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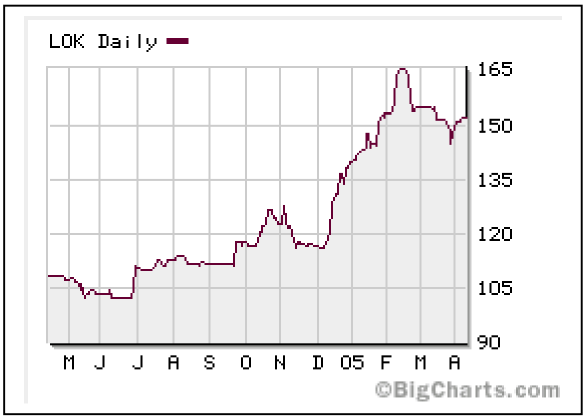
Lok'nStore

158p

Good Uplift in Property Values and Swing into Profit *15 April 2005*



The results of a property re-valuation commissioned by external surveyors Cushman Wakefield Healey and Baker has put the value of Lok'nStore's 19 trading self-storage units at £31.84m and takes the total value of the portfolio to £33.6m including the Farnborough site at net book value. This is the equivalent of 134p/share and is rather better than we had been expecting. News of the property re-valuation came alongside a solid set of interim results to end January 2005, and we are upgrading our estimates. Key points are:

- Sales rose 24% to £3.89m and trading in the current H2 also appears to have got off to a good start. Annualised sales were £8.1m as at end March.
- EBITDA margins in the established estate have improved, from 48% at the year end to 53.6% in H1 2005. Our full year margin estimate for the established estate is 51% reflecting the increasing maturity profile of the lower-margin leasehold estate.
- The improved performance has fallen through to the bottom line. Pre-tax profits of £76k compare to a loss of £41k in H1 2004.
- With the competition for new sites easing, the acquisition pipeline has never looked so promising.
- Negotiations over the sale of the Kingston site have started and investors can expect more news on this front at the year end.

Share Price: 158p

12m High: 167p

12m Low: 100p

Market Cap: £39.7m

Shares in Issue: 25.1m

NAV/Share: 73p (H1 2005 actual)

Including re-valuation: 134p (H1 2005 actual)

Gearing: 66% (H1 2005 actual, excluding revaluation)

Including re-valuation: 27%

Interest Cover: 1.3X (2005 forecast)

EPIC Code: LOK.L

Sector: Support Services

Market: London AIM

PR: Financial Dynamics

Website: www.loknstore.co.uk

Previous Research Note:
"Significantly Undervalued" published on 25 January 2005

Analyst: Sonia Kaur

Y/E July	Sales £m	Declared Profit £m	Adjusted Profit £m	Adjusted Eps p.	P/e ratio	EV/EBITDA (X)	Div. p
2003A	5.6	-0.4	0.04	-1.5	-	0	0
2004A	6.6	-0.2	-0.04	-0.1	-	59	0
2005E	7.7	9.0*	0.18	0.7	226	31	0
2006E	8.4	0.36	0.36	1.4	113	29	0

**Assumes the Kingston site is sold and generates a profit on disposal of £8.83m.*

Interim Results

The interim results for the six months to 31 January 2005 show good forward momentum. Aside from the uplift in property values, key highlights include the performance of the company's nine most established stores (over five years old) and the swing into the black. In these latest results, the established estate accounted for just over half of group sales, grew occupancy revenues by 10.7% year-on-year and produced EBITDA margins of 53.6%. It is worth pointing out that of the nine stores in this category, seven are freeholds and two are leaseholds. By the time of the full year results a further two leasehold stores will fall into this category, so it is likely that full year EBITDA margins here will come in slightly lower to, in our best estimate, c.51%. This is still higher an increase on our original full year EBITDA margin forecast of 50% for stores over five years old.

Also impressive was the rise in overall store EBITDA, up 67% to £1.233m. This rise together with a modest increase in head office and central costs (as Lok'nStore starts to gain some small economies of scale with critical mass) produced an H1 operating profit of £320k compared to a loss of £4.4k in the same period last time. The pre-tax profit of £75,000 reflects a leap in the interest charge to £244k (H1 2004: £37.4k) to fund the 2004 share buyback programme totalling £3.3m and the acquisition of new sites in Farnborough and Tonbridge for £4.35m.

Cash generation continues to be strong at £870k, against £178k in H1 2004 and just under £1m for the whole of 2004.

Kingston Sale: Update

Negotiations with developers on the sale of the Kingston site are well underway following the award of high density residential planning permission. To recap, the permission is for 124 flats in two blocks of which 78 will be private flats. The balance is to be divided into 16 key worker flats and 30 social units (43 one bedroom, 75 two bedroom and 6 three bedroom). Permission has also been granted for a new GP surgery of c.7,000 sq ft. We believe management are exploring three main routes to sale:

- The first is an outright sale of the site to a residential property developer for cash. This is the scenario included in our 2005 estimates, where we have assumed the Kingston site is sold for net proceeds of £10m, generating a profit on disposal of £8.8m. We have ignored the prospect of capital gains tax on these sale proceeds because we believe roll-over relief is available on all monies re-invested in the business. It remains the case that some proceeds may also be handed back to investors.
- A deal that would see Lok'nStore help finance the redevelopment by accepting staggered cash payments in exchange for a higher overall price.
- A joint-venture style arrangement, which would give Lok'nStore a share of the property profits as well as a share of the risk.

Kingston generated an EBITDA of £132,000 in the latest six month period and produced turnover approaching £0.5m. So far, management say the 'For Sale' sign over the unit has not had a detrimental impact on sales and it is anticipated that on sale up to 50% of the customer base could be moved to the group's neighbouring store in Sunbury. If successful, this would have the dual effect of increasing occupancy levels at Sunbury (which we believe is currently operating with excess capacity) whilst retaining most, if not all of Kingston's EBITDA.

Prospects and Forecasts

Lok'nStore is clearly performing well on all the key performance metrics of occupancy revenue growth, occupancy rates, EBITDA margins, cost control and the customer conversion rate (up another 2% in H1 2005 to c.60%). Whilst it is true that visibility of the roll-out programme is still low, management say the acquisition pipeline has never looked better. This is partly because of the slowdown in the property market of course, but it is also likely that the competition for sites is easing because major competitors in the private space (think Safestore, Mentmore and ACCESS) now appear to be run for cash.

In light of the continued good performance of the established estate, we have upgraded our estimate for overall store EBITDA margins from 30% to 34%. Our new estimates are for 2005 pre-tax profits, adjusted for goodwill of £179k and adjusted eps of 0.7p. Our previous 2005 estimate was for a pre-tax loss of £170k. Our y/e July 2006 estimates have also been raised, from £246k to £361k, giving eps 1.4p.