Initiation of Coverage
24 October 2024

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Stor-Age Property REIT Limited

Good Stor(e) of Capital

Share Code: JSE: SSS – Market Cap: R7.2b – PE: 17.0x – DY: 7.9%

12m Target Price	**1550cps**
Share Price	**1502cps**
12m Total Return	**14%**

Self-storage | South Africa

Business Overview:

- **Stor-Age is an integrated & internally managed REIT that owns & operates self-storage properties in South Africa and the United Kingdom** with a portfolio comprising of 103 properties (60 in SA operate under *Stor-Age* brand & 43 in the UK operate under the *Storage King* brand).
- **Stor-Age is the largest, market-dominant self-storage brand in SA whilst ranking 5th in the UK** (an under-penetrated market).

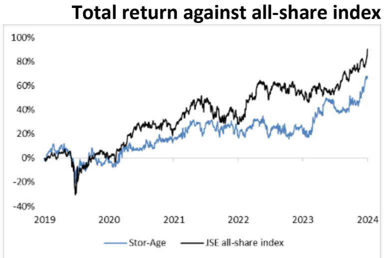
Key Upsides & Downsides:

- The current interest rate cutting cycle may lower finance costs, boost valuations & increase the attractiveness of the property sector.
- Furthermore, **Stor-Age has a highly defensive product** (self-storage), and the share price has been resilient through economic downturns with an excellent track record of operating and dividend growth.
- **Self-storage has high barriers to entry** that include long lease-up periods for newly developed properties and limited available properties in high-density, visible urban nodes.
- **The Group has a fast-growing, high-margin income stream of management fees from third-party property management and digital marketing platform that offers its shareholders exciting optionality.**
- Management have a pipeline of 13 properties that is expected to add 60,000m^2 of GLA to its portfolio in the near-term.
- Management have decided to decrease its distributable income payout ratio from 100% to a more sustainable 90~95%, thus resulting in some downward pressure on short-term distributions per share despite expected growth in forecast distributable income.

Forecast, Valuation and Implied Return:

- We see Stor-Age as having a **fair value of c.R15.50 per share** based on a blended valuation approach of a discounted cash flow valuation (R15.92) and relative valuation model (R15.08) based on valuation multiples of comparable listed self-storage peer companies.
- Rolling forward our fair value by 12 months at our Cost of Equity (less our expected dividend) gives us a **12m TP of R15.97 per share**, implying a total return of c.14% based on the current share price (R15.02).
- **We see a c.14% total return in the stock as comprising a forecast price return of c.6% and forecast dividend yield of c.8%.**

Total return against all-share index



Sources: Refinitiv, Blue Gem Research

Total return against SA listed property index

Sources: Refinitiv, Blue Gem Research

Return on assets against SA R2048 bond yield

Sources: Refinitiv, Blue Gem Research

Key Forecasts (R m)	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Property revenue	800	911	1 071	1 228	1 334	1 392	1 452
Net property operating income	587	686	791	904	870	910	951
Net property operating profit	503	597	674	784	795	834	875
NAV per share (ZAR)	12.7	13.9	15.1	16.1	17.1	17.6	18.2
Price-to-book ratio	*1.0x*	*1.1x*	*0.9x*	*0.9x*	*1.0x*	*1.0x*	*1.0x*
Dividend per share (ZAC)	**109**	**111**	**115**	**119**	**118**	**121**	**125**
Dividend yield (%)	***8.3%***	***7.5%***	***9.0%***	***7.9%***	***7.6%***	***7.8%***	***8.1%***

Source: Stor-Age annual reports, Refinitiv, & Blue Gem Research

Joshua Viljoen*

BLUE GEM RESEARCH

Detailed Forecasts (R m)	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Rental income	739	850	997	1 144	1 243	1 297	1 354
SA segment	424	471	534	597	665	701	740
UK segment	315	379	463	547	578	596	613
Rental income growth		*15.0%*	*17.3%*	*14.8%*	*8.6%*	*4.3%*	*4.3%*
Other income	61	61	74	84	91	94	98
SA segment	28	21	23	25	29	30	32
UK segment	34	40	51	59	62	64	66
Other income growth		*-0.9%*	*21.6%*	*13.4%*	*8.2%*	*3.8%*	*3.8%*
Property revenue	**800**	**911**	**1 071**	**1 228**	**1 334**	**1 392**	**1 452**
SA segment contribution	*56%*	*54%*	*52%*	*51%*	*51%*	*52%*	*52%*
UK segment contribution	*44%*	*46%*	*48%*	*49%*	*49%*	*48%*	*48%*
ECL on tenant receivables	(6.4)	(3.7)	(6.3)	(6.5)	(9.0)	(9.4)	(9.9)
SA segment	(5.8)	(2.7)	(4.4)	(4.4)	(6.6)	(7.0)	(7.4)
UK segment	(0.6)	(1.1)	(1.8)	(2.0)	(2.3)	(2.4)	(2.5)
ECL as a % rental income	*-0.9%*	*-0.4%*	*-0.6%*	*-0.6%*	*-0.7%*	*-0.7%*	*-0.7%*
Direct property operating costs	(206)	(221)	(274)	(317)	(352)	(365)	(379)
SA segment	(101)	(112)	(127)	(139)	(160)	(168)	(176)
UK segment	(106)	(110)	(147)	(179)	(192)	(197)	(203)
As a % of property revenue	*-26%*	*-24%*	*-26%*	*-26%*	*-26%*	*-26%*	*-26%*
Net property operating income	**587**	**686**	**791**	**904**	**974**	**1 017**	**1 063**
Management fee income	5	15	36	63	37	39	41
SA segment	3	10	28	34	29	30	32
UK segment	2	5	7	30	8	9	10
Administrative expenses	(89)	(103)	(153)	(184)	(215)	(222)	(229)
SA segment	(59)	(69)	(105)	(118)	(132)	(138)	(144)
UK segment	(30)	(35)	(48)	(66)	(83)	(84)	(86)
As a % of property revenue	*-11%*	*-11%*	*-14%*	*-15%*	*-16%*	*-16%*	*-16%*
Net property operating profit	**503**	**597**	**674**	**784**	795	834	875
NPOP margin	*63%*	*66%*	*63%*	*64%*	*60%*	*60%*	*60%*
No. of properties (incl. JVs)	74	85	93	103	106	107	108
SA segment	52	55	57	60	63	63	63
UK segment	22	30	36	43	43	44	45
Rental income per property	10.0	10.0	10.7	11.1	11.7	12.1	12.5
Investment property value	7 869	9 535	10 731	11 673	12 185	12 579	12 984
SA segment	4 700	5 090	5 215	5 462	5 849	5 966	6 086
% Contribution	*60%*	*53%*	*49%*	*47%*	*48%*	*47%*	*47%*
UK segment	3 170	4 445	5 516	6 212	6 336	6 613	6 899
% Contribution	*40%*	*47%*	*51%*	*53%*	*52%*	*53%*	*53%*
LTV ratio	*24%*	*28%*	*30%*	*31%*	*31%*	*31%*	*31%*
Dividend per share (ZAC) [1]	**109**	**111**	**115**	**119**	**118**	**121**	**125**
Dividend yield (%)	***8.3%***	***7.5%***	***9.0%***	***7.9%***	***7.6%***	***7.8%***	***8.1%***
Payout ratio (%)	***100%***	***100%***	***100%***	***100%***	***95%***	***95%***	***95%***
NAV per share (ZAR)	**12.7**	**13.9**	**15.1**	**16.1**	**17.1**	**17.6**	**18.2**
Price-to-book ratio	***1.0x***	***1.1x***	***0.9x***	***0.9x***	***1.0x***	***1.0x***	***1.0x***
Diluted shares in issue (millions)	437	480	479	480	480	480	480
Diluted EPS (ZAC) [2]	280	229	151	147	165	174	182
Yield on investment property (%)	*6.4%*	*6.3%*	*6.3%*	*6.7%*	*6.3%*	*6.4%*	*6.4%*

Note 1: Decline in dividend per share is forecast in FY25E due to a reduction in the payout ratio anticipated, as announced in the trading update on 28 August 2024. FY25E dividend is based on mid-range guidance of distributable income with a forecast 95% payout ratio.
Note 2: Forecast Diluted EPS has been calculated without inclusion of fair value adjustments
Source: Stor-Age annual reports, Refinitiv, & Blue Gem Research

Investment Case

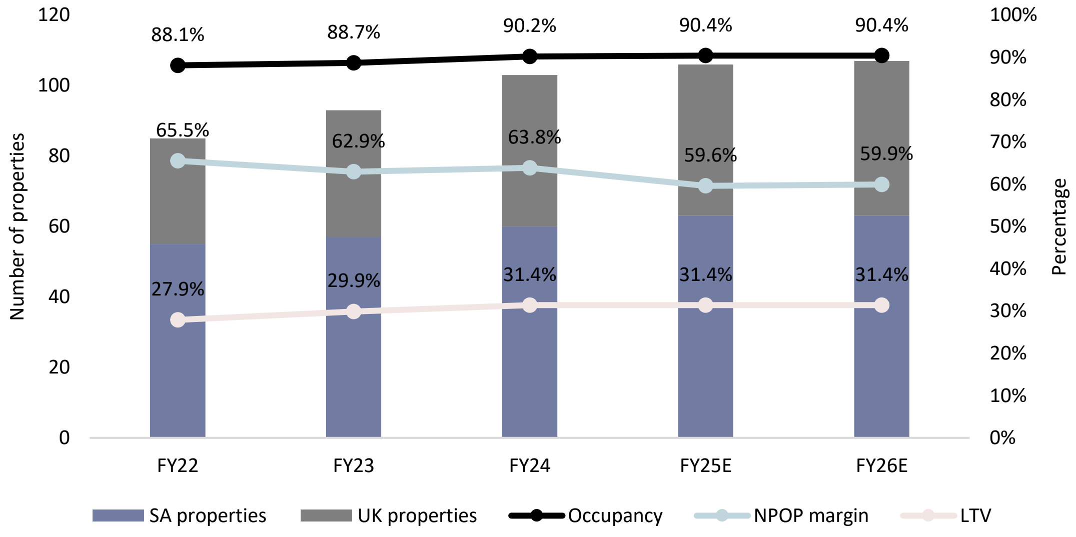
Stor-Age Property REIT Limited ("Stor-Age" or "the Group") is an integrated, internally managed Real Estate Investment Trust ("REIT") and is the largest self-storage property fund and brand in South Africa ("SA") with a strong presence in the United Kingdom ("UK").

