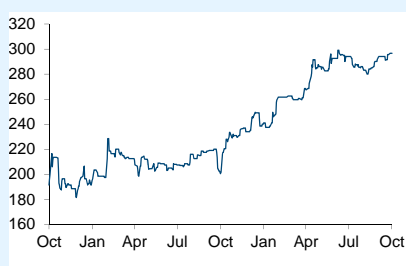


19 October 2015

Ticker	LOK	
Price	296.5p	
Target Price	378.0p	
Upside	27.0%	
Market Cap	£77.4m	
Index	FTSE AIM All Share	
Sector	Support Services	
Net Debt	£25.2m	
Shares in Issue	26.1m	
Next Results	H1 April 2016	
What's changed	From	To
Adj. EPS (FD)	9.9p	10.2p
Recommendation		
Target Price	339.0p	378.0p

Share Price Performance



Source: Thomson Reuters

%	1M	3M	12M
Actual	+1.4	+0.9	+34.8
Relative	-0.4	+6.4	+34.8

Company Description

Owns and develops UK self storage stores, focused on SE England

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Rapid development programme delivering

CORP

Lok'nStore has reported strong results for FY 2015, ahead of our forecasts. NAV grew 11%, supported by improved trading in the existing stores and stronger market valuations. In 2016, two new, owned stores will open alongside a new management contract supporting continued good growth. We have upgraded our FY 2016 NAV forecast by 6% and our target price by 11%, and reiterate our view that the shares offer very attractive value against peers and the potential from the underlying assets.

- ▶ **Strong trading results.** EBITDA grew 23% on last year driven by a 4.2% rise in self-storage prices, occupancy up 0.6%, good volume growth in document storage and the operational gearing inherent in the model.
- ▶ **Adjusted NAV up 11%.** Adj. NAV was 302p at July 2015, up from 271p last year and ahead of our forecast 285p. This growth was driven equally by the impact of the strong trading results and yield compression.
- ▶ **Balance sheet remains strong...** Net debt was £25.2m at July 2015, down slightly on last year despite significant investment in the new stores. This was enabled by improved operating cash flow and the Reading site proceeds. Loan to value was only 25.8%. The dividend has been raised by 14%.
- ▶ **...and will get even stronger.** FY 2016 has already seen the receipt of £2m additional proceeds from the sale of Reading and £3.5m from the sale of Swindon. Our cash flow forecasts do not yet include a £3m receipt from the sale of the Portsmouth site as it is subject to planning permission. The planning application is on track, with a decision expected by the end of 2015.
- ▶ **Rapid development programme.** The owned, new store openings in Bristol and Southampton are on track and will add 7% to available space. In addition, a new management contract will start in Chichester.
- ▶ **Forecasts upgraded.** We have adjusted for the sale of Swindon and today's results. We have upgraded our FY 2016E NAV by 6% and EPS by 3%.
- ▶ **Low valuation against peers.** We continue to value the shares at a 25% premium to historic NAV. This compares with Big Yellow at a 35% premium and 30% for Safestore. Rolling forward a year, this now equates to 378p (27% upside) up from our previous 339p target.

Year ending July (£m)	2015A	2016E	2017E	2018E
Data				
Sales (£m)	15.4	16.0	17.3	18.4
Adj EBITDA (£m)	5.7	6.4	7.5	8.3
Adj PBT (£m)	2.7	3.4	4.5	5.4
Tax rate (%)	26	23	23	23
Adj EPS (FD) (p)	7.6	10.2	13.3	15.9
DPS (p)	8.0	9.2	10.6	12.2
Ratios				
P/adj. NAV	0.98	0.93	0.88	0.84
EV/EBITDA (x)	18.0	16.1	13.8	12.3
P/E (x)	38.8	29.2	22.3	18.6
Yield (%)	2.7	3.1	3.6	4.1
Cash flow yield (%)	-2.0	-0.5	3.1	7.4
EPS growth (%)	6.0	33.1	30.9	19.5

