

Growth backed by assets

Lok'nStore owns 20 self storage centres and is aiming to acquire between two and four stores per annum. The UK self storage market is growing, driven by its flexible characteristics and a rising level of familiarity. We believe the current share price broadly reflects the value of the current portfolio but ignores the potential for further expansion.

- Recent Newsflow** – Lok'nStore has been granted planning permission for residential development at its Kingston site, paving the way for a potential sale. Management has commented that this will provide increased firepower to continue to accelerate the growth of the self-storage operation, which remains the core objective.
- Key Issues** – Lok'nStore needs to continue to evidence that its existing portfolio is capable of generating sustainable, profitable growth. This would both underpin the current share price and support the strategy for continued expansion.
- Financials** – We forecast net debt of £9.2m at July 2005 and gearing of 89%. However, including the result of the January 2004 valuation reduces gearing to 45%. We estimate a sale of the Kingston site could yield £10m which would then be reinvested into self storage sites.
- Valuation** – We have cautiously valued the current portfolio at 150p by assuming no further expansion is made and existing sites are matured. While the shares are trading at a 5% premium to this estimate this method excludes the potential for further value creation as the portfolio is expanded.

Investec acts as Broker and Advisor to Lok'nStore Group

Valuation

Year End: 31 July	2003	2004	2005E	2006E	2007E
PE (Normalised) (x)	808.5	nm	nm	nm	183.0
EV/Sales (x)	6.8	7.0	6.3	6.0	5.6
EV/EBITDA (x)	53.3	57.3	44.2	34.3	27.6
EV/EBIT (x)	390.3	317.8	139.8	76.8	51.7
Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company Accounts/Investec Securities Estimates

Performance Ratios

Year End: 31 July	2003	2004	2005E	2006E	2007E
Sales growth (%)	12.2	17.8	16.4	9.5	9.0
EBITA Growth (y-on-y) (%)	262.0	48.5	138.4	88.5	53.0
EPS (Normalised) growth (%)					
EBITDA margin (%)	12.8	12.3	14.3	17.4	20.5
EBITA Margin (%)	1.8	2.2	4.5	7.8	10.9
Interest Cover (x)	2.5	0.9	0.6	1.0	1.3
ROCE (%)	0.8	0.8	1.8	3.1	4.4
Net Cash/(Debt) (£m)	1.1	(6.9)	(9.2)	(10.9)	(12.4)
Net Debt/Equity (%)	(7.7)	65.8	88.9	106.4	118.4
NWC/Sales (%)	(12.5)	(15.8)	(12.2)	(10.0)	(8.1)

Source: Company Accounts/Investec Securities Estimates

Company Profile

Lok'nStore is one of the leading self storage companies in the UK having opened its first centre in 1995. The company has 725,000 sq ft of storage space available in sizes from 12 sq ft to 10,000 sq ft. Storage is provided in steel storage units, pallet or open storage. The companies 4,500 customers range from householders to businesses and government.

Market Cap	£39.5m
Enterprise Value	£48.6m
Reuters Code	LOK.L
12m high/low	165p/103p

Free Float	72.3%
Average Daily Volume (000s)	86.5
Next News	HI - Mar
Website	www.loknstore.co.uk
Confidence in Estimates	3

Key Shareholders	Last Notified Holding (%)
A Jacobs	21.2
S G Thomas	9.7
Gartmore	9.2
Mercury	8.7
Universities SS	8.6
	6.8

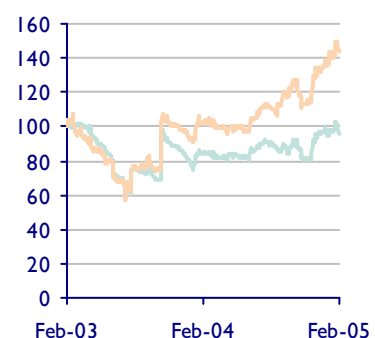
Share Price Performance



	1m	3m	12m
Price	8.6	34.6	38.8
Rel. All Share	3.6	26.0	23.5

Source: JCF Group

Relative Performance



	1m	3m	12m
Rel. Sector	4.4	26.9	41.6
Rel. Index	1.1	18.5	14.4

Source: JCF Group

Analyst

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Industry Background

The UK self storage market (rented storage space) is immature and growing at double digit rates. This growth is underpinned by the attractions of cost-effective use of space and flexibility. The current market of c.400 self storage centres (c.150k people per store) is considerably smaller than the US market (c.35,000 centres, c.8k people per store). Self storage business models essentially vary between high and low initial investment including position of the site, standard of technology and fittings employed at the site and freehold vs leasehold. Lok'nStore operates one of the lower cost business models within the sector.

