

Lok'nStore Group 107p
Interim results assessment

12 April 2011

Share Price: 107p



Shares in Issue: 25m fully diluted

12m High: 142.5p

12m Low: 80p

Market Cap: £27m

NAV/Share: 229p with properties at valuation (as reported at end Jan 2011)

Gearing: 55% (58% prior year) with properties at valuation

Interest Cover: 1.9x last F/Y

EPIC Code: LOK.L

Sector: Support Services

Market: London AIM

Broker: Matrix Corporate Capital

PR: Financial Dynamics

Website: www.loknstore.co.uk

Description: Lok'nStore is the fourth largest self-storage group in the UK with a c. 4% market share. It operates 21 self-storage sites in the affluent South East of England and has a further two new stores in development. The freehold/leasehold store split is 52/48. The household/leasehold revenue (£) split is 63 /37.

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Lok'nStore's interim results yesterday showed record EBITDA and PBT ahead of expectations. As it enters the seasonally stronger H2, the business is well placed. Macro economic slowing is reflected in raising F/Y PBT by only £0.2m to £0.8m. H2 is likely to see progress with the banks putting in place new facilities – strong asset backing and modest 27% LTV smoothing the path.

2011/12E: unchanged estimates at PBT level. Modest adjustments to EBITDA (increased 1%) and sales (reduced 1%) reflect the factors behind the stronger than expected H1 margins (good pricing, costs and ancillary services) but macro caution.

We are making assumptions we consider prudent: for 2010/11E we are bearing closely in mind the slowdown in consumer spending evident at high street retail operators. We project price increases of 4% going forward. Prices went sideways 2008-09 but now are in a well established up trend and rose 4% compound over past six years. Our numbers allow for a temporary dip in occupancy H2 – which may prove over cautious. Self storage is a growth business and Lok'nStore is heading in the right direction with incremental income generating campaigns. However it is not entirely immune to the broader factors.

Our 2011/12E numbers reflect the interplay between this possible macro slowdown, rising interest rates and the revenue generating initiatives adding small but high margin incremental turnover. H1 just reported shows better than expected progress, therefore possible renewed expansion in the overall economy later would underpin numbers higher than our current estimates. 2011/12E assumes 30.5% EBITDA margins and compares with 28.2% 2009/10 before the renewed price rises had much time to benefit.

PBT is an important feature of the business model, but, we argue, not the key one. Lok'nStore is gently expanding its add-on services (eg insurance), cutting operating costs, lengthening leases (average length 16 years, vs 13 previously). Earlier, it announced partnership with Lidl for shared use of its development store in Maidenhead resulting in very efficient use of future capital expenditure. In addition to the above – which we would categorise as strong “housekeeping” and positioning for growth – operations have been conservatively run. Note that we anticipate that at some stage in the future the business will once more expand. This model results in start up returns below those of mature stores. While start-ups initially impact on overall profit as they move to a break-even position Lok'nStore has indicated such expansion will be on a measured, risk-managed basis. This is likely, particularly with 21 owned stores currently trading, to minimise the overall PBT effect.

In the 2006-7 economic “boom” assets were reduced rather than expanded and gearing is a modest 27% loan to value. The shares trade on 53% discount to NAV – too high a discount.

Y/E	Group Sales	Group EBITDA	Declared Profit/(Loss)	Adjusted Profit/(Loss)	Adjusted EPS	Mkt Cap/ EBITDA	Div	Yield
July	£m	£m	£m	£m	p	X	p	%
2009A	10.0	2.40	-0.66	-0.66	-2.4	11.3	1.00	0.9
2010A	10.4	2.93	0.43	0.43	0.9	9.3	1.00	0.9
2011E	10.7	3.15	0.80	0.80	2.4	8.6	1.00	0.9
2012E	11.3	3.45	0.71	0.71	2.0	7.8	1.00	0.9

Lok'nStore Group

12 April 2011

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>	<table> <tr> <td>Laxey Partners</td> <td>29.0%</td> </tr> <tr> <td>Andrew Jacobs:</td> <td>20.5%</td> </tr> <tr> <td>Simon Thomas:</td> <td>8.4%</td> </tr> <tr> <td>Duart Capital Management</td> <td>5.0%</td> </tr> <tr> <td>Charles Stanley</td> <td>5.0%</td> </tr> </table>	Laxey Partners	29.0%	Andrew Jacobs:	20.5%	Simon Thomas:	8.4%	Duart Capital Management	5.0%	Charles Stanley	5.0%
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Duart Capital Management	5.0%										
Charles Stanley	5.0%										
	Key Milestones										
<p>Final Results: 17 October 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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