Key Financials

Income Statement				
Year ending July (£m)	2015A	2016E	2017E	2018E
Sales	15.4	16.0	17.3	18.4
Gross profit	15.1	15.7	17.0	18.0
Operating expenses	-9.4	-9.3	-9.5	-9.7
Adjusted EBITDA	5.7	6.4	7.5	8.3
Depreciation/Amortisation	-1.6	-1.7	-1.8	-1.9
Adjusted EBIT	4.1	4.6	5.7	6.5
Associates/Other	-0.4	-0.2	-0.2	-0.2
Net interest	-1.0	-1.0	-1.0	-0.9
Adjusted PBT	2.7	3.4	4.5	5.4
Adjustments	0.0	2.0	0.0	0.0
Reported PBT	2.7	5.4	4.5	5.4
Taxation	-0.7	-0.8	-1.0	-1.2
Tax rate (%)	26	23	23	23
Reported earnings	2.0	4.6	3.4	4.1
Average no.shares (FD)	25.8	25.8	25.9	25.9
Adj. EPS (FD) (p)	7.6	10.2	13.3	15.9
DPS (p)	8.0	9.2	10.6	12.2

Cash Flow				
Year ending July (£m)	2015A	2016E	2017E	2018E
EBITDA	5.7	6.4	7.5	8.3
Net change in working capital	0.5	0.0	0.0	0.0
Other items	-0.2	0.0	0.0	0.0
Operating cash flow	6.0	6.4	7.5	8.3
Cash interest	-1.0	-1.0	-1.0	-0.9
Tax paid	-0.3	-0.8	-1.0	-1.2
Capex	-6.2	-5.0	-3.0	-0.5
Free cash flow	-1.5	-0.4	2.4	5.7
Disposals	2.9	5.5	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0
Dividends	-1.8	-2.3	-2.6	-3.1
Other	0.0	0.0	0.0	0.0
Issue of share capital/(Buyback)	0.8	0.0	0.0	0.0
Net Change in cash flow	0.3	2.8	-0.2	2.7
Opening net (debt)/cash	-25.5	-25.2	-22.5	-22.7
Closing net (debt)/cash	-25.2	-22.5	-22.7	-20.0

Balance Sheet				
Year ending July (£m)	2015A	2016E	2017E	2018E
Tangible assets	87.8	89.8	94.9	96.1
Goodwill	3.8	3.6	3.4	3.3
Other intangible	0.0	0.0	0.0	0.0
Other	2.8	2.8	2.8	2.8
Non current assets	94.3	96.1	101.1	102.1
Inventories	0.1	0.1	0.1	0.1
Trade receivables	2.5	2.5	2.5	2.5
Cash	2.4	2.4	2.4	2.4
Other	0.0	0.0	0.0	0.0
Current assets	5.1	5.1	5.1	5.1
Trade payables	-6.0	-6.0	-6.0	-6.0
Other current liabilities	-0.5	-0.5	-0.5	-0.5
Short term debt	0.0	0.0	0.0	0.0
Net current assets	-1.5	-1.5	-1.5	-1.5
Long term debt	-27.7	-24.9	-25.1	-22.5
Pension	0.0	0.0	0.0	0.0
Other/Minorities	-12.3	-12.8	-13.9	-14.6
Net assets	53.0	57.0	60.6	63.7
Net working capital	-3.4	-3.4	-3.4	-3.4
Adj. NAV per share (p)	302	320	337	351
NAV per share (p)	192.5	206.9	219.4	230.2
NTA per share (p)	178.9	193.8	207.0	218.4

Ratio Analysis				
Year ending July	2015A	2016E	2017E	2018E
Growth				
Revenue growth (%)	10.9	3.9	8.0	6.3
EBITDA growth (%)	23.9	11.3	17.3	11.7
EPS growth (%)	6.0	33.1	30.9	19.5
DPS growth (%)	14.3	15.0	15.0	15.0
Returns				
Gross margin (%)	98.0	98.0	98.0	98.0
EBITDA margin (%)	37.1	39.7	43.1	45.3
EBIT margin (%)	26.7	28.8	32.8	35.2
RoE (%)	3.8	8.1	5.7	6.5
RoCE (%)	4.4	4.9	5.7	6.4
Liquidity				
Net debt/equity (%)	47.6	39.4	37.4	31.5
Net debt/EBITDA (x)	4.4	3.5	3.0	2.4
Interest cover (x)	5.7	6.4	7.5	9.3
Net working capital to sales (%)	-21.7	-20.9	-19.4	-18.2
Cash conversion (%)	-27.1	-6.6	32.6	68.4
Dividend cover (x)	1.0	1.1	1.3	1.3