Operations

Lok'nStore owns 20 self storage centres in the South of England. We believe this is the most lucrative geographic area within a growing market. The group aims to open a site within eight weeks of acquisition and will progressively install self storage units at a site as demand builds. Approximately half of group sales are generated from stores that are older than five years and half from newer stores. While the strategy remains focused on growing the self storage portfolio, disposals are considered if a change of use would yield greater value. Residential planning permission has been granted at the Kingston site and permission is being sought in Reading.

Recent Newsflow

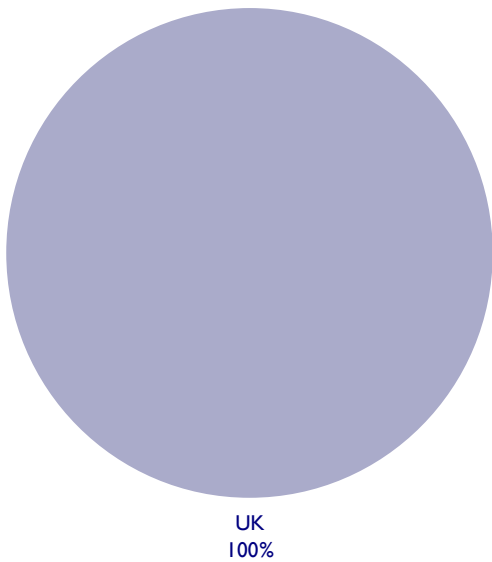
Lok'nStore has been granted planning permission for a high density residential development at its Kingston site. The permission is for two 6-8 storey buildings containing 78 private apartments, 16 key worker and 30 social units. We estimate the final value of this development will be c.£30m. The board has stated it is considering the next steps with regard to a potential sale. We have assumed if the land were to be sold now it is worth £10m, one third of the final value.

Valuation

We cautiously derive a potential net asset value of 122p per share (£31m). This is comprised: £11m last reported NAV, £10m uplift from the January 2004 valuation, £5m uplift from Kingston, £3m uplift from the inclusion of leases in the valuation and a £2m rise in freehold values since January 2004. If we were to increase the value of Kingston by £2m and an additional £1m across the other stores then our NAV forecast would rise to 135p.

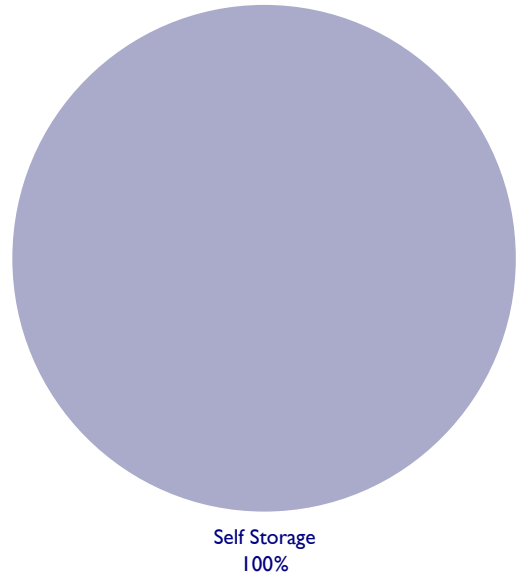
We do, however, believe Lok'nStore is best valued in relation to the potential of the current portfolio and expansion prospects. If the current portfolio were to be matured we believe it would justify a 150p per share valuation, 5% below the current share price. Additional value would then be created from acquiring and growing additional stores.

