17 December 2024

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Stor-Age Property REIT Limited

Building on a Solid Foundation

Share Code: SSS – Market Cap: R7.53bn – PE: 8.8x – DY: 7.29%

12m Target Price	1673cps
Share Price	1564cps
Implied Total Return	14%

Self-storage | South Africa

H1 FY 24 Results: In-line to better-than-expected

- Distributable income grew by 3.5% from H1 FY24 (61.36cps) to H1 FY25 (63.51cps). This growth lagged the growth in FFO which rose nicely by 7.0%.
- Rental income grew 8.1%, predominantly attributable to above inflation same-store rental growth in the SA segment. In the UK, same-store rental rate increases were in line with UK inflation but a good improvement in occupancies contributed to this segment's growth.
- Management have guided for FY25E distributable income of 122cps~126cps (the mid-range of this guidance implies a Forward Dividend Yield of c.7.9%).

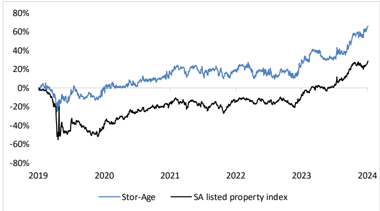
Thoughts: UK difficulty offset by SA strength

- Competitive pressures in the UK may result in limiting Storage King's rental growth to inflation but a solid performance in the SA segment has continued with rental rates growing above inflation whilst still maintaining target occupancies levels (c.92.0%).
- Shurgard's acquisition of Lok'nStore is a good proxy for implying a valuation of the Group's UK segment – we explore this further in the body of this note.

Updated Forecast and Valuation: Valuation & TP Lifted

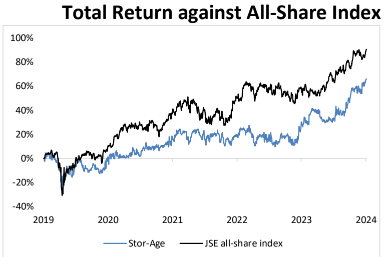
- We see Stor-Age's fair value as **R16.16 per share** (previously R15.50) based on a blended valuation approach (DCF & relative P/B & EV/EBITDA values).
- Rolling forward our fair value by 12 months at our Cost of Equity (less our expected dividend) gives us a 12m TP of **R16.73 per share** (previously R15.97), implying a total return of c.14.1% (price return of +7% and an expected dividend return of +7.14%).

Total Return against SA Listed Property Index



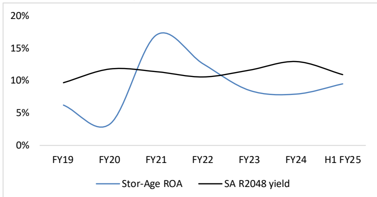
Sources: Refinitiv, Blue Gem Research

Total Return against All-Share Index



Sources: Refinitiv, Blue Gem Research

Price Earnings (x) and Dividend Yield (%)



Sources: Refinitiv, Blue Gem Research

Key Forecasts (R m)	FY22	FY23	H1 FY24	FY24	H1 FY25	FY25E	FY26E	FY27E
Property revenue	911	1 071	600	1 228	649	1 320	1 387	1 457
Net property operating income	686	791	441	904	481	975	1 025	1 077
Net property operating profit	597	674	389	784	423	806	848	893
NAV per share (ZAR)	**13.9cps**	**15.1cps**	**15.4cps**	**16.1cps**	**16.9cps**	**17.5cps**	**18.0cps**	**18.4cps**
Price-to-book ratio	*1.1x*	*0.9x*	*0.8x*	*0.9x*	*0.9x*	*0.9x*	*0.9x*	*0.9x*
Dividend per share (ZAC)	**111cps**	**115cps**	**61cps**	**119cps**	**64cps**	**112cps**	**115cps**	**118cps**
Dividend yield (%)	*7.5%*	*9.0%*	*7.7%*	*8.8%*	*6.2%*	*7.1%*	*7.4%*	*7.6%*

Sources: Stor-Age Integrated Annual Reports, Stor-Age Interim Results, Refinitiv, & Blue Gem Research