The Group focusses exclusively on self-storage which is a niche sub-sector of the broader commercial property market that has some unique characteristics. Specifically, the Group generates rental income from a portfolio of high-quality big box self-storage units that it rents out to a large number of small tenants for short-term storage needs. Ancillary revenue is earned the sale of "Stor-Age" and/or "Storage King" branded packaging materials and accessories such as locks and furniture coverings. Leases are on a month-to-month basis with no built-in rental escalation, but the Group can (and *does*) increase rentals at its discretion (provided 30 days' notice is given to tenants). The average increase in rentals over the past five years was 7% per square metre in SA and 4% per square foot in the UK (importantly, tracking higher than these regions' inflation over these periods). As per the most recent financial year, the average length of stay per tenant was c.25.5 months in SA and c.32.1 months in the UK.

The Group conducts growth planning in five-year cycles and is currently in the fourth year of the cycle ending in 2025. Management intends to continue growing the portfolio and profits through leveraging the following verticals:

- Growing the **existing portfolio** through active revenue management, increasing Gross Lettable Area ("GLA") at properties by maximising existing space, and optimising the unit mix at properties to meet customer demand,
- Leverage their **tenant management software platform** to drive cost savings,
- **Developing new properties** in prominent high barrier-to-entry locations, and
- **Pursuing acquisitions** and consolidating the Group's position as the largest self-storage brand in South Africa and one of the larger operators in the UK.

Figure 1: Portfolio Overview and Key Metrics



Sources: Stor-Age results presentations & Blue Gem Research

In **South Africa**—whilst Stor-Age has identified the opportunity to acquire existing properties—the strategy is mainly focused around developing properties in high barrier-to-entry locations that are in easily accessible in visible, high-density urban locations close to highways and arterial roads.

In the **UK,** the Group operates through the "Storage King" brand. Management intends to grow this business by integrating the South African-based head office support services into the Storage King platform and leveraging digital marketing capabilities in the UK. Within the UK market, growth will be through acquiring existing self-storage properties, developing big box properties, and converting existing buildings in retail or commercial type nodes to self-storage space.

Recently, Stor-Age has formed **joint-ventures** ("JV") with real estate investment partners to acquire and develop new self-storage properties. The use of these vehicles allows the Group to achieve further scale in SA and the UK whist still providing an attractive Return on Invested Capital ("ROIC"). The JVs also mitigate the financial impact of the lease-up of newly developed properties which can take several years to reach maturity. Going forward it is expected that Stor-Age will undertake the majority of its new developments in JV structures with development partners. When JV developments are done internally, the Group will earn a non-recurring development profit at completion of the development and recurring property management fees will be earned annually. All JV properties are branded and managed by Stor-Age in SA and Storage King in the UK. This allows the Group to leverage the internal management platform and generate ongoing property management fees. Stor-Age currently has JVs with Garden Cities, Moorfield, Nedbank, Rabie and Nuveen. The JV agreement with Nedbank includes a call option for Stor-Age to acquire Nedbank's share in the JV and is exercisable six years after the completion of each development in the JV (with a Put at year 5).

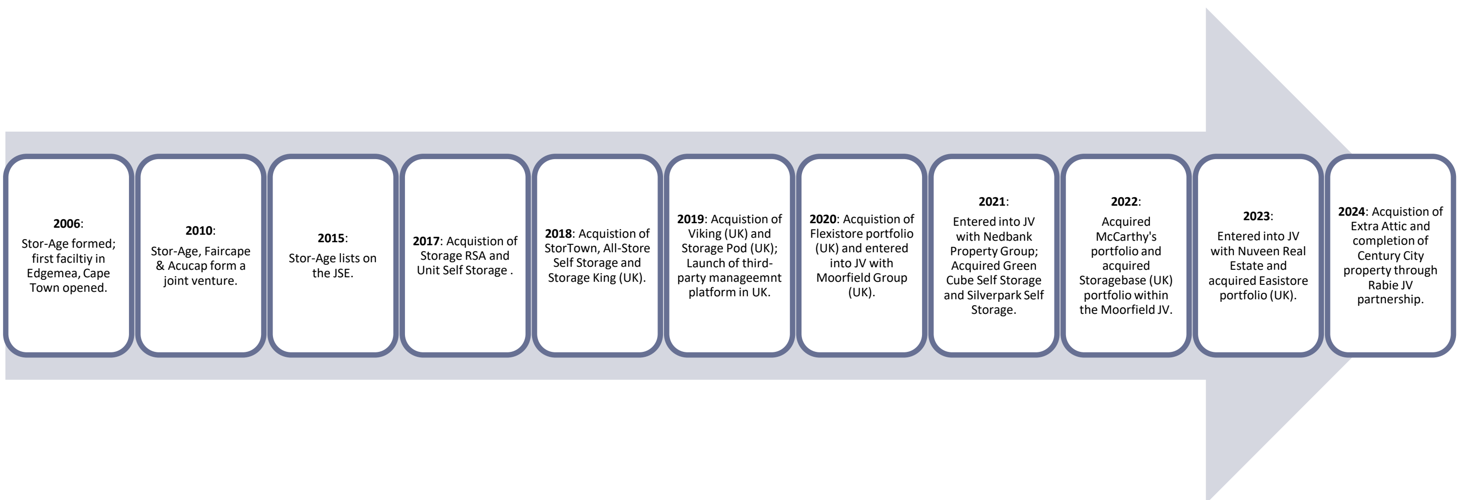
At a Group-level (**Figure 1**), growth in rental income and in Net Asset Value ("NAV") per share has been driven by a combination of rising occupancy, like-for-like rental growth, new developments and the acquisition of new properties to the portfolio.

Risks to the future growth of the Group will thus be an inability to (1) lease up properties, (2) to pass on any like-for-like cost increases to tenants, (3) and/or to find new viable locations to add to the portfolio's GLA. Other risks faced by the Group—that are shared with other property companies—include sovereign, interest rate, foreign exchange, and general property risks.

Group History & Overview

Stor-Age was formed in 2006 with the first location opening in Edgemead, Cape Town. The Group listed on the Johannesburg Stock Exchange in 2015 and entered the UK market through the acquisition of Storage King in 2017. Refer below for a brief history of the group and major milestones:

Figure 2: Stor-Age timeline



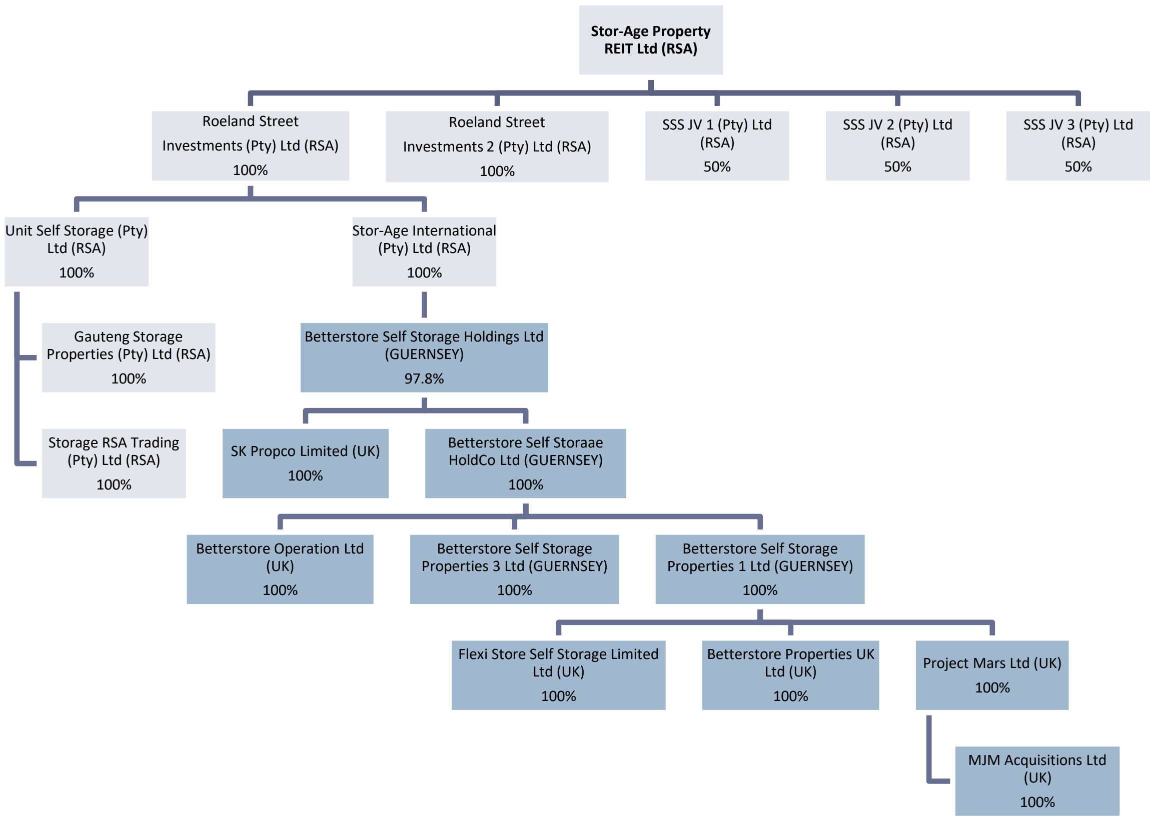
Sources: Stor-Age website, Blue Gem Research illustration