Strong trading results

Self-Storage continues to grow prices, occupancy and quality of the offering

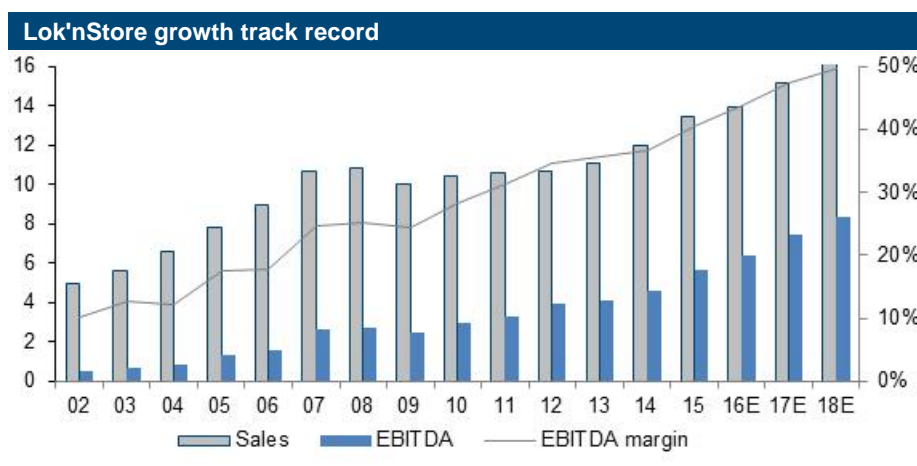
- Self-Storage sales were up 12.7% on last year and store EBITDA was up 18.6% as the operational gearing inherent in the model benefitted.
- Store EBITDA margins were up 3 percentage points to 53.7%.
- Prices increased by 4.2%.
- Occupancy grew by 0.6% with 57,203 sq ft of new units fitted.
- New and purpose built stores will account for 59% of the portfolio when the new stores are completed.

Document Storage showing good volume growth

- Document Storage sales were up 6.5% to £2.0m (13% of group sales).
- Year-end boxes stored were up 36.2%.

The strong trading results in both Self-Storage and Document Storage has continued Lok'nStore's impressive, long-term growth track record, as we show in the following chart.

Our forecasts only reflect the existing store portfolio and the stores currently under construction.



Source: Company reports, finnCap estimates

NAV per share up 11% in FY 2015

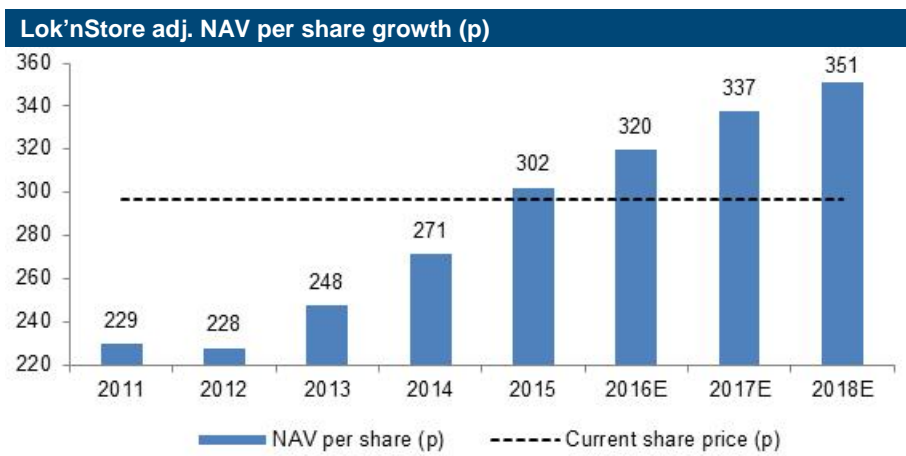
As demonstrated in the following chart, Lok'nStore's adjusted NAV has continued to rise strongly and we forecast further strong progress.