Turnover by destination, 2004A



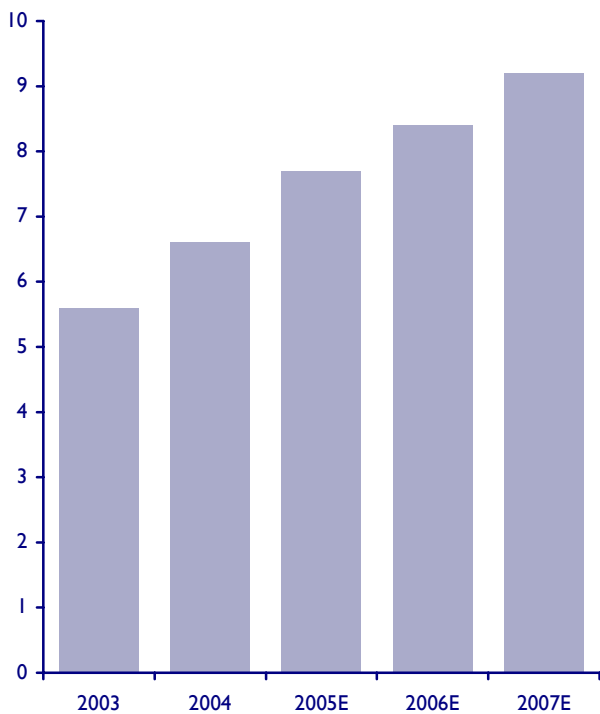
Source: Investec Securities Estimates

Operating profit by activity, 2004A



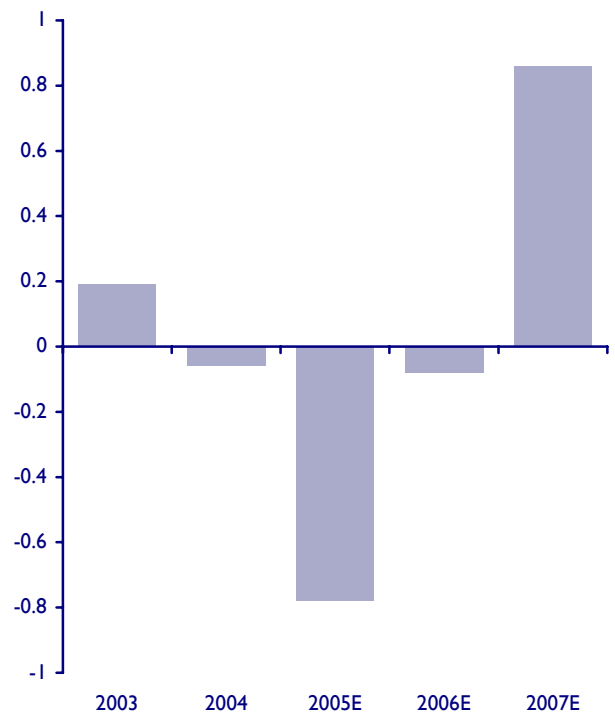
Source: Investec Securities Estimates

Turnover (£m)



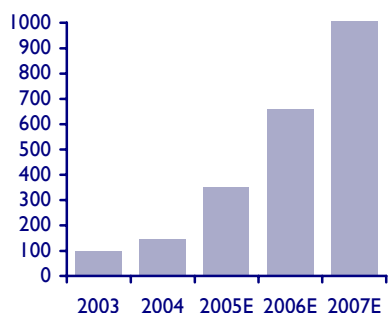
Source: Investec Securities Estimates

EPS (p)



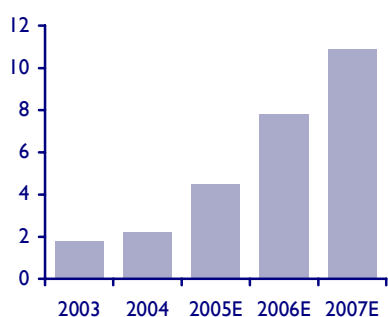
Source: Investec Securities Estimates

Operating Profit (£'000)



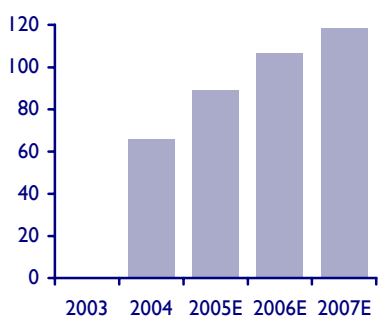
Source: Investec Securities Estimates

Operating margin (%)