The Group was founded by Gavin Lucas (CEO), Stephen Lucas (CFO) and Steven Horton (Executive Director). Notably, the Group is still managed by these founders and they still holding directly equity in the Group (we consider this a good alignment of interest with other shareholders). For the founding management team, the last disclosed shareholding is as follows:

- **Gavin Lucas, CA (SA) and CEO**: 1.48% of the Group's issued share capital held
- **Stephen Lucas, CA (SA) and CFO**: 1.58% of the Group's issued share capital held
- **Steven Horton, CA (SA) and Executive**: 0.65% of the Group's issued share capital held

External shareholding in the Group is mostly institutional with the largest five shareholders being the Public Investment Corporation (19.77%), Old Mutual Investment Group South Africa (Pty) Limited (11.29%), Catalyst Fund Managers (Pty) Ltd (5.25%), Eskom Pension and Provident Fund (4.69%) and Ninety One SA (Pty) Ltd (4.46%). We do note the JSE SENS released on the 15th of October 2024 announcing that Coronation Asset Management (Pty) Ltd has acquired a 5.3% beneficial interest in the Group.

Figure 3: Group Structure



Sources: Stor-Age Integrated Annual Report, & Blue Gem Research

The Group structure has expanded overtime as properties have been acquired. The UK division of the Group (Storage King) is owned through the Betterstore subsidiary domiciled in Guernsey. Betterstore is 97.8% owned by Stor-Age International and non-controlling shareholders own the reaming 2.2% in the Betterstore.

Table 1: Summarised Corporate Governance Checklist

Corporate Governance Aspect	Is it in place at Group-level?	Comment
External auditors	Yes	The financial statements of the Group are externally audited by BDO who have been the auditors since 2021 (taking over from the KPMG). An unmodified audit opinion was issued by BDO in FY 24.
Internal audit function	Yes	During 2023, the Group appointed GRIPP Advisory as the external assurance provider to perform internal audit work. Going forward the Board of Directors will continue to prioritise engagement with GRIPP to evolve and strengthen the Group's internal controls in line with ever changing inherent economic and technological

		risks. In FY24, the Group introduced an updated risk register and control framework in line with ISO 27001.
Management incentives	Yes	Management is incentivised to grow earnings and return on capital for shareholders through short-term incentives ("STIs") and long-term incentives ("LTIs"). STIs are based on financial and non-financial KPIs (70% weighting) and meeting strategic objectives (30% weighting). LTIs comprise of a conditional share plan with performance conditions based on financial KPIs (75%), ESG KPIs (15%) and non-financial strategic objectives (10%). Financial KPIs include: • Achieving a total return of 200 bps above the risk-free rate (three-year average), • Growth in same store net operating income over three years (annualised average growth of 7.5%), & • Balance sheet management vs target (LTV ratio of 32.5% - 37.5% and interest coverage ratio targets > 2.2 times).
Independent non-executive Chairperson	Partial, though aided by the large balance of non-executives as per below.	Graham Blackshaw chairs the Board of Directors and is a non-executive director. The Chair is a non-executive director but is not an independent director. As former lead development partner in the Faircape group of companies, Graham played an integral role in driving the formation of the Stor-Age Joint Venture between Acucap, Faircape and Stor-Age Property Holdings in 2010.
Balance of non-executive directors on the Board	Yes	The Board of Directors is comprised of 10 members of which 7 are non-executive directors and 3 are executive directors. 6 out 7 non-executive directors are independent and therefore majority of the Board is independent.

Source: Stor-Age remuneration report, Stor-Age website, & Blue Gem Research

South African segment – operating under the "Stor-Age" brand

Table 2: SA segment

Key Forecasts (R m)	**FY20A**	**FY21A**	**FY22A**	**FY23A**	**FY24A**	**FY25E**	**FY26E**	**FY27E**
Rental income	401	424	471	534	597	665	701	740
Other and ancillary income	39	28	21	23	25	29	30	32
Property revenue	**440**	**452**	**491**	**557**	**623**	**693**	**732**	**772**
Year-on-year growth %		*2.7%*	*8.7%*	*13.3%*	*11.9%*	*11.4%*	*5.5%*	*5.5%*
ECL on tenant receivables	(2.8)	(5.8)	(2.7)	(4.4)	(4.4)	(6.6)	(7.0)	(7.4)
As a % of rental income	*0.7%*	*1.4%*	*0.6%*	*0.8%*	*0.7%*	*1.0%*	*1.0%*	*1.0%*
Direct property operating costs	(100)	(101)	(112)	(127)	(139)	(153)	(161)	(169)
As a % of property revenue	*22.7%*	*22.3%*	*22.7%*	*22.8%*	*22.3%*	*23.0%*	*22.9%*	*22.8%*
Net property operating income	**337**	**345**	**377**	**426**	**480**	**506**	**535**	**565**
Year-on-year growth %		*2.3%*	*9.2%*	*12.9%*	*12.7%*	*9.9%*	*5.6%*	*5.6%*
Net property operating income margin %	*76.7%*	*76.4%*	*76.7%*	*76.4%*	*77.0%*	*76.0%*	*76.1%*	*76.2%*
Management fee income	3	3	10	28	34	29	30	32
Administrative fees	(37)	(59)	(69)	(105)	(118)	(127)	(132)	(138)
Net property operating profit	**304**	**289**	**318**	**349**	**395**	**409**	**433**	**459**
Net property operating profit margin %	*69.0%*	*63.9%*	*64.7%*	*62.7%*	*63.5%*	*61.3%*	*61.6%*	*61.9%*
Total number of properties (including JV properties)	50	52	55	57	60	63	63	63
Investment property value	4132	4700	5090	5215	5462	5849	5966	6086
LTV	***22.5%***	***18.2%***	***23.2%***	***24.9%***	***24.8%***	***24.8%***	***24.8%***	***24.8%***
Occupancy level	*85.00%*	*90.0%*	*88.1%*	*92.2%*	*92.1%*	*92.1%*	*92.1%*	*92.1%*

Sources: Refinitiv, Stor-Age Integrated Annual Reports, and Blue Gem Research assumptions, workings and forecasts

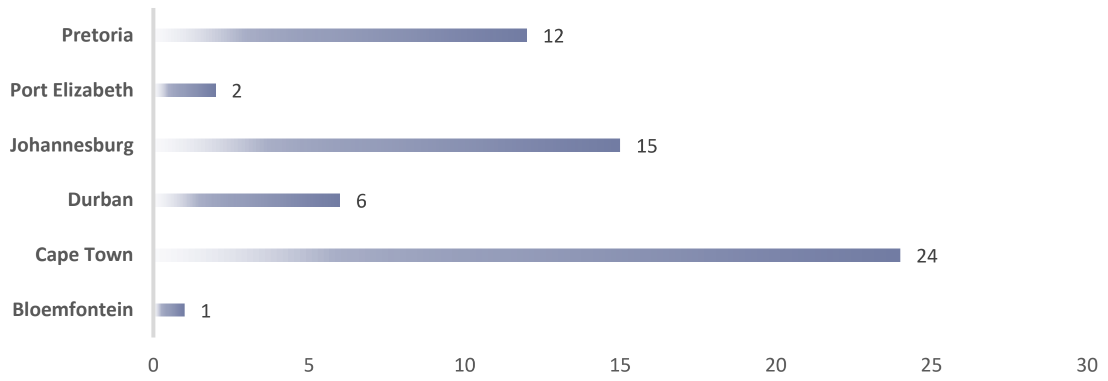
In South Africa, the Group operates under the "Stor-Age" brand with a strategy centred around entrenching Stor-Age's position as the leading and largest self-storage brand in the country.

