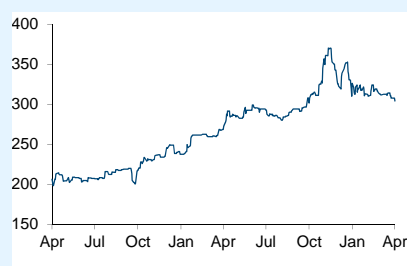


25 April 2016

Ticker	LOK	
Price	304.0p	
Target Price	399.0p	
Upside	31.0%	
Market Cap	£80.6m	
Index	FTSE AIM All Share	
Sector	Support Services	
Net Debt	£25.7m	
Shares in Issue	26.5m	
Next Results	FY - Oct 16	
What's changed	From	To
Adj. EPS (FD)	10.3p	n/c
Recommendation		
Target Price	399.0p	n/c

Share Price Performance



Source: Thomson Reuters

%	1M	3M	12M
Actual	-2.7	-6.5	+16.5
Relative	-4.4	-12.5	+29.1

Company Description

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

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Rolling out a proven growth model

CORP

Lok'nStore's growth strategy continues to deliver, evidenced by strong H1 results with sales up 5%, costs down slightly, EPS up 26% and NAV per share up 14% on H1 2015. Operating cash flow remained strong, supporting a 15% rise in the interim dividend and the development of new stores. There are currently 25 open stores in the portfolio, a replacement store in Southampton and a new store in Bristol are due to open early May 2016 and there is a pipeline of 4 new stores. This growth will be financed from existing resources, loan to value is only 26%. We reiterate our price target of 399p (30% upside) with the shares still at a significant discount to peers.

- ▶ **Rising prices and occupancy.** Underlying group sales were up 8% (ex. the disposal of the Swindon store) supported by a 3.3% increase in prices on last year and a 2.4% increase in occupancy in self-storage.
- ▶ **Growth potential from the existing portfolio.** Occupancy was 63.6% (on current lettable area) at January 2016, flat on last year as space was filled and new space fitted.
- ▶ **Strong cost control.** Operating costs were down 0.6% on last year, despite the sales growth, driving EBITDA margins up to 41.3% from 38.2% in H1 2015.
- ▶ **NAV per share growing.** NAV of 307p is up from 302p at July 2015, largely due to the additional £2m received from the sale of the Reading site. The portfolio is re-valued at each year end and we continue to forecast NAV of 320p at July 2016.
- ▶ **Strong balance sheet.** A £3.5m receipt from the sale of Swindon, the additional £2m proceeds from Reading and £1.8m of operating cash flow supported £4.7m capital expenditure into new stores and the dividend payment while keeping loan to value at only 26.2% (July 2015 25.8%).
- ▶ **Expansion plans.** Building on a robust performance from the existing portfolio of 25 stores, new stores in Southampton and Bristol will be opened in early May 2016 and there is a pipeline of 4 new stores.
- ▶ **Significant discount to peers.** Lok'nStore is valued at a 2% premium to historic NAV. This compares with an average 36% premium for peers.

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	3.5	4.7	5.6
Tax rate (%)	26	23	23	23
Adj EPS (FD) (p)	7.6	10.3	13.8	16.2
DPS (p)	8.0	9.2	10.6	12.2
Ratios				
P/adj. NAV	1.02	0.96	0.91	0.87
EV/EBITDA (x)	18.6	16.7	14.2	12.7
P/E (x)	39.8	29.6	22.1	18.7
Yield (%)	2.6	3.0	3.5	4.0
Cash flow yield (%)	-1.9	-3.6	3.2	7.3
EPS growth (%)	6.0	34.5	34.0	17.9

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	-0.9	-0.8	-0.7
Adjusted PBT	2.7	3.5	4.7	5.6
Adjustments	0.0	1.9	0.0	0.0
Reported PBT	2.7	5.5	4.7	5.6
Taxation	-0.7	-1.2	-1.1	-1.3
<i>Tax rate (%)</i>	<i>26</i>	<i>23</i>	<i>23</i>	<i>23</i>
Reported earnings	2.0	4.3	3.6	4.3
Average no. shares (FD)	25.8	26.4	26.4	26.4
Adj. EPS (FD) (p)	7.6	10.3	13.8	16.2
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	-0.5	0.0	0.0
Other items	-0.2	-0.3	0.0	0.0
Operating cash flow	6.0	5.5	7.5	8.3
Cash interest	-1.0	-0.9	-0.8	-0.7
Tax paid	-0.3	-1.6	-1.1	-1.3
Capex	-6.2	-6.0	-3.0	-0.5
Free cash flow	-1.5	-2.9	2.6	5.9
Disposals	2.9	8.4	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0
Dividends	-1.8	-2.3	-2.7	-3.1
Other	0.0	0.0	0.0	0.0
Issue of share capital/(Buyback)	0.8	0.7	0.0	0.0
Net Change in cash flow	0.3	3.9	-0.1	2.8
Opening net (debt)/cash	-25.5	-25.2	-21.3	-21.4
Closing net (debt)/cash	-25.2	-21.3	-21.4	-18.5

