

Lok'nStore Group 128p

FLASH: Results On Forecast, Upgrade for 2011

18 October 2010

Share Price: 128p



Shares in Issue: 25m fully diluted

12m High: 128p

12m Low: 62.5p

Market Cap: 32m

NAV/Share: 224p with properties at valuation

Gearing: 58% with properties at valuation (45% ignoring deferred tax liability)

Interest Cover: 1.9X

EPIC Code: LOK.L

Sector: Support Services

Market: London AIM

Broker: Arbutnot Securities

PR: Financial Dynamics

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Website: www.loknstore.co.uk

Description: Lok'nStore is the fourth largest self-storage group in the UK with a c. 5% market share. It owns 21 of which are open. The freehold/leasehold sq ft split is 64/36. The household/business revenue (£) split is 63/37.

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Full year results from the strongly asset backed self storage company came in slightly ahead of our forecasts. With costs well under control and a business model highly sensitive to changes in both volume and pricing, we expect 2011 to be another good year, and have modestly upgraded our estimate from £0.55m pre-tax profit to £0.60m.

Key points from last year's results are:

- Sales up 4.1% to £10.4m, in line with industry growth rates and slightly better than the £10.3m we had forecast.
- EBITDA £2.93m, up 20%, and better than our £2.7m forecast.
- Pre-tax profit of £0.43m, vs a loss the previous year and our £0.30m forecast.
- EPS of 0.9p, lower than our forecast because of a 48% tax charge consisting entirely of deferred tax. The actual position is that there are £4.2m of carried forward tax losses. Ignoring deferred tax, earnings per share would have been 1.7p.
- NAV per share 224p excluding deferred tax, 181p after deferred tax – both up on last year.

Going forward into 2011:

- Lok'nStore has done a magnificent job containing costs, we expect this to continue.
- We look for a further increase in average pricing and average occupancy, which one ends up leading the other depending on local competitive conditions for each individual store. Running a self storage company is like running a hotel group, management juggles occupancy and pricing at local level to get the best overall effect, and conditions are running in Lok'nStore's favour at the moment.
- Management has done some clever work on boosting ancillary revenue (again very much like a hotel operator). It has also been completing some sensible lease renegotiations (over 60% of property is freehold, but the leaseholds are still important). This will boost earnings medium term.
- A modest increase in revenue, on a narrow margin business with a high fixed cost element, will boost profits disproportionately.

For 2012 and onwards:

- Interest charges will rise from February 2012 when the current favourable loan agreement is renegotiated.
- Profits will likely disappear short term when Lok'nStore moves back into expansion mode, opening more new stores which can take two years to reach breakeven. Then, profits forecasts become irrelevant. But the overall value of the company to investors very much increases.

The shares have risen 48% since our last, very positive, research note.

Y/E	Group Sales	Group EBITDA	Declared Profit/(Loss)	Adjusted Profit/(Loss)	Adjusted EPS	Mkt Cap/EBITDA	Divi	Yield
July	£m	£m	£m	£m	P	X	P	%
2009A	10.0	2.4	-0.66	-0.66	-2.4	13.3	1.00	0.8
2010A	10.4	2.9	0.43	0.43	0.9	11.0	1.00	0.8
2011E	10.9	3.2	0.60	0.60	1.6	10.0	1.00	0.8
2012E	No	Forecast						

Management	Major Shareholders
<p>Chairman: Simon Thomas</p> <p>Chief Executive Officer: Andrew Jacobs</p> <p>Finance Director: Ray Davies</p> <p>Acquisitions Director: Colin Jacobs</p> <p>Non-Executive Director: Richard Holmes</p> <p>Non-Executive Director: Edward Luker</p> <p>Non-Executive Director: Charles Peal</p>	<p>Laxey Partners 29.0%</p> <p>Andrew Jacobs: 20.8%</p> <p>Simon Thomas: 8.4%</p> <p>Duart Capital Management 5.0%</p> <p>Charles Stanley 5.0%</p>
Key Milestones	
<p>Interim Results: April 2011</p>	<p>April 1997: Floated on OFEX raising £1.1m at 38p</p> <p>March 2008: Second fundraising raised £1.15m at 60p/share</p> <p>November 1999: Takeover approach from ACCESS rejected. ACCESS takes 29% stake in co for £4.8m</p> <p>June 2000: Lok'nStore moved to AIM</p> <p>July 2002: Share placing at 155p per share raises £10m</p> <p>January 2004: Second cash bid at 115p/share rejected</p> <p>February 2007: First purpose-build freehold store opened in Farnborough.</p> <p>March 2007: Kingston unit sold to a residential developer for £10m (NBV: £0.98m)</p> <p>January 2008: Residential planning permission granted for existing Reading store.</p> <p>April 2009: Confirms an early stage expression of interest in the group from a third party</p> <p>July 2009: Offer talks terminated</p>

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