The segment benefits from having multi-storey properties in high-profile locations in densely populated urban areas, creating higher barriers to entry for competitors while offering "billboard-like" branding to potential customers in and around its catchment areas. The focus is on developing 'upwards' (building multi-storey properties) rather than 'outwards' (expanding properties outwards by building on undeveloped land adjacent to properties) thus maximizing rental per property square meterage.

This existing portfolio has a high barrier-to-entry for new market participants as there are limited multi-storey premium-grade self-storage properties in prime urban and suburban nodes in South Africa.

At the end of the most recent 2024 financial year, Stor-Age had 60 properties in South Africa (inclusive of 6 properties owned in JVs) with 2 further properties under development.

Figure 4: SA properties



Sources: Stor-Age Integrated Annual Reports and Blue Gem Research

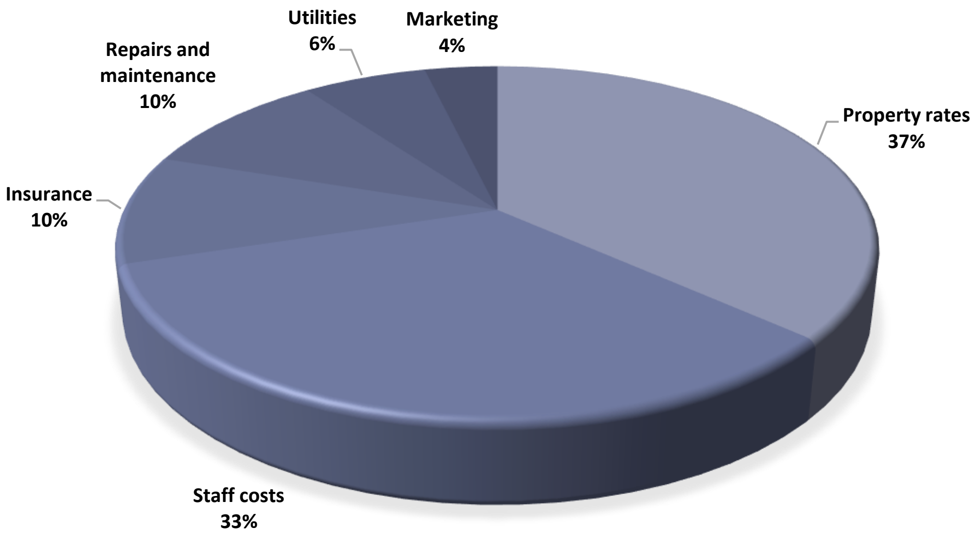
Rental enquiries for SA properties are generated predominantly through the Stor-Age website (62%). Telephonic enquires account for 28% whilst walk-ins (for which the Group has had no previous interactions) accounts for 10% of enquiries. For both FY23 and FY24, the tenant mix was 63% residential users (i.e. private persons) versus 37% commercial users (i.e. largely Small and Medium Enterprises or "SME").

The historical and forecasted performance of the segment is discussed below:

- **Rental income** across the SA portfolio has delivered steady increases between FY20 and FY24 despite macroeconomic challenges highlighting the defensive nature of the self-storage industry. Whilst most SA property counters struggled during COVID, Stor-Age was able to maintain occupancy levels and revenue growth through this period (**Table 2**).
- The SA portfolio saw rental income grow at a CAGR of 10.5% between FY20 and FY24. This was partially driven by rental increases and partially by the addition of new properties to the portfolio; the number of owned properties expanding from 50 properties in 2020 to 60 properties in 2024 (CAGR: 4.7%). Rental income per property grew from R8.0m in FY20 to R10.0m in FY24 (CAGR: 5.6%). ***Segmental forecast notes****: We have assumed steady rental income growth of 5.5% per annum for purposes of forecasting, based on an increase in GLA of 1.0% per annum for the existing portfolio, and an increase in rentals on a same-store basis of 4.5% per annum for FY26E to FY29E. Specifically for FY25E, though, we have forecast a same store rental increase of 8.9%, in line with the increase per the FY25 half-year trading update. The forecasted rental income for FY25E also includes the additional GLA of the Century City and Kramerville developments which began trading in June 2024 and July 2024 respectively. These properties are expected to add 11 500 m^2 to GLA on full fitout (2.4% increase in SA portfolio GLA). We have applied a 50% haircut for the full fitout GLA to account for the lease-up period.*
- Apart from rental income, the SA portfolio generates **ancillary income** from the sale of Stor-Age branded merchandise such as packaging materials and padlocks. **Other income** is generated from administration and late payment fees. Despite the relatively small proportion of total revenue this makes, each component makes a meaningful contribution to earnings given the limited capital investment required. Between FY22 and FY24 other and ancillary income has been approximately 4% (FY22: 4.18%; FY23: 4.14%; FY24: 4.07%) of total property revenue. Other income in FY20 and FY21 was elevated as it included rental guarantee income provided by the sellers of the properties to provide income protection to Stor-Age as the properties lease-up to mature occupancy levels. ***Segmental forecast notes****: Other income has been forecast to be 4.3% of rental income based on the historical average percentage of rental income over the past three financial years.*

- **Expected credit losses ("ECL") on tenants' debtors** have averaged 0.8% of rental income between FY20 and FY24. Higher credit losses at 1.4% of tenant debtors was observed in FY21, and this was likely due to the impact COVID-19 had on repayment ability of tenants. ***Segmental forecast notes****: We have assumed ECL on tenant debtors will be 1.0% of rental income based on a lower interest rate environment resulting in easing pressure on consumers when compared to the credit loss levels seen in FY21.*
- The largest contributor to **direct property operating costs** is property rates (32.7%) and staff costs (29.9%) which together make up approximately two thirds of total direct property operating costs in the SA segment. Self-storage units are relatively cost efficient to run and do not require significant utilities like electricity and water to operate in contrast to other classes of commercial real estate where utilities often make up the bulk of property expenses. Property operating costs as percentage of property revenue have been consistent over the FY20 to FY24 period fluctuating between 22.3% and 22.8% (average: 22.6%). ***Segmental forecast notes****: We have assumed the level of costs as percentage of property revenue to be 23.0% in FY25E, based on above inflation increases to utilities and property rates. We have stepped this down by 10bps a year from FY26E to account for cost savings solar will have on electricity costs at properties and some claw-back in rental like-for-like growth. In SA, 57% of properties have solar PV installed which we expect will contribute to lower electricity costs over time.*

Figure 5: SA operating cost breakdown



Sources: Stor-Age Integrated Annual Reports and Blue Gem Research

- **Management fees** can be broken down into property management fees and JV development and acquisition fees. Property management fees are earned based on a fixed percentage of rental income (subject to a minimum) on properties managed under the Group's third-party management platform. Stor-Age currently have 5 properties operating on the platform and growth in this segment would provide a capital-light annuity stream of income to earnings. JV development and acquisition fees are non-recurring and for FY24 comprised R6.2m of the total R35.5m management fee income recognised. ***Segmental forecast notes****: When forecasting management fee income based on historical figures, we have excluded these once-off JV development and acquisition costs, though note this as an upside risk to our forecasts as future JV developments are likely. The segmental reporting does not allocate management fees between the SA and UK segment for FY20 to FY22 and therefore we have allocated this expense between segments based on the average split for FY23 and FY24. The same* *approach has been followed for administrative fees for FY20 to FY22. We will review this approach in subsequent notes if it proves in adequate.*

- **Administrative fees** relate to non-property specific costs (head-office costs) and staff costs (including share-based payments), professional fees, auditor fees and other administrative expenses. Administrative fees have seen a substantial increase between FY23 and FY24 due to an increase in staff costs to support expansion and development activity of the Group. ***Segmental forecast note****: We forecast administrative fees to be 19.0% of property revenue in FY25E in line with FY23 (18.9%) and FY24 (19.0%) percentages. From FY26 to FY29E we have forecast this to decrease by 20bps a year due head office costs achieving improved economies of scale as the portfolio expands.*

United Kingdom segment – operating under the "Storage King" brand

Table 3: UK segment

Key Forecasts (R m)	FY20A	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Rental income	233	315	379	463	547	578	596	613
Other and ancillary income	25	34	40	51	59	62	64	66
Property revenue	**259**	**348**	**419**	**514**	**606**	**641**	**660**	**680**
Year-on-year growth %		*34.7%*	*20.4%*	*22.6%*	*17.8%*	*5.8%*	*3.0%*	*3.0%*
ECL on tenant receivables	(1.0)	(0.6)	(1.1)	(1.8)	(2.0)	(2.3)	(2.4)	(2.5)
As a % of rental income	*0.4%*	*0.2%*	*0.3%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*
Direct property costs	(78)	(106)	(110)	(147)	(179)	(192)	(197)	(203)
As a % of property revenue	*30.3%*	*30.3%*	*26.1%*	*28.6%*	*29.5%*	*30.0%*	*29.9%*	*29.8%*
Net property operating income	**179**	**242**	**309**	**365**	**425**	**442**	**451**	**461**
Year-on-year growth %		*35.2%*	*27.4%*	*18.2%*	*16.3%*	*5.0%*	*3.0%*	*3.0%*
Net property operating income margin %	*69.3%*	*69.5%*	*73.6%*	*71.0%*	*70.1%*	*69.6%*	*69.7%*	*69.8%*
Management fee income	1.6	1.5	4.9	7.5	29.6	8.0	8.8	9.7
Administrative fees	(19)	(30)	(35)	(48)	(66)	(83)	(84)	(86)
Net property operating profit	**162**	**214**	**279**	**325**	**389**	**371**	**385**	**399**
Net property operating profit margin	*62.8%*	*61.3%*	*66.5%*	*63.2%*	*64.2%*	*57.9%*	*58.3%*	*58.7%*
Total number of properties (including JV properties)	21	22	30	36	43	43	44	45
Investment property value	2942	3170	4445	5516	6212	6336	6613	6899
LTV	***40.7%***	***33.6%***	***32.5%***	***34.6%***	***37.0%***	***37.0%***	***37.0%***	***37.0%***
Occupancy	*78.8%*	*90.4%*	*88.3%*	*81.6%*	*83.5%*	*83.5%*	*83.5%*	*83.5%*
Average exchange rate	*18.79*	*21.35*	*20.29*	*20.45*	*23.54*	*24.01*	*24.49*	*24.98*

