

(in £m)	2014	2015	Change
Self Storage income	10.51	11.85	12.8%
Other storage related income	1.35	1.43	6.3%
Ancillary rental revenue	0.00	0.00	0.0%
Management fees	0.13	0.18	37.5%
Storage income	11.99	13.47	12.3%
Non Storage income	0.08	0.00	-96.2%
Serviced archive and records management	1.84	1.96	6.3%
Total revenue	13.91	15.42	10.9%
Total property expenses & SG&A	(9.29)	(9.74)	4.8%
Adjusted EBITDA	4.62	5.68	23.1%
Impairment of development land asset	(1.60)	-	N/A
Additional dep'n on Revalued investment properties	(0.26)	-	N/A
Amortisation	(0.17)	(0.17)	0.0%
Depreciation	(0.97)	(1.44)	49.2%
Other income and expenses	(0.03)	(0.21)	646.4%
Share based payments	(0.12)	(0.21)	77.3%
Net operating profit	1.48	3.66	147.6%
Interest income	0.03	0.14	442.3%
Interest expenses	(1.14)	(1.14)	0.7%
Profit before tax	0.37	2.65	623.2%
Adjusted PBT	1.97	2.65	34.7%
Tax charge for the year	(0.17)	(0.69)	N/A
Profit after tax	0.20	1.97	899.0%
Average number of shares outstanding (millions)	24.39	25.10	2.9%
Basic EPS (in GBp)	0.81	7.84	870.7%
Adj EPS*	4.34	7.84	80.8%
NAVPS including deferred tax	2.71	3.02	11.4%

Source: Company Data, *Sanlam Securities UK adjustments



Financial summary

July Year End	FY13	FY14	FY15	FY16E	FY17E
P&L (£m)					
Total revenues	13.0	13.9	15.4	16.2	17.2
Adj. EBITDA	4.1	4.6	5.7	6.1	6.7
EBIT	2.7	3.2	3.9	4.2	4.8
PBT	1.4	0.4	2.7	4.9	3.5
Net profit (reported)	1.4	0.2	2.0	3.6	2.6
EPRA EPS (p)	6.1	4.3	7.8	8.4	10.2
DPS (p)	6.0	7.0	8.0	9.0	10.0
Average shares outstanding (m)	24.7	24.4	25.1	25.4	25.4
Balance sheet (£m)					
PP&E	67.9	77.7	87.8	89.9	100.7
Other non current assets	6.9	4.0	6.5	6.4	6.2
Receivables	2.0	2.9	2.5	2.6	2.8
Other current assets	4.8	5.2	2.6	6.1	4.8
Long term borrowings	26.7	27.4	27.5	27.5	27.5
Deferred tax liability	9.7	10.9	12.4	12.8	13.2
Short term borrowings	0.0	-	-	-	-
Other current liabilities	4.8	6.2	6.5	6.8	7.1
Net assets	40.4	45.2	53.0	57.8	66.6
Closing net debt	22.5	25.3	25.1	21.6	22.9
Cashflow (£m)					
Operating cash flow	4.3	5.2	6.0	5.8	6.4
Interest & tax	(1.0)	(1.0)	(1.4)	(2.0)	(1.6)
Capex/Acquisitions/Disposals	2.7	(6.5)	(3.3)	2.0	(3.5)
Dividends	(1.4)	(1.5)	(1.8)	(2.3)	(2.5)
New Equity	(1.3)	0.8	0.8	-	-
Net proceeds from borrowings	(2.9)	0.9	-	-	-
Change in cash	0.3	(2.1)	0.3	3.5	(1.3)
Closing cash	4.2	2.2	2.4	5.9	4.7
Growth rates (%)					
Revenues	1.6	7.2	10.9	5.0	6.3
EBITDA	9.1	11.4	19.3	6.6	10.6
Net income	88.6	(86.1)	899.0	84.0	(28.5)
EPRA NAV	2.1	12.0	16.3	8.0	13.1
Adj EPS	102.4	(28.9)	80.8	7.6	21.0
Operating ratios (%)					
NOI margin	40.6	41.5	43.6	44.1	45.1
EBITDA margin	31.7	33.0	35.5	36.0	37.5
EBIT margin pre-revals	21.2	23.0	25.1	26.1	28.0
Adjusted net income margin	10.9	1.4	12.8	22.4	15.0
Implied portfolio yield	7.8	7.4	7.7	8.0	7.7
Leverage					
Net debt/equity (%)	55.6	55.9	47.4	37.4	34.3
Net debt to EBITDA (X)	5.5	5.5	4.6	3.7	3.5
Pre-revaluation interest cover (x)	2.5	3.0	3.5	3.8	4.3
Gross LTV (%)	39.3	35.3	31.4	30.7	27.4
Adj EPS/DPS (x)	1.0	0.6	1.0	0.9	1.0

Source: Company data, Sanlam Securities UK



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