Joshua Viljoen*

BLUE GEM RESEARCH

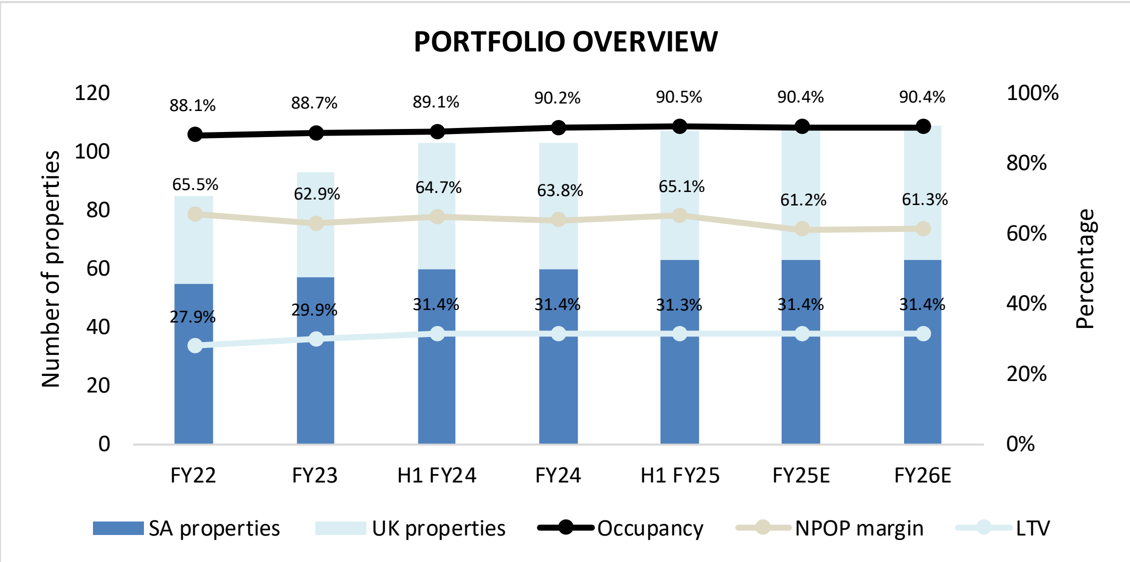
Detailed Forecasts (R m)	FY22	FY23	H1 FY24	FY24	H1 FY25	FY25E	FY26E	FY27E
Rental income	**850**	**997**	**559**	**1144**	**604**	**1231**	**1293**	**1359**
SA segment	471	534	289	597	317	665	709	755
UK segment	379	463	269	547	286	565	585	604
Rental income growth	***15.0%***	***17.3%***	***n.a.***	***14.8%***	***8.1%***	***7.6%***	***5.1%***	***5.1%***
Other income	61	74	42	84	45	90	94	98
SA segment	21	23	12	25	14	29	30	32
UK segment	40	51	29	59	31	61	63	65
Other income growth	-0.9%	21.6%	*n.a.*	13.4%	8.8%	6.6%	4.4%	4.4%
Property revenue	**911**	**1071**	**600**	**1228**	**649**	**1320**	**1387**	**1457**
SA segment contribution	*54%*	*52%*	*50%*	*51%*	*51%*	*53%*	*53%*	*54%*
UK segment contribution	*46%*	*48%*	*50%*	*49%*	*49%*	*47%*	*47%*	*46%*
ECL on tenant receivables	(3.7)	(6.3)	(3.4)	(6.5)	(3.2)	(7.5)	(7.9)	(8.3)
SA segment	(2.7)	(4.4)	(2.3)	(4.4)	(1.8)	(4.7)	(5.0)	(5.3)
UK segment	(1.1)	(1.8)	(1.1)	(2.0)	(1.4)	(2.8)	(2.9)	(3.0)
ECL as a % rental income	*-0.4%*	*-0.6%*	*-0.6%*	*-0.6%*	*-0.5%*	*-0.6%*	*-0.6%*	*-0.6%*
Direct property operating costs	(221)	(274)	(156)	(317)	(165)	(338)	(354)	(371)
SA segment	(112)	(127)	(68)	(139)	(74)	(156)	(166)	(177)
UK segment	(110)	(147)	(88)	(179)	(92)	(182)	(188)	(194)
As a % of property revenue	*-24%*	*-26%*	*-26%*	*-26%*	*-25%*	*-26%*	*-26%*	*-25%*
Net property operating income	**686**	**791**	**441**	**904**	**481**	**975**	**1025**	**1077**
Management fee income	15	36	34	63	32	37	39	41
SA segment	10	28	16	34	13	29	30	32
UK segment	5	7	18	30	19	8	9	10
Administrative expenses	(103)	(153)	(87)	(184)	(90)	(204)	(213)	(223)
SA segment	(69)	(105)	(56)	(118)	(59)	(128)	(136)	(144)
UK segment	(35)	(48)	(30)	(66)	(31)	(75)	(77)	(79)
As a % of property revenue	*-11%*	*-14%*	*-14%*	*-15%*	*-14%*	*-15%*	*-15%*	*-15%*
Net property operating profit	**597**	**674**	**389**	**784**	**422**	**808**	**851**	**895**
NPOP margin	*66%*	*63%*	*65%*	*64%*	*65%*	*61%*	*61%*	*61%*
No. of properties (incl. JVs)	85	93	103	103	107	108	109	109
SA segment	55	57	60	60	63	63	63	63
UK segment	30	36	43	43	44	45	46	46
Rental income per property	10.0	10.7	5.4	11.1	5.6	11.4	11.9	12.5
Investment property value	9535	10731	11227	11673	11825	12480	12880	13138
SA segment	5090	5215	5362	5462	5744	5849	5966	6086
% Contribution	*53%*	*49%*	*48%*	*47%*	*49%*	*47%*	*46%*	*46%*
UK segment	4445	5516	5865	6212	6081	6631	6914	7052
% Contribution	47%	51%	52%	53%	51%	53%	54%	54%
LTV ratio	*28%*	*30%*	*31%*	*31%*	*31%*	*31%*	*31%*	*31%*
Dividend per share (ZAC) [1]	**111cps**	**115cps**	**61cps**	**119cps**	**64cps**	**112cps**	**115cps**	**118cps**
Dividend yield (%)	***7.5%***	***9.0%***	***7.7%***	***8.8%***	***6.2%***	***7.2%***	***7.4%***	***7.6%***
Payout ratio (%)	*100%*	*100%*	*100%*	*100%*	*90%*	*90%*	*90%*	*90%*
NAV per share (ZAR)	13.9	15.1	15.4	16.1	16.9	17.5	18.0	18.4
Price-to-book ratio	1.1x	0.9x	0.8x	0.9x	0.9x	0.9x	0.9x	0.9x
Diluted shares in issue (millions)	480	479	479	480	480	482	482	482
Diluted EPS (ZAC) [2]	**229cps**	**151cps**	**76cps**	**147cps**	**180cps**	**168cps**	**177cps**	**186cps**
Yield on investment property (%)	*6.3%*	*6.3%*	*6.9%*	*6.7%*	*7.1%*	*6.5%*	*6.6%*	*6.8%*