Sources: Refinitiv, Stor-Age Integrated Annual Reports, and Blue Gem Research workings, assumptions and forecasts

Note*: The UK segment's results presented in the table above is presented in Stor-Age's reporting currency (Rands). The results are translated from GBP using the average exchange rate applicable for the period, except for investment property value which are translated at closing rates. Thus, the Group has exposure to fluctuations in the GBP/ZAR exchange rate, however, this is managed through the use of cross currency interest rate swaps. The Group is currently fully hedged for FY25 at a forward rate of R23.76 and 70% hedged for FY26 at a forward rate of R24.64 (the current GBP: ZAR rate is R22.85 and thus the hedge is value accretive at current levels). For purposes of longer-term forecasts, we have simply assumed a flat GBP/ZAR exchange rate, however unrealistic this simplifying assumption is and will adjust accordingly at different reporting dates going forward.*

Stor-Age entered the UK market in November 2017 through the acquisition of Storage King, the fifth largest self-storage brand in the UK. All properties in the UK segment operate under the Storage King brand. At the end of March 2024, the UK segment of the business had 43 properties in the portfolio, including properties held in joint ventures.

The Top 6 competitors in the UK storage market illustrated in **Figure 6**:

Figure 6: UK competitors

Source: Self Storage 2024 Association UK Annual Report

In a 2024 *Self Storage Association UK* survey, self-storage space "per head of population" (i.e. per capita) in the UK was estimate to 0.9 square feet per person. This reveals that the UK market is much less developed than the USA (7 square feet self-storage space per person) and Australia (2 square feet per person). This metrics offers a potential long-term structural driver for (organic) growth in self-storage space in the UK.

Rental enquires in the UK segment are largely driven through digital platforms with 93% of enquiries coming through the Storage King website, 4% telephonically and 3% through walk-ins.

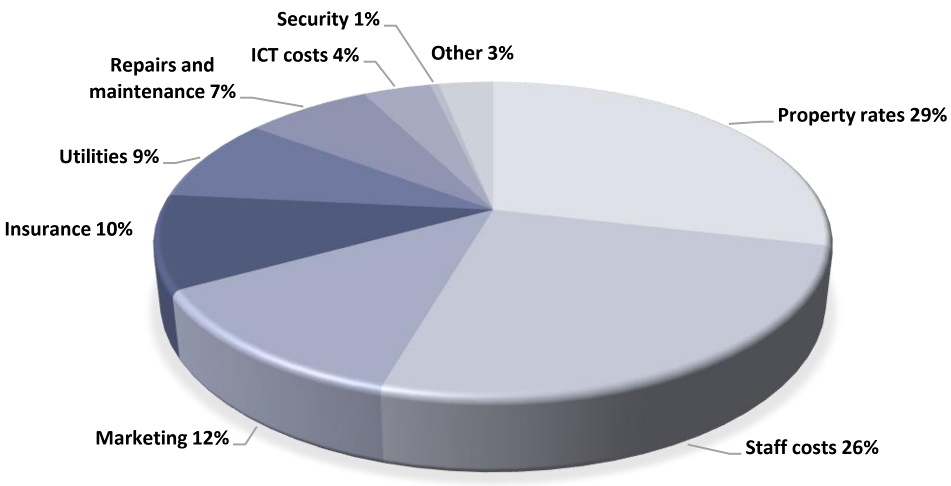
The historical and forecasted performance of the segment is as discussed below:

- **Rental income** (reported in Rands) has grown from R233m in FY20 to R547m FY24 (CAGR: 23.7%). This growth has come largely from the addition of properties to the UK portfolio, with the number of owned properties (including properties held in joint ventures) increasing from 21 to 43 over the five-year period.
- Growth in rental income on a **per property basis** in the UK segment has been less impressive than in the SA portfolio and has only grown at CAGR of 3.4% from R11.1m in FY20 to R12.7m in FY24. We note the slower growth of this segment (particularly when compared against the SA growth rate and once currency depreciation is removed) but balance it against the UK's lower potential sovereign risk and the potential to leverage against the Group's internal functions (see later). ***Segmental forecast notes****: We forecast steady growth in rental income to be 3.0% per annum per property (in Rands) based on same store rental income growth of 2.0% per annum and an increase in GLA of 1.0% per annum. We have kept the exchange rate flat for this forecast period (unrealistic but the Group does have a policy of hedging FX exposure). More specifically, rental income growth for FY25E includes consideration of the addition of the Acton and Leyton properties which are currently in development and expected to increase the GLA of the UK portfolio by 5.50%. Like our SA segment assumptions, we have applied a 50% haircut to this additional GLA to account for the lease up period it will take to tenant these new properties.*
- At the end of FY24, **occupancy levels** (on a same store basis) in the UK portfolio were 83.5% (FY23: 84.2%). These occupancy levels are substantially lower than the 92.1% occupancy rate in the SA portfolio at the end of FY24. Declining occupancies has been a trend observed across the UK self-storage industry as noted in the latest 2024 *Self Storage UK Annual Report* due to current cost of

living and inflationary pressures in the UK. Occupancies are expected to stabilise going forward as they come in-line with long term average levels.

- **Other and ancillary income** in the UK segment is derived from the sale of Storage King branded merchandise like locks and packaging materials as well as income from administration fees, late payment fees and insurance income. Growth in other and ancillary income in the segment has been consistent with rental income growth and during the historical period has been between 10.7% and 11.0% of rental income. ***Segmental forecast notes**: We forecast other and ancillary income to be 10.8% of rental income, in line with the average of FY20-FY24.*
- **Expected credit losses ("ECL") on tenants' debtors** in the UK segment have been relatively consistent and have averaged only 0.3% of rental income between FY20 and FY24, less than half that of the SA segment. This is to be expected given the consumer in a developed market like the UK could be seen as more resilient than in the local market and less likely to default on rental payments. ***Segmental forecast notes**: We forecast ECL to be 0.4% of rental income, which is slightly above the historical average, based on a weak UK economic environment with cost-of-living increases putting marginal consumer under increasing pressure.*
- **Direct property operating costs** relate mainly to property rates (29%), staff costs (26%), marketing (12%) and insurance (10%). There are parallels between the breakdown of property operating costs in the UK segment and the SA segment, however in the SA segment property rate and staff costs comprise a larger portion of total property costs.

Figure 7: UK operating cost breakdown



Sources: Stor-Age Integrated Annual Reports and Blue Gem Research

- **Property operating costs as a percentage of property revenue** has historically been relatively consistent and averaged 29.0% of property revenue (FY20 to FY24). This is higher than the SA portfolio which averaged 22.6% over the same period due to structurally higher cost based offered by operating in the UK (incidentally, this the part of the opportunity to leverage the lower average cost SA cost-base in adding value to the UK operations). ***Segmental forecast notes**: We forecast property costs to be a flat 30% of property revenue for FY25E in the UK segment based on the historical average of FY20 to FY24 and inflationary cost increases expected to outpace the increase in rentals over the next few periods. 23 of the 43 properties in the UK currently have solar PV installed. We expect this will have a small positive impact of operating costs over time and have thus factored this in by applying a reduction of 10bps a year in operating costs as a percentage of revenue.*
- **Management fee income** has seen a large increase from R7.5m in FY23 to R29.6m in FY24. This was driven by non-recurring JV development and acquisition fees in the UK which accounted for R22.3m

of the management fee income in FY24. The remaining balance relates to property management fees earned on the properties managed by the Group with its management platform. The Group currently has 17 properties operating on their third-party management platform called "Management 1st". The platform targets independent operators, developers and private equity owners in the UK self-storage market. The Group also earns income from providing digital marketing solutions for smaller, independent operators through their third-party digital services offering "Digital First", enabling smaller operators to leverage Stor-Age's in-house digital marketing and enquiry generation skillsets at a fraction of the cost. Digital First currently has 29 independent operators on the platform comprising 126 properties across 19 countries. The platform contributed R11.6m to revenue for FY24 an increase of 119% year on year. Growth in the number of operators and properties on Management 1st and Digital First has the potential to make a significant, high-margin contribution to Group earnings given the scalability and the low-cost base, albeit only in the medium- to long-term. We expect on a 5-to-10-year basis this could become a material contributor to earnings if the steady uptake of users on the platform continues.

