

Lok'nStore (LOK.L)

More of the same in 1H16

Sector: Property

Price: 317p, Market cap: £80m

- **Adjusted profits increase 23%:** LOK reported a strong set of interims, leaving management feeling very upbeat about the outlook. Adjusted operating profit was 17% higher at £2.4m, on the back of a 5% (8% like for like) increase in turnover to £8m. Adjusted EBITDA was up 13% and FFO, management's favoured measure of cash profits, improved 23% to £3.1m. Adjusted NAV was 14% higher at 307p and the dividend was raised 15% to 2.67p per share.
- **Operations continue to grow:** Occupancy was up 2.4% year on year on a like for like basis, although unadjusted it was flat. Pricing was up 3.3% YoY and store margins improved nearly two percentage points. The headline operating figures looked good, but were boosted by management fees and pure self-storage revenue was up just 1.4%, following the sale of Swindon in September 2015.
- **Pipeline of four assets:** Following the opening of Bristol, Southampton and Chichester in the past few months, management said there were a further four sites in the pipeline. Two of them will be managed stores. The £10m cost of building the other two freehold stores will be funded internally.
- **Balance sheet strengthened:** With net debt of just £26m and an LTV falling to 26% the group has capacity to gear up to fund its expansion plans. Cash at the interim stage was £3m, but there is another £3m to come in during the 2H of FY16. The improved terms on the new banking facility should also produce a cash saving from the 2H.
- **Shares have recovered:** The shares saw a justified bounce after the release, after a prolonged period of weakness since January. With the stock trading on 2% discount to NAV and yielding nearly 3%, we would argue there remains further upside. Our valuation range for this year is 336p-361p.

July Year End	FY13	FY14	FY15	FY16E	FY17E
Total revenues (£m)	13.0	13.9	15.4	16.2	17.2
Adj. EBITDA (£m)	4.1	4.6	5.7	6.1	6.7
EBIT (£m)	2.7	3.2	3.9	4.2	4.8
PBT (£m)	1.4	0.4	2.7	4.9	3.5
Reported EPS (p)	5.8	0.8	7.8	14.3	10.2
EPRA EPS (p)	6.1	4.3	7.8	8.4	10.2
DPS (p)	6.0	7.0	8.0	9.0	10.0
Net (debt)/cash (£m)	(22.5)	(25.3)	(25.1)	(21.6)	(22.9)
Gross LTV (%)	39.3	35.3	31.4	30.7	27.4
EPRA NAVPS (p)	248	271	302	323	359
P/NAV (x)	1.28	1.17	1.05	0.98	0.88
P/E (x)	52.0	73.1	40.4	37.6	31.0
Dividend Yield (%)	1.9	2.2	2.5	2.8	3.2

Source: Company (actual), Argento Capital Markets (forecasts);

Mark Cartlich, Research Director
 +44 (0)20 7093 0353
mark.cartlich@argentocapital.net

Definitions & disclaimers

This document, which for regulatory purposes is a marketing communication, is issued by Argento Capital Markets Limited.

Recommendation definitions	
BUY	Share price appreciation of 15% or more in absolute terms over 12 months
HOLD	Share price appreciation or depreciation of less than 10% in absolute terms over 12 months
SELL	Share price depreciation of 15% or more in absolute terms over 12 months
SPEC BUY	Share price appreciation of 15% or more in absolute terms over 12 months, but with an unusual level of risk relative to return

Disclaimer

This report is issued by Argento Capital Markets Limited (“Argento”) in the UK, which is an Appointed Representative (FCA number 583102) of Citation Capital Management Limited which is authorised and regulated by the Financial Conduct Authority (FCA number 198036) in connection with its UK distribution. This report was prepared by Mark Cartlich of the research department. This document meets the FCA requirements in respect of Marketing Material.

This material should not be construed as an offer or recommendation to buy or sell or solicitation of any offer to buy any security or other financial instrument, nor shall it, or the fact of its distribution, form the basis of, or be relied upon in connection with, any contract relating to such action or any other matter. The material in this report is based on information that we consider reliable and accurate on the date of this report but we do not warrant or represent (expressly or by implication) that it is accurate, complete, not misleading or as to its fitness for the purpose intended and it should not be relied upon as such. Any opinion expressed (including estimates and forecasts) is given as of the date of this report and may be subject to change without notice.

Argento accepts no liability whatsoever for any direct, indirect or consequential loss or damage of any kind arising out of the use of or reliance upon all or any of this material howsoever arising. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk, including the risk of capital loss.

This research note is confidential and is supplied to you for information purposes only. It may not (directly or indirectly) be reproduced, further distributed to any person or published, in whole or in part, for any purpose whatsoever. Neither this document, nor any copy of it, may be taken or transmitted into the United States, Canada, Australia, Ireland, South Africa or Japan or into any jurisdiction where it would be unlawful to do so. Any failure to comply with this restriction may constitute a violation of relevant local securities laws.