Balance Sheet				
Year ending July (£m)	2015A	2016E	2017E	2018E
Tangible assets	87.8	89.3	94.6	95.8
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	95.6	100.8	101.8
Inventories	0.1	0.2	0.2	0.2
Trade receivables	2.5	3.0	3.0	3.0
Cash	2.4	2.4	2.4	2.4
Other	0.0	0.0	0.0	0.0
Current assets	5.1	5.6	5.6	5.6
Trade payables	-6.0	-5.7	-5.7	-5.7
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	-0.6	-0.6	-0.6
Long term debt	-27.7	-23.7	-23.8	-21.0
Pension	0.0	0.0	0.0	0.0
Other/Minorities	-12.3	-13.4	-14.6	-15.2
Net assets	53.0	57.9	61.8	65.0
<i>Net working capital</i>	<i>-3.4</i>	<i>-2.5</i>	<i>-2.5</i>	<i>-2.5</i>
<i>NAV per share (p)</i>	<i>192.5</i>	<i>210.1</i>	<i>223.6</i>	<i>235.0</i>
<i>NTA per share (p)</i>	<i>178.9</i>	<i>197.1</i>	<i>211.2</i>	<i>223.2</i>

Ratio Analysis				
Year ending July	2015A	2016E	2017E	2018E
Growth				
Revenue growth (%)	10.9	3.9	8.2	6.2
EBITDA growth (%)	23.9	11.1	17.8	11.5
EPS growth (%)	6.0	34.5	34.0	17.9
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	43.2	45.3
EBIT margin (%)	26.7	28.8	32.9	35.2
RoE (%)	3.8	7.3	5.9	6.6
RoCE (%)	4.4	4.9	5.7	6.4
Liquidity				
Net debt/equity (%)	47.6	36.8	34.6	28.5
Net debt/EBITDA (x)	4.4	3.4	2.9	2.2
Interest cover (x)	5.7	7.3	9.6	11.9
Net working capital to sales (%)	-21.7	-15.8	-14.6	-13.8
Cash conversion (%)	-27.1	-45.5	35.0	70.3
Dividend cover (x)	1.0	1.1	1.3	1.3

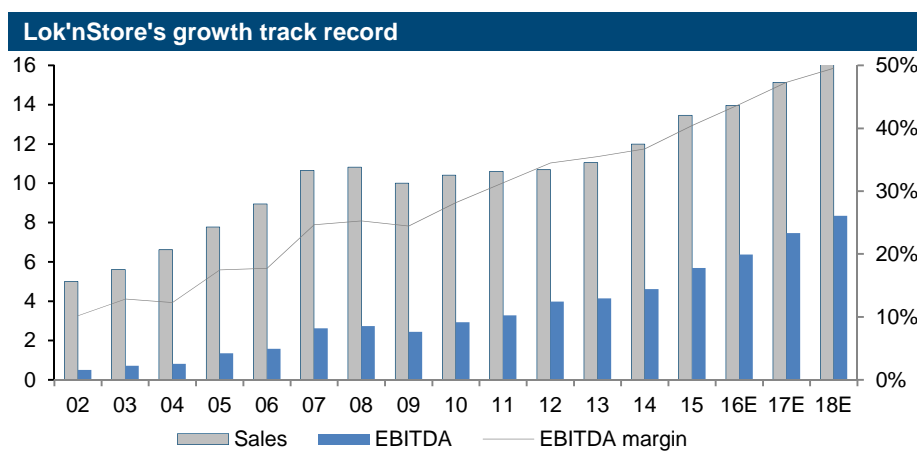
Attractive, undersupplied market

The UK has c863 self-storage centres providing 35.7m sq ft of space or 0.56 sq ft per person. This compares with 7.3 sq ft per person in the US.