- **Administrative expenses** in the Segment have grown faster than property revenue and increased as a percentage of property revenue from 8.0% (FY20) to 12.0% (FY24). This was due mainly due to an increase in staff costs to support the growth of the business. ***Segmental forecast notes****: We forecast this to increase 13.0% in FY25E due to inflationary cost pressure on wages in the UK and thereafter decrease at 20bps per annum from FY26E to FY29E as economies of scale is achieved as the portfolio grows (we will revisit this assumption as potential synergies between the SA operations and the UK are exploited meaningfully).*
- Unlike the SA segment, the UK segment is subject to UK corporate income tax. The Group received clearance from the HMRC post the FY24 year-end for the adoption of REIT status of Storage King. Management advised that they do not envision the immediate reduction in the effective tax payable in the UK because of this, but we can expect this to create less tax leakage in the medium-term. Withholding tax is payable on dividends declared by a UK REIT to a SA holding company, and thus the granting of REIT status will not *fully* exempt Storage King from tax obligations. Storage King is also subject to UK corporate tax on non-rental income such as the sale of merchandise and management fee income.

Group SWOT analysis

Strengths

- **Market dominant postion:** The SA portoflio that operates under the Stor-Age brand is the market leader of self-storage in SA and has a well recognised brand.
- **Diversified portfolio and economies of scale:** With over 103 properties located across SA and the UK, the Group has a well diversified portfolio and can benefit from economies of scale through in central functions such as sales, marketing and IT.
- **Rand hedge with lower-cost SA operations:** The Group earns c.50% of its revenue from the UK, thus offering local investors an attractive hedge agasinst a weak Rand (though, note, in the short-term the hedges in place somewhat offset this benefit). Likewise, the existence of an experienced operational platform in SA that is relatively cheaper than it would be in the UK offers some opportunity to

manage the Group's UK operations from a cheaper platform that operates in a similar time zone with a common language and compatible culture.

- **Granting of REIT status in the UK should lower effective tax payable** in this segment. See our comments hereon in the UK segmental section of this report.
- **Experienced management team:** The Group has an experienced management team with the founders still serving on the Board of Directors and having a signficant shareholding in the company that helps align their interests with that of shareholders.
- **Growth in the third-party management platform** has the potential be a key driver of growth for the Group should it begin to scale and start to make a meaningful contrubtion to Group earnings while, simaltenously, offering the Group potential access to post-let properties for acquisition (i.e. potential first-right of refusal on select managed third-party and JV properties in the event of partners exiting them).

Weakensses

- **Market position in the UK:** Whilst Stor-Age is the market leader in SA, the Storage King brand is only the fifth largest in the UK and thus subject to competition from larger competitors that potentially have better scaled operations (this could also be considered an opportunity, given the UK's underpenetration of self-storage per capita – see later in this report).
- **Long-lease up periods for self-storage properties** pose a risk to cash flow of the business as high initial capital outlays are required to fund developments with the properties sometimes taking a few years to reach mature and stable occupancy levels. Note the strategic mechanisms the Group uses to try to mitigate this risk.

Oppurtunities

- **Long-term structural tailwinds in the self-storage industry**, namely rising urbanisation, emerging trends of mobility, economic development and expansion and the growing use of technology in facilities (see "Industry Overview" later in this report).
- **Defensive product:** Self-storage (i.e. Stor-Age's product) is highly defensive and has demand drivers in both economic upturns and downturns that make is deeply resilient.
- **Interest rate cuts** have a large benefit to property companies which typically have a high level of gearing and their underlying asset valuations are often interest rate sensitive (i.e. lower interest rates can mean *both* less debt services costs and higher property valuations). With many central banks around the world starting to cut interest rates, this trend could be beneficial for property companies like Stor-Age.
- **Under penetration in the UK self-storage market** offers long-term structural growth potential.

Threats

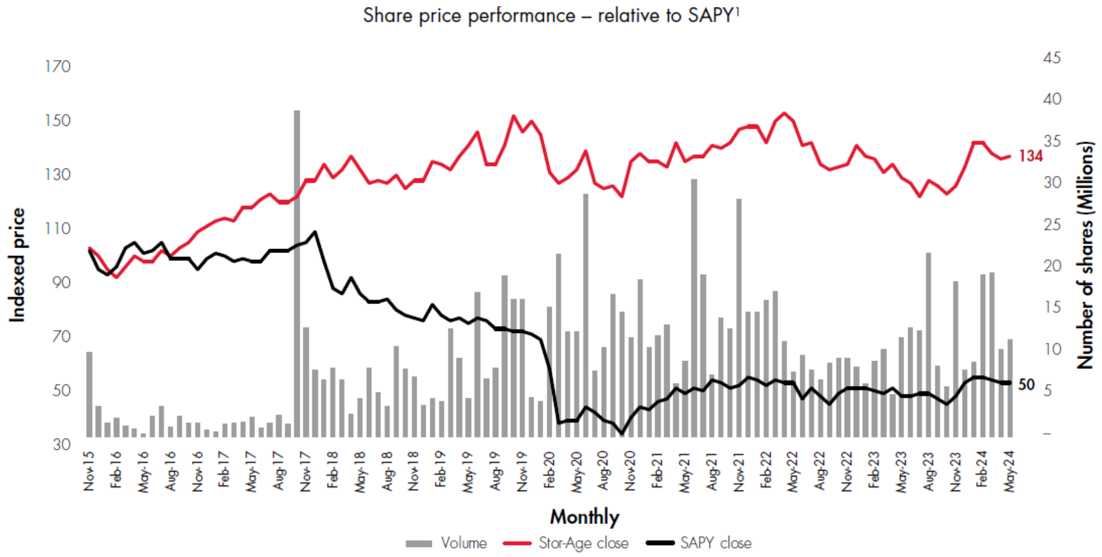
- **Electricity supply risk and social unrest** is an inherent risk for any company doing business in South Africa, somewhat mitigated by Stor-Age's diversification into the UK.
- **Currency fluctuations** and, currently, a strengthening of the Rand could result in a decrease in earnings from the UK segment when translated to ZAR (note the near-term hedges that should somewhat offset this until FY27E).
- **Regulatory and compliance risks** from changes in tax laws, environmental regulations and zoning regulations could increase compliance costs and impact earnings.

Industry Overview

The self-storage industry is a niche sub-sector of the commercial real estate industry. Competition in the market is high and the industry is fragmented both regionally and, within regions, into some large and many small (sometimes even single site) operators. Major players often have a significant number of facilities across multiple regions, while smaller operators may focus on specific geographic areas.

Notably, self-storage is one the most resilient asset classes in the property market and performed well during COVID. **Figure 8** compares the performance of Stor-Age relative to the SA Listed Property Index (SAPY) – note the outperformance.

Figure 8: Share price performance vs SAPY



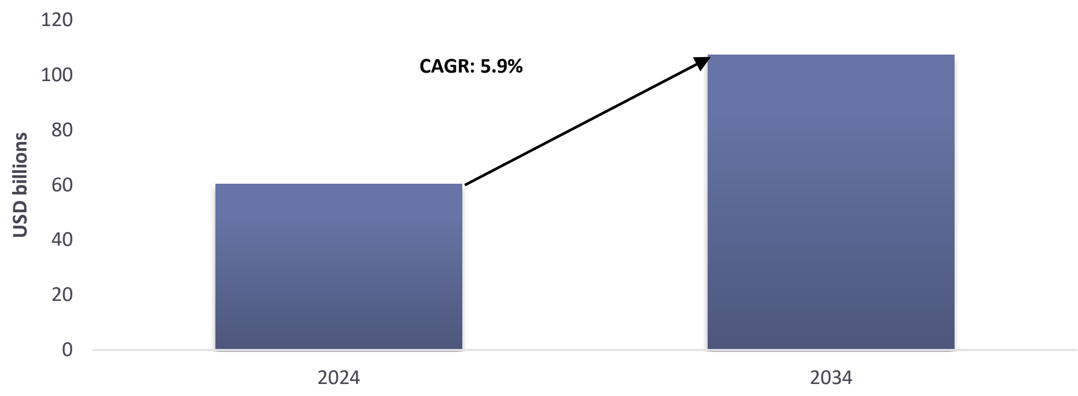
Source: Stor-Age Integrated Annual Report

Central to a potential tenant's decision to use self-storage is a combination of financial and needs-based rationale and, thus, the self-storage product serves a diverse range of customers:

- **Residential**: The primary drivers for residential users of self-storage are "life-changing events" such as death, separation, downsizing, moving and (s)emigration as well as pure discretionary use.
- **Commercial**: Self-storage is also used by commercial customers including SMMEs, e-commerce and home-based business and larger corporations as efficient, scalable storage space for excess needs (likely cheaper than a larger office or small(er) warehouse).

According to recently published work by Precedence Research, the global self-storage industry is forecast to increase from USD $60.41bn in 2024 to approximately $ 107.36bn by 2034. This amounts to a CAGR of 5.9% over the next decade, or much higher than many global GDP forecasts over the same period (that tend to cluster around 2.5% to 3.5% y/y growth over the next decade).