Source: Investec Securities Estimates

Gearing (%)



Source: Investec Securities Estimates

Bull Points

Market immature & growing
 Focused on South
 Corporate activity high

Bear Points

Losses while expanding
 Consuming cash in short term
 Difficult to acquire new sites

Summary P&L (£m)

Year End: 31 July	2003	2004	2005E	2006E	2007E
Self Storage	5.6	6.6	7.7	8.4	9.2
Turnover	5.6	6.6	7.7	8.4	9.2
Self Storage	0.1	0.1	0.3	0.7	1.0
Operating profit	0.1	0.1	0.3	0.7	1.0
Net Interest	0.0	(0.2)	(0.5)	(0.7)	(0.8)
PBT (Normalised)	0.1	0.0	(0.2)	0.0	0.2
Goodwill Amortisation	0.0	0.0	0.0	0.0	0.0
Exceptionals	(0.5)	(0.1)	0.0	0.0	0.0
PBT (Reported)	(0.4)	(0.2)	(0.2)	0.0	0.2
Taxation	0.0	0.0	0.0	0.0	0.0
Minorities & Preference Dividends	0.0	0.0	0.0	0.0	0.0
Profit Attributable	(0.4)	(0.2)	(0.2)	0.0	0.2
Ordinary Dividend	0.0	0.0	0.0	0.0	0.0
Retained Profit	(0.4)	(0.2)	(0.2)	0.0	0.2
EPS (Reported) - Fully Diluted (p)	(1.4)	(0.6)	(0.9)	(0.2)	0.8
EPS (Normalised) - Fully Diluted (p)	0.2	(0.1)	(0.8)	(0.1)	0.9
DPS (p)	0.00	0.00	0.00	0.00	0.00
Average no. of Shares - Fully Diluted (m)	30.3	27.4	25.6	25.6	25.6

Source: Company Accounts/Investec Securities Estimates

Summary Cashflow (£m)

Year End: 31 July	2003	2004	2005E	2006E	2007E
Operating profit	0.1	0.1	0.3	0.7	1.0
Depreciation	0.6	0.7	0.8	0.8	0.9
Other Non-Cash Movements	(0.1)	(0.1)	0.0	0.0	0.0
Change in Working Capital	(0.4)	0.3	(0.1)	(0.1)	(0.1)
Other Cash Movements	0.0	0.0	0.0	0.0	0.0
Operating cash flow	0.3	0.9	1.0	1.4	1.8
Interest & Tax	0.0	(0.1)	(0.5)	(0.7)	(0.8)
Net Capex	(2.1)	(3.8)	(2.7)	(2.5)	(2.5)
Free Cashflow	(1.9)	(3.0)	(2.2)	(1.8)	(1.5)
Dividends	0.0	0.0	0.0	0.0	0.0
Cash Impact of Exceptionals	0.0	0.0	0.0	0.0	0.0
Acquisitions & Disposals	0.0	(1.6)	0.0	0.0	0.0
Share Issues	0.0	(3.4)	0.0	0.0	0.0
Other Financial	0.0	0.0	0.0	0.0	0.0
Change in net debt	(1.9)	(8.0)	(2.2)	(1.8)	(1.5)

Source: Company Accounts/Investec Securities Estimates

Summary Balance Sheet (£m)

Year End: 31 July	2003	2004	2005E	2006E	2007E
Intangible Fixed Assets	0.4	0.4	0.4	0.3	0.3
Tangible Fixed Assets	13.4	18.2	20.1	21.7	23.3
Net Working Capital	(0.7)	(1.0)	(0.9)	(0.8)	(0.7)
Assets Employed	13.1	17.5	19.5	21.2	22.9
Investments/Other Assets	0.0	0.0	0.0	0.0	0.0
Net Cash/(Debt)	1.1	(6.9)	(9.2)	(10.9)	(12.4)
Provisions & Other Liabilities	0.0	0.0	0.0	0.0	0.0
Net assets	14.2	10.6	10.3	10.3	10.5
Equity Shareholders Funds	14.2	10.6	10.3	10.3	10.5
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Shareholder Funds	14.2	10.6	10.3	10.3	10.5

Source: Company Accounts/Investec Securities Estimates

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