The UK self-storage market is, therefore, significantly undersupplied in comparison with the US. Indeed, there are a number of attractive market characteristics:

- ▶ UK self-storage market penetration in key urban conurbations remains relatively low.
- ▶ Limited new supply coming onto the market – Lok'nStore is bucking the trend with significant new store development.
- ▶ The specific property requirements of self-storage coupled with challenging local planning regimes create significant barriers to entry, especially in Southern England, where Lok'nStore operates.
- ▶ The self-storage market has proven to be relatively resilient through economic downturns.

As the usage of self-storage in the UK continues to rise, driven by greater awareness of the service and more stores, we expect Lok'nStore to further its strong growth track record.



Source: Company reports, finnCap estimates

Continued strong trading results

Self-storage driven by rising prices, occupancy and fees

- ▶ Underlying self-storage sales were up 7.1% on last year driven by higher occupancy (+2.4% like-for-like), rising prices (+3.3%) and an increasing contribution from management fees.
- ▶ There remains significant potential for growth from the existing portfolio with occupancy at 63.6%, flat on last year as space was filled and fitted (specifically at Luton).
- ▶ Self-storage EBITDA margins increased to 56.5% from 54.6% last year as the operational gearing inherent in the model and sales growth benefited.
- ▶ The customer split remained relatively stable, with 33.1% from business customers, the remainder from household customers.

- Chichester, a management contract, was opened in January 2016 and early trading is strong. The group is attracting a steady stream of investment partners to help drive the growth of the operating business.

Volumes increasing in Document Storage

- Document storage sales were up 15% to £1.1m (13% of group sales, 8% of EBITDA) and EBITDA rose from £0.1m to £0.3m.
- Period-end boxes stored increased by 11% on last year and period-end tapes by 12.5%.
- Customer feedback has been “excellent”, suggesting new business wins should be strong.

We have left the majority of our forecasts unchanged, raising the number of shares in issue by 2% due to share options and including the receipt for the sale of Portsmouth North.

Expanding portfolio

Development pipeline highlighted

Lok'nStore has 25 stores currently open and trading, including the recently opened management contract in Chichester. Bristol and Southampton (both owned) will open in May 2016. Southampton is a new store that will replace an existing one, freeing up the present site for potential disposal.

Management has, for the first time, detailed a pipeline of four new stores. These are projects that are at the final stages of negotiation. Hence, while there is no guarantee they will complete, it gives a good guide as to Lok'nStore's continued growth potential in a market where finding and acquiring suitable sites is a significant challenge and barrier to entry.

Strong balance sheet

Low level of debt vs value

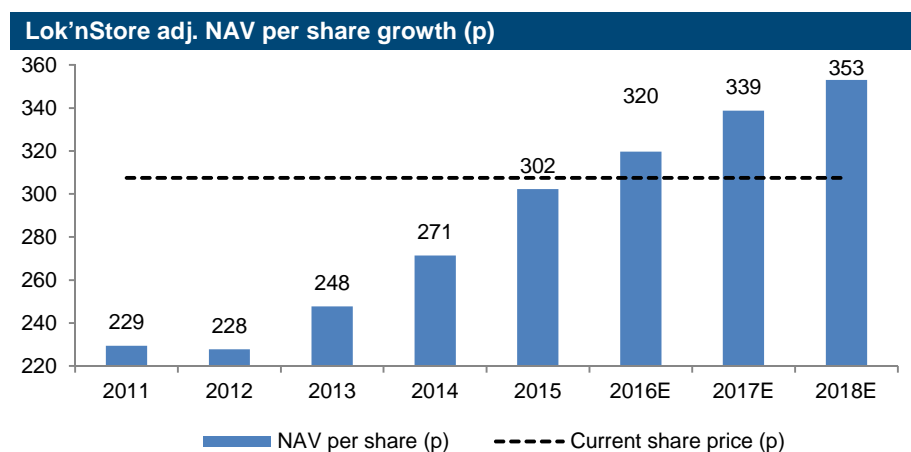
- Loan to value down to 26.2% from 27.5% at January 2015 and only up slightly from 25.8% at July 2015.
- H1 capital expenditure was £4.7m as the new Southampton and Bristol stores progressed towards completion. We assume a further £1.3m spend in H2.
- £1m was loaned to the Chichester store investors in H1 to bridge their funding while planning was secured. This loan will be repaid in H2 2016.
- Planning permission has been granted on the undeveloped site at Portsmouth North. Subject to the completion of the S106 and the expiration of the judicial review the sale will complete for £3m. We have assumed the proceeds are received in H2 2016.
- The new £40m revolving credit facility (to 2021) has a low interest margin of 1.4%. The facility also provides for the possibility of an additional accordion of up to £10m which if taken up will increase facilities available to £50m.