Figure 9: Global industry growth



Sources: Precedence Research and Blue Gem Research illustration

Growth in the industry is expected to be driven by:

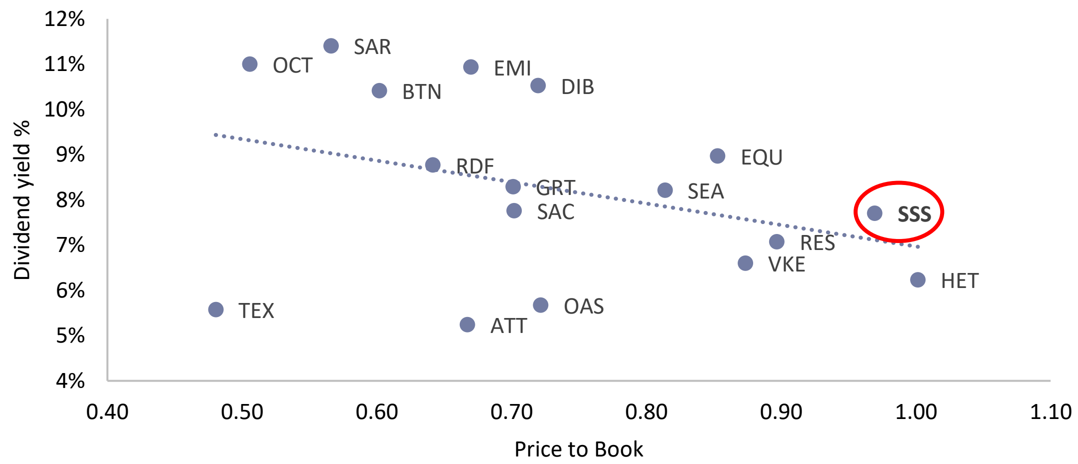
- **Rising urbanisation** increasing the need for storage space given smaller living spaces when moving to densely populated urban areas.
- **Emerging trends of mobility**, increasing cases of people moving from one region to another, whether for work or other reasons, means that there is a need for access to storage services.
- **Economic development and expansion**, especially in emerging markets, are generating various business activities that result in the need for more space for the storage of various goods, inventory and documents.
- The **use of technologies** in self-storage facilities including features like automated access, climate control, and other security features are making storage solutions more attractive and useful to end-users.

Analysis of Group History and Listed Peer Comparison

Stor-Age's share is currently trading close to its net book value (**Figure 10**), which differs from many JSE listed REITS, which are currently trading at discounts to book value.

The Group has historically justified this multiple through outperformance of the SAPY since Stor-Age listed in 2015 (**Figure 8**).

Figure 10: Comparison of SA listed REITs



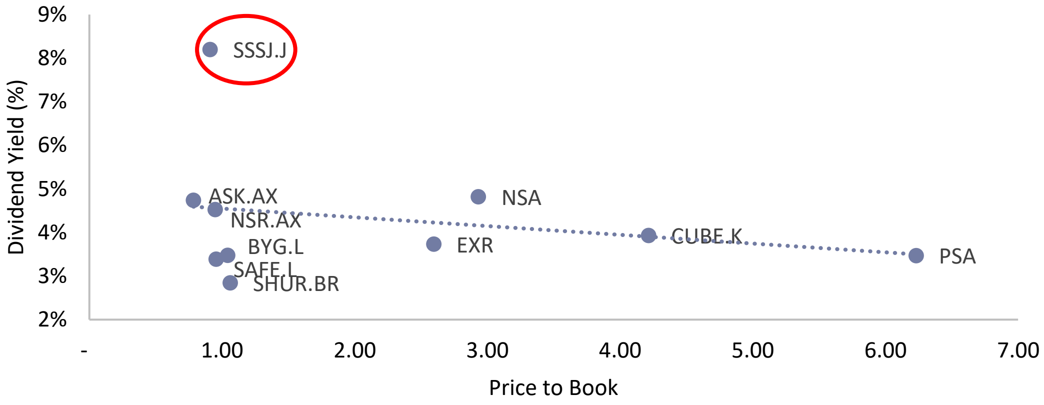
Sources: Refinitiv and Blue Gem Research

Despite this comparison to local REITs, it is important to appreciate that the characteristics of Stor-Age's product (i.e. self-storage) is quite *different* to that of the other SA listed REITS (which mainly comprise of shopping centres, office properties, and industrial properties). And, thus, we believe limits the comparability amongst these locally listed peers.

In our opinion, a *much* more relevant comparison is when Stor-Age is compared to other globally listed *self-storage* counters around the world. In this global self-storage comparison, the Group appears much more attractive with a much higher dividend yield and a relatively lower Price-to-Book ratio (**Figure 11**).

It is worth noting, though, that most of these other listed self-storage peers are based in Developed Markets ("DM"), while only *half* of Stor-Age is based in a DM (i.e. the UK). Many offshore self-storage peers, particularly those listed in the United States of America ("USA"), trading at a large premium to book value.

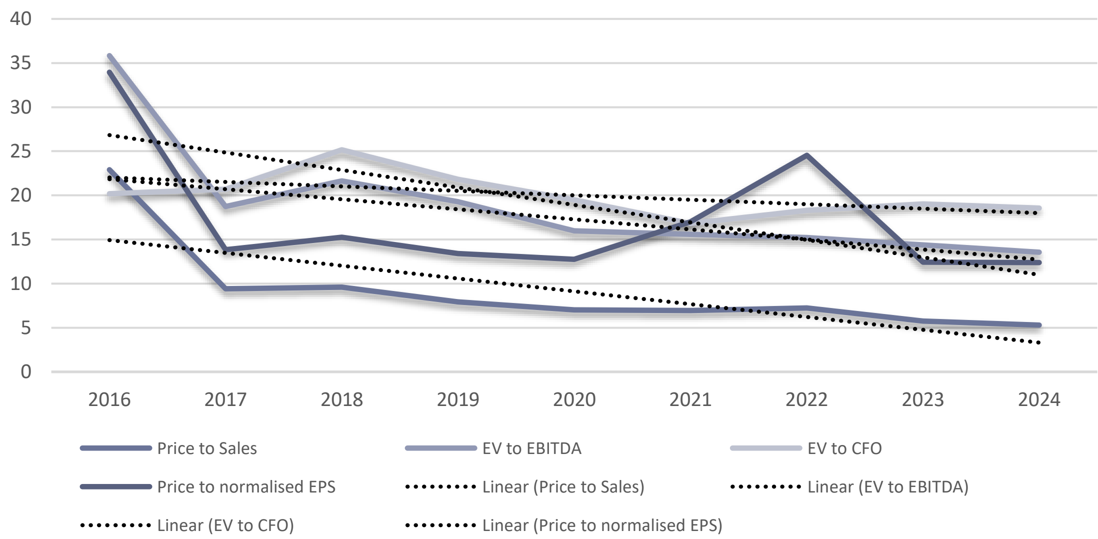
Figure 11: Comparison of globally listed self-storage stocks



Sources: Refinitiv and Blue Gem Research

Since Stor-Age listed on the JSE, the valuation multiples of the share have trended downwards indicating that share price growth has come predominantly from underlying earnings and cash flow growth rather than from multiple expansion. Indeed, this multiple contraction has been a *headwind* for the share price growth over the Group's listed history.

Figure 12: Stor-Age historic valuation multiples



Sources: Refinitiv and Blue Gem Research

Interestingly, the headwind noted in **Figure 12** could reverse in an interest rate *cutting* cycle. Traditionally, the property sector tends to see earnings growth (from opening up of after-interest margins) and valuation multiple expansion during interest rate cutting cycles (tracking bond yields downs) while their balance sheets (i.e. their property portfolio fair values and related capitalisation rates) tend to open up and/or expand.

Valuation and 12m TP

Our valuation of Stor-Age has been performed based on both a **Discounted Free Cash Flow ("DCF") Model** and **Relative Valuation** models (based on the multiples of comparable listed self-storage REITs). We have applied an equal weighting to both valuation approaches to determine our fair value and twelve-month Target Price ("12m TP").

Based on our DCF, we have arrived at an equity value per share of c.R15.92 and based on our relative valuation model we have derived an equity value per share of c.R15.08.

Equal weighting these two fair value models, our fair value per share is c.R15.50.

Discount Free Cash Flow ("DCF") Valuation

We have performed a DCF valuation of each of the South African segment and the UK segments of the Stor-Age using separate Weighted Average Costs of Capital ("WACC") and terminal growth rates that were selected for each of these segment's respective different profiles:

In the **South African segment**, we have:

- Computed the Cost of Equity ("CoE") using the Capital Asset Pricing Model ("CAPM").
- We have applied a risk-free rate corresponding to the yield on SA R2032 bonds (9.53%).
- We have used an Equity Risk Premium ("ERP") 6.0% based on the midpoint of participant respondents from the most recent PWC valuation survey (10th edition - 2023).
- We have applied a beta of 0.52, based on 5-year monthly beta per Refinitiv.
- This resulted in a CoE of 12.6% for the SA segmental DCF.
- We have applied the 5-year average debt and equity weightings which were 33.5% and 66.5% respectively.
- The Cost of Debt ("CoD") of 9.59% is based on the company's effective interest rate on ZAR facilities as disclosed in the FY24 AFS. Due to the REIT status the South African segment does not pay current tax and thus no tax has been modelled in the DCF for this segment and no interest tax shield has been applied to the CoD.
- Our terminal value has been determined using a terminal growth rate of final year free cash flow of 2.0% based on our long-term expected growth in SA real GDP.