The 11% rise in FY 2015 was driven equally by the strong operating performance and improving market valuations (yield compression).

Our FY 2016E adjusted NAV per share forecast of 320p comprises:

- 302p per share historic NAV;
- 8p per share for the value from the additional proceeds from the sale of the Reading site; and

- ▶ 10p per share from FY 2016E profits and additional value from the newly opened stores.
- ▶ We have assumed no tax is due on the Reading and Swindon disposals as the proceeds are being reinvested into Self-Storage stores.
- ▶ Our forecasts assume no change in market valuations.



Source: Company reports, finnCap estimates

All three companies have their properties valued by C&W every year and we show the main assumptions used below:

Valuation assumptions (%)

	LOK new	LOK previous	BYG	SAFE
Stabilised occupancy	68.4	67.9	81.1	77.8
Net yield based on year 1 net cash flow	7.8	8.1	6.4	7.8
WACC	11.3	12.0	10.4	11.8

Source: Company reports, finnCap estimates

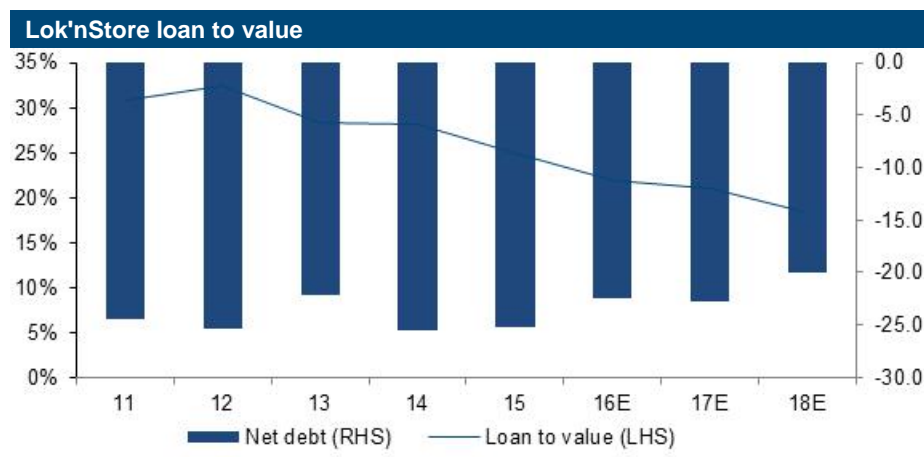
Lok'nStore's valuation assumptions are generally the most cautious. The main difference is on occupancy. This suggests there is further NAV upside to come on top of that driven by trading performance.

The balance sheet can support substantial growth

Despite the opening of new stores, loan to value of 25.8% is at a five-year low. This has been supported by the efficient recycling of capital from old stores into new ones. In FY 2015, Lok'nStore received £2.9m for the sale of the old Reading site and has recently announced the receipt of a further £2m for this sale post the FY 2015 year end. The initial proceeds largely funded the new, purpose-built Reading store. The old Reading store was a converted industrial building.

Post the FY 2015 year end, Lok'nStore has also announced the sale and manage-back of its Swindon stores for £3.5m.

Further, if planning permission is granted at the Portsmouth site, the agreed but conditional sale will bring in a further £3m (not in our forecasts).



Source: Company reports, finnCap estimates

We have assumed capital expenditure of £5m in FY 2016E to complete the Bristol and Southampton stores.