NAV per share up 14%

NAV per share of 307p is up 14% on last year and up 2% since July 2015.

The portfolio is re-valued externally at each year end. Hence, the 2% increase since July 2015 is driven by trading results (less the dividend payment) and the £2m additional proceeds from the Reading disposal.

We continue to forecast NAV per share of 320p at July 2016, driven by further strong trading and a release of value as the development stores are opened. They are currently held at cost.



Source: Company reports, finnCap estimates

Valued at a significant discount to peers but growing faster

We believe the growth potential in the UK market, and very strong cash flow characteristics of mature self-storage stores, justifies a premium to historic NAV.

As the following table details:

- ▶ Lok'nStore is valued at a 2% premium to historic, adjusted NAV. This compares with a 42% premium for Big Yellow and a 30% premium for Safestore.
- ▶ Lok'nStore is forecast to grow EBITDA at a greater pace than the average for its peers but is valued at an increasing discount based on forecast EV/EBITDA.

Valuation vs peers (calendarised)

	Price (p)	Premium to Historic NAV	EV/EBITDA		EBITDA growth	
			2015E	2016E	2015E	2016E
Big Yellow	760.5	42%	25.8	22.7	22.3%	13.5%
Safestore	332.3	30%	18.1	16.9	2.7%	13.6%
Average		36%	22.0	19.8	12.5%	13.6%
Lok'nStore	307.5	2%	18.2	15.7	17.8%	14.5%
(Discount) to average		-95%	-17%	-21%	42%	7%

Source: Company reports, finnCap estimates, FACTSET

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

Valuation assumptions (%)				
	LOK FY 2015	LOK FY 2014	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.

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	8.2	6.2
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	32.9	35.2
Associates/Other	-0.4	-0.2	-0.2	-0.2
Net interest	-1.0	-0.9	-0.8	-0.7
Adjusted PBT	2.7	3.5	4.7	5.6
Adjustments	0.0	1.9	0.0	0.0
Reported PBT	2.7	5.5	4.7	5.6
Taxation	-0.7	-1.2	-1.1	-1.3
<i>Tax rate (%)</i>	26	23	23	23
Post tax profit	2.0	4.3	3.6	4.3
Minorities	0.0	0.0	0.0	0.0
Reported earnings	2.0	4.3	3.6	4.3
Weighted average no.shares	25.1	25.2	25.2	25.3
Average no.shares (FD)	25.8	26.4	26.4	26.4
Stated EPS (p)	7.8	16.9	14.4	17.0
Adj. EPS (FD) (p)	7.6	10.3	13.8	16.2
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	-0.5	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	-0.3	0.0	0.0
Operating cash flow	6.0	5.5	7.5	8.3
Cash interest	-1.0	-0.9	-0.8	-0.7
Tax paid	-0.3	-1.6	-1.1	-1.3
Capex	-6.2	-6.0	-3.0	-0.5
Free cash flow	-1.5	-2.9	2.6	5.9
Disposals	2.9	8.4	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0
Dividends	-1.8	-2.3	-2.7	-3.1
Other	0.0	0.0	0.0	0.0
Issue of share capital/(Buyback)	0.8	0.7	0.0	0.0
Net Change in cash flow	0.3	3.9	-0.1	2.8
Opening net (debt)/cash	-25.5	-25.2	-21.3	-21.4
Closing net (debt)/cash	-25.2	-21.3	-21.4	-18.5

Source: Company reports, finnCap estimates

Balance Sheet				
Year ending July (£m)	2015A	2016E	2017E	2018E
Tangible assets	87.8	89.3	94.6	95.8
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	95.6	100.8	101.8
Inventories	0.1	0.2	0.2	0.2
Trade receivables	2.5	3.0	3.0	3.0
Cash	2.4	2.4	2.4	2.4
Other	0.0	0.0	0.0	0.0
Current assets	5.1	5.6	5.6	5.6
Trade payables	-6.0	-5.7	-5.7	-5.7
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	-0.6	-0.6	-0.6
Long term debt	-27.7	-23.7	-23.8	-21.0
Pension	0.0	0.0	0.0	0.0
Other/Minorities	-12.3	-13.4	-14.6	-15.2
Net assets	53.0	57.9	61.8	65.0
<i>Net working capital</i>	-3.4	-2.5	-2.5	-2.5
<i>NAV per share (p)</i>	192.5	210.1	223.6	235.0
<i>NTA per share (p)</i>	178.9	197.1	211.2	223.2

Source: Company reports, finnCap estimates

NOTES

NOTES

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