In the **UK segment**, we have:

- Applied a risk-free rate of 3.99% based on the yield of UK 10YR gilts.
- We have applied an ERP of 5.48% (per *Damodaran* ERPs for the UK).
- We have applied a beta on 0.81 in the UK segment DCF based on the average 5-year monthly betas from comparable UK listed self-storage companies (namely, Shurgard Self-storage, Safestore Holdings and Big Yellow). This arrives at a CoE of 8.4% for the UK segmental DCF.
- The CoD applied was 4.84% based on the companies' effective interest rate on GBP denominated debt. Given that the UK segment pays corporate tax, we have included taxation in the DCF and, thus, have applied an interest tax shield to the CoD based on the UK corporate tax rate (given this entities classification as a UK REIT, the effective tax rate in the UK may be lower going forward).

- Our terminal value has been determined using a terminal growth rate of final year free cash flow of 1.5% based on our long-term expected growth in UK real GDP.

Based on the above assumptions coupled with our segmental forecasts, we arrive the below segmentally driven DCF outcome:

DCF -SA Segment

ZAR'm	FY25	FY26	FY27	FY28	FY29
Revenue	665	701	740	781	824
Other income	29	30	32	34	35
Property revenue	693	732	772	814	859
Expected credit losses on tenant receivables	(6.6)	(7.0)	(7.4)	(7.8)	(8.2)
Direct property costs	(160)	(168)	(176)	(185)	(194)
Net property operating income	527	557	588	622	657
Management fee income	29	30	32	33	35
Administrative expenses	(132)	(138)	(144)	(150)	(156)
Net property operating profit	424	450	477	505	535
Taxes paid	0	0	0	0	0
Share of profit from JVs net of tax	1.3	1.3	1.4	1.5	1.5
Free cash flow	426	451	478	506	537
Terminal value					5 697
Free cash flow incl. terminal value	426	451	478	506	6 234
Discounted cash flows	381	362	344	326	3 599
Enterprise Value - SA Segment (NPV)	***5 013***				

DCF - UK Segment

ZAR'm	FY25	FY26	FY27	FY28	FY29
Revenue	578	596	613	632	651
Other income	62	64	66	68	70
Property revenue	641	660	680	700	721
Expected credit losses on tenant receivables	(2.3)	(2.4)	(2.5)	(2.5)	(2.6)
Direct property costs	(192)	(197)	(203)	(208)	(213)
Net property operating income	446	460	475	490	505
Management fee income	8.0	8.8	9.7	11	12
Administrative expenses	(83)	(84)	(86)	(87)	(88)
Net property operating profit	371	385	399	413	429
Taxes paid	(93)	(96)	(100)	(103)	(107)
Share of profit from JVs net of tax	37	39	40	41	42
Free cash flow	316	327	339	351	364
Terminal value					6 953
Free cash flow incl. terminal value	316	327	339	351	7 316
Discounted cash flows	295	287	278	270	5 263
Enterprise Value - UK Segment (NPV)	***6393***				

Total Enterprise Value	11 406
Plus: Cash and cash equivalents	309
Less: Interest-bearing debt	(4 047)
Equity value	**7 668**
Share outstanding	481 663 300
Equity value per share	**R15.92**

The SA DCF's implied EV puts it on an EV/EBITDA multiple of 12.7x while the UK's DCF implies an EV/EBITDA multiple of 16.4x. This compares favourably to our peer group comparison where the average EV/EBITDA of UK listed self-storage REITs are 17.9x and the average EV/EBITDA of SA listed REITs (not specifically self-storage REITs) are 13.2x. Thus, our conclusion is that our DCF-implied fair values are not out of line then with broader market consensus of listed self-storage companies.

Relative Multiple Valuation

Our relative valuation model has been performed based on the median EV/EBITDA and a P/B multiples of comparable listed self-storage companies. Given Stor-Age has exposure to the South Africa (i.e. Emerging Market) compared to the global peer companies that predominantly have Developed Market exposure, we have applied a country risk adjustment to the implied relative multiple in our model. Finally, Stor-Age also has a significantly smaller market capitalisation than the average of the peer group of companies and a result we have (also) applied an adjustment to the multiple to account for this (i.e. a size discount).

Relative valuation model

Company	Ticker	Exchange	EV/EBITDA	P/B
CubeSmart	CUBE.K	NYSE	26.60	4.21
Public Storage	PSA	NYSE	27.71	6.23
Extra Space Storage Inc	EXR	NYSE	26.37	2.60
National Storage Affiliates Trust	NSA	NYSE	14.94	2.93
Shurgard Self Storage Ltd	SHUR.BR	EBR	23.80	1.06
Safestore Holdings PLC	SAFE.L	LSE	17.81	0.95
Big Yellow Group PLC	BYG.L	LSE	18.08	1.04
Abacus Storage King	ASK.AX	ASX	19.64	0.78
National Storage REIT	NSR.AX	ASX	21.23	0.95
Mean			21.80	2.31
Median			**21.23**	**1.06**
25th percentile			17.94	0.95
75th percentile			26.48	3.57
Selected multiple			21.23	1.06
Adjustments				
Country risk adjustment [1]			8.50%	8.50%
Size adjustment [2]			17.60%	17.60%
Adjusted multiple			16.01	0.80
Stor-Age EBITDA FY24 (ZAR'm)			784	
Stor-Age Book Value (ZAR'm)				7 599
Enterprise value (ZAR'm)			**12 548**	[redacted]
Less: Debt			(4 420)	[redacted]
Plus: Cash			309	[redacted]
Equity value			**8 437**	**6 088**
Average equity value			**7 263**	
Shares outstanding			481 663 300	
Equity value per share			**R15.08**	

Note 1: PWC valuation survey discloses a low range average discount of 8.5% and a high range average discount of 23.6% when valuing a company using market multiples of developed markets. Given Stor-Age earns approximately 50% of it's revenue from developed markets in the UK we have assumed a discount of 8.5% being the low range average to be appropriate.

Note 2: PWC valuation survey discloses a low range average discount of 8.0% and a high range average of 27.2% when valuing a company using market multiples to reflect differences in size. The average market capitalisation of the peers used in USD was 14 billion. Stor-Age is approximately 2.8% the size of the peer companies and thus significantly smaller. We therefore deem an adjustment of 17.6% being the mid-point of the low and high range discount to be appropriate.

12m TP and Implied Return

Rolling forward our fair value of R15.50 a share by twelve months at our CoE (using a blended CoE for the SA and UK segments weighted on FY25E revenue contribution) less the implicit *cum*-dividend yield assumed of c.8%, **we arrive at an implied 12m TP of c.R15.97.**

This 12m implies a *price* upside of 6% from the current share price, excluding dividend payments. Including forecast dividends (which we expect to add a further 8% yield to this implied return), **our 12m TP's implied *total* return is c.14%.**

Key risks to our forecast & valuation

The key risks to our above forecasts, valuation, and key related assumptions are:

- While far from conclusive and more anecdotal, it is worth noting recent director sales of shares in the Group may be interpreted negatively by the market. Note, these sales related mainly to a leveraged share scheme where shares were awarded on loan account at listing in 2015 with a 10-year redemption period. Shareholders have expressed a preference that the scheme be wound up & closed.
- The Group is exposed to interest rate and foreign exchange rate risk, and changes in interest rates and exchange rates may result in cash flow being different from forecasts. (Note that we have forecast based on flat interest rates and bond yields and have not forecast GBP/ZAR currency deprecation given the hedging instruments in place).
- Our DCF has assumed that corporate tax is payable in the UK and no corporate tax is payable in South Africa, consistent with the historical performance of the company owing to its REIT status locally and lack of REIT status in the UK. We note that after the FY24 year-end, the UK segment was granted REIT status, however management do not envision an immediate reduction in the effective UK tax rate. A change in these assumptions due to regulation changes / failure to maintain REIT status in South Africa / reduction in UK corporate tax payable will have an impact on forecast cash flows.
- DCF valuations are sensitive to the underlying assumptions particularly discount rates and terminal growth rates. Refer to our calculated sensitivity table below:

Table 3: Sensitivity analysis

		Discount rate		
		+100bps	Base	-100bps
Terminal growth rate	-100 bps	11.02	13.48	16.73
	Base	12.79	15.92	20.27
	+100 bps	15.14	19.32	25.63

Source: Blue Gem Research workings & assumptions

- Stor-Age's SA portfolio is 50% valued at interim stage and remaining 50% valued at year-end. The fact that the Group trades at a higher price to book than the average of the JSE listed REITS, perhaps indicates the market's comfort in these valuations. However, as Stor-Age is the only listed self-storage company on the JSE and thus characteristics of other SA REITS are not the same, it hard to draw a direct inference from this fact and, indeed, global peers tend to trade at premiums to their own book values.

- While we have forecast current developments to come on stream in an ordered basis, any disruption to this, as well as other major investments, developments, acquisitions or divestitures that materially alter the Group's portfolio make-up could create upside or downside risks to our views.

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