Growing the number and quality of the stores

Lok'nStore has been steadily opening new, purpose-built stores. The portfolio now consists of 12 freehold or long leasehold stores, 8 leasehold and 4 management contracts. In addition, the following openings are planned:

- ▶ Bristol – Lok'nStore acquired this 0.9-acre site in January 2014. It is in a busy retail park and the group has planning permission to build a 50,000 sq ft self-storage centre. The total cost of the store, when built and fitted out, will be c£4m and will add to the company's high-quality portfolio of freehold, purpose built self-storage centres in prominent trading locations.
- ▶ Southampton – Lok'nStore has acquired a new site close to the existing store that is operating in Southampton. The new site is in a better position, prominent on a main road. On completion, existing customers will be moved to the new store, leaving the original site available for disposal or development.
- ▶ Chichester – Lok'nStore has signed a Management Services Agreement with an external investor to manage a new storage facility in Chichester, West Sussex which will open at the end of 2015. Lok'nStore will manage the construction, operation and branding of the store. Construction and refitting of the building is currently underway.

When these stores are complete, new and purpose-built stores will account for 59% of the portfolio.

Forecasts upgraded

We have removed the Swindon stores from our forecasts following their disposal in October 2015 and then reviewed them following today's results and the recent additional cash receipt from the Reading store.

This has resulted in a 3% upgrade to FY 2016E EPS and 6% upgrade to NAV.

Forecast changes										
£m	Previous			Updated			% change			
	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	
Revenues	16.4	17.7	n/a	16.0	17.3	n/a	-2.5%	-2.5%	n/a	
EBITDA (pre-ex)	6.5	7.6	n/a	6.4	7.5	n/a	-2.0%	-2.0%	n/a	
EBITDA margin	39.5%	42.9%	n/a	39.7%	43.1%	n/a	0.20	0.21	n/a	
PBT	3.3	4.3	n/a	3.4	4.5	n/a	4.0%	3.8%	n/a	
EPS (p)	9.9	13.0	n/a	10.2	13.3	n/a	3.1%	2.6%	n/a	
DPS (p)	9.7	11.6	n/a	9.2	10.6	n/a	-5.4%	-8.4%	n/a	
NAV per share (p)	301	319	n/a	320	337	n/a	6.2%	5.8%	n/a	
Net cash / (debt)	(23.7)	(23.8)	n/a	(22.5)	(22.7)	n/a	0.9	1.0	n/a	

Source: Company reports, finnCap estimates

Valued at a significant discount to peers but growing faster

As the following table details:

- ▶ Lok'nStore is valued at a 2% discount to historic, adjusted NAV. This compares with a 35% premium for Big Yellow and a 30% premium for Safestore.
- ▶ We recognise the greater scale and liquidity of Big Yellow and Safestore is likely to justify a premium to Lok'nStore and have set our target price at a lower 25% premium to historic NAV.
- ▶ Rolling forward the historic year to July 2015 sets a 378p share price target (previously 339p).
- ▶ Lok'nStore is forecast to grow EBITDA significantly in excess of the average for its peers but is valued at an increasing discount based on forecast EV/EBITDA.

Valuation vs peers (calendarised)						
	Price (p)	P/book Historic	EV/EBITDA		EBITDA growth	
			2015E	2016E	2015E	2016E
Big Yellow	690	1.35	23.9	21.1	20.6%	13.2%
Safestore	304	1.30	16.9	15.8	8.6%	5.9%
Average		1.33	20.4	18.5	14.6%	9.5%
Lok'nStore	297	0.98	17.8	15.4	17.9%	14.4%
(Discount) to average		-26%	-13%	-17%	23%	51%

