

Lok'nStore Group 90p

Upgrade, Good Year Ahead

27 April 2010

Share Price: 90p



Shares in Issue: 25m fully diluted

12m High: 80p

12m Low: 34.5p

Shares In Issue: 25m

Market Cap: 23m

NAV/Share: 210p with properties at valuation

Gearing: 65% with properties at valuation (46% ignoring deferred tax liability)

Interest Cover: 1.8X

EPIC Code: LOK.L

Sector: Support Services

Market: London AIM

Broker: Arbutnot Securities

PR: Financial Dynamics

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Description: Lok'nStore is the fourth largest self-storage group in the UK with a c. 5% market share. It owns 23 self-storage centres in the affluent South East of England, 21 of which are open. The freehold/leasehold sq ft split is 64/36. The household/business revenue (£) split is 62/38.

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Half year results confirmed that the recession is over for this company. Square feet of self storage space let bottomed out in December 2008, and 11 of the 15 months since then have shown growth. Also revenue per square foot has grown, and costs, in particular interest costs, are down. The result is a set of very good numbers that lead us to UPGRADE our full year estimate, and our estimate for a year out.

Key points are:

- Occupancy up 10.2%
- Prices up 2% over period, 0.5% year on year
- Ancillary income (insurance, box sales etc) up 24.6%
- Cost of Sales and Admin Expenses both down.

Occupancy has risen to 52% of available space, enabling Lok'nStore to edge prices forward a little. We believe there is still considerable scope for further price increases, because Lok'nStore's average prices are approx. 20% lower than the industry average, and even further behind those of the two larger quoted self-storage operators, *Safestore* and *Big Yellow*.

Ancillary revenue will also grow further as there is a trend – energetically encouraged by management – for an increasing number of customers to take out Lok'nStore's insurance..

Interest charges are down from £0.77m to £0.25m, and will stay at this level until either a) interest rates rise again or b) management decides to resurrect the store building programme. Because of the strange impact of IAS23 any new store developments will initially adversely impact Lok'nStore's p&l in a way that will not happen at Safestore. Any resumption of the build-out would, in our opinion, be good news. In our next research note, due out shortly, we will adjust for IAS23 so our analysis of all three quoted self storage companies is comparable.

We now look for full year profits of c. £0.3m, up from our previous estimate of £0.1m.

Lok'nStore's shares rose sharply on the Interim Results and are now 42% higher than when we issued our last, strongly positive research note in November. The entire industry has shown its ability to come through a serious recession with only limited impact on trading. The shares are still at less than half their n.a.v., and less than a third of their high point in April 2007. We are still strongly positive on this company, and indeed the industry generally.

As we stated in our previous research note, placing the shares on a 40% discount to n.a.v. would suggest a fair value price of 126p.

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	%
2008A	10.8	2.7	(0.74)	(0.31)	(1.5)	8.4	1.00	1.1
2009A	10.0	2.5	(0.66)	(0.66)	(2.4)	9.4	1.00	1.1
2010E	10.3	2.7	0.30	0.30	1.2	8.5	1.00	1.1
2011E	11.1	3.3	0.55	0.55	2.19	7.0	1.00	1.1

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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>Andrew Jacobs: 20.8%</p> <p>Audley Capital: 16.7%</p> <p>Laxey Partners 12.4%</p> <p>Simon Thomas: 8.4%</p> <p>Oliver Bernard Ellingham: 5.2%</p> <p>Charles Stanley 5.0%</p>
Key Dates	Key Milestones
<p>Full Year Results: November 2010</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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