Source: Company reports, finnCap estimates, FACTSET

Income Statement				
Year ending July (£m)	2015A	2016E	2017E	2018E
Sales	15.4	16.0	17.3	18.4
<i>Sales growth (%)</i>	10.9	3.9	8.0	6.3
Cost of sales	-0.3	-0.3	-0.3	-0.4
Gross profit	15.1	15.7	17.0	18.0
<i>Gross margin (%)</i>	98.0	98.0	98.0	98.0
Operating expenses	-9.4	-9.3	-9.5	-9.7
Adjusted EBITDA	5.7	6.4	7.5	8.3
Depreciation/Amortisation	-1.6	-1.7	-1.8	-1.9
Adjusted EBIT	4.1	4.6	5.7	6.5
<i>Adjusted EBIT margin (%)</i>	26.7	28.8	32.8	35.2
Associates/Other	-0.4	-0.2	-0.2	-0.2
Net interest	-1.0	-1.0	-1.0	-0.9
Adjusted PBT	2.7	3.4	4.5	5.4
Adjustments	0.0	2.0	0.0	0.0
Reported PBT	2.7	5.4	4.5	5.4
Taxation	-0.7	-0.8	-1.0	-1.2
<i>Tax rate (%)</i>	26	23	23	23
Post tax profit	2.0	4.6	3.4	4.1
Minorities	0.0	0.0	0.0	0.0
Reported earnings	2.0	4.6	3.4	4.1
Weighted average no.shares	25.1	25.2	25.2	25.3
Average no.shares (FD)	25.8	25.8	25.9	25.9
Stated EPS (p)	7.8	18.4	13.7	16.3
Adj. EPS (FD) (p)	7.6	10.2	13.3	15.9
DPS (p)	8.0	9.2	10.6	12.2

Source: Company reports, finnCap estimates

Cash Flow				
Year ending July (£m)	2015A	2016E	2017E	2018E
EBITDA	5.7	6.4	7.5	8.3
Net change in working capital	0.5	0.0	0.0	0.0
Share based payments	0.0	0.0	0.0	0.0
Profit/loss on disposal	0.0	0.0	0.0	0.0
Net pensions charge	0.0	0.0	0.0	0.0
Change in provision	0.0	0.0	0.0	0.0
Other items	-0.2	0.0	0.0	0.0
Operating cash flow	6.0	6.4	7.5	8.3
Cash interest	-1.0	-1.0	-1.0	-0.9
Tax paid	-0.3	-0.8	-1.0	-1.2
Capex	-6.2	-5.0	-3.0	-0.5
Free cash flow	-1.5	-0.4	2.4	5.7
Disposals	2.9	5.5	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0
Dividends	-1.8	-2.3	-2.6	-3.1
Other	0.0	0.0	0.0	0.0
Issue of share capital/(Buyback)	0.8	0.0	0.0	0.0
Net Change in cash flow	0.3	2.8	-0.2	2.7
Opening net (debt)/cash	-25.5	-25.2	-22.5	-22.7
Closing net (debt)/cash	-25.2	-22.5	-22.7	-20.0

Source: Company reports, finnCap estimates

Balance Sheet				
Year ending July (£m)	2015A	2016E	2017E	2018E
Tangible assets	87.8	89.8	94.9	96.1
Goodwill	3.8	3.6	3.4	3.3
Other intangible	0.0	0.0	0.0	0.0
Other	2.8	2.8	2.8	2.8
Non current assets	94.3	96.1	101.1	102.1
Inventories	0.1	0.1	0.1	0.1
Trade receivables	2.5	2.5	2.5	2.5
Cash	2.4	2.4	2.4	2.4
Other	0.0	0.0	0.0	0.0
Current assets	5.1	5.1	5.1	5.1
Trade payables	-6.0	-6.0	-6.0	-6.0
Other current liabilities	-0.5	-0.5	-0.5	-0.5
Short term debt	0.0	0.0	0.0	0.0
Net current assets	-1.5	-1.5	-1.5	-1.5
Long term debt	-27.7	-24.9	-25.1	-22.5
Pension	0.0	0.0	0.0	0.0
Other/Minorities	-12.3	-12.8	-13.9	-14.6
Net assets	53.0	57.0	60.6	63.7
<i>Net working capital</i>	<i>-3.4</i>	<i>-3.4</i>	<i>-3.4</i>	<i>-3.4</i>
<i>NAV per share (p)</i>	<i>192.5</i>	<i>206.9</i>	<i>219.4</i>	<i>230.2</i>
<i>NTA per share (p)</i>	<i>178.9</i>	<i>193.8</i>	<i>207.0</i>	<i>218.4</i>

Source: Company reports, finnCap estimates

NOTES

NOTES

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