Sources: Stor-Age Interim Results, Integrated Annual Reports, Refinitiv, & Blue Gem Research

Summary of H1 FY 24 Results

- During the 6-month interim period ended 30 September 2024 ("H1 FY25"), Stor-Age Property REIT Limited ("the Group") grew **distributable income** by 3.5% to 63.51cps when compared to 6-month period ended 30 September 2023 ("H1 FY24"). While we do not forecast interim periods, this implies a full-year result higher than our previously FY25E forecasted distributable income (124cps).
- Distributable income growth lagged the growth in **funds from operations** ("FFO") (H1 FY25: 61.01cps, FY23: 57.01cps) which grew at 7.02% (largely in line with our expectations). This was largely a result of realised foreign exchange losses in H1 FY25 compared to gains in H1 FY24, and an increase in share count.
- The Group declared an **interim dividend** of 57.16cps (H1 FY24 of 61.36cps) due to:
    - A decrease in the **payout ratio** from 100% to 90%; Stor-Age management previously guided for a lower payout ratio to align them with UK and European self-storage REIT peers. This additional flexibility from the increased retained capital will allow the Group to capitalise on favourable development and acquisition opportunities going forward.
    - The vesting of stock-based compensation and, importantly, the acquisition of Extra Attic lifted the Group's share count against which the distributable income was divided.
- Management have guided for a **full year distributable income** of 122cps to 126cps. Assuming the payout ratio remains unchanged at 90%, this amounts to a full year dividend of 111.6cps (based on the mid-range of management guidance). With the interim dividend of 57.16cps, the implied **final dividend** is expected to be 54.4cps. This guidance range for full year distributable income per share is in line with our previous forecast which we have largely maintained in this note.
- The Group reported **same-store occupancies** increasing by 12 200 sqm (square meters) with closing occupancies at 90.5% (H1 FY24: 89.1%) while like-for-like rental growth grew by 10.8% in SA and 6.8% in UK (H1 FY24: 13.1% in SA and 3.1% in the UK).

Figure 1: Portfolio Overview and Key Metrics



Sources: Stor-Age results presentations & Blue Gem Research.

- **Acquisitions and divestures:**
    - During September 2024, Stor-Age acquired **Extra Attic** (located in Airport Industria in Cape Town) for a consideration of R73m.
    - Two developments were completed in the SA segment through joint-venture ("JV") structures: (1) **Kramerville**, part of the Nedbank JV, was completed in July 2024 and will add 5400 sqm of gross lettable area ("GLA") to the portfolio on full fit-out, & (2) **Century City**, part of the Rabie JV, was completed in June 2024 and will add 6 100 sqm of GLA to the portfolio on full fit-out.

- In July 2024, Stor-Age reduced their shareholding in the **Acton** development from 24.9% to 15.0% by disposing of a 9.9% interest to Moorfield for a consideration of GBP1.3m, with the proceeds being used to fund the Group's proportionate share of the development.
- Phase 1 of the **Leyton** development was completed October 2024 in the Nuveen JV. The remaining development has an estimated completion cost of GBP13.9m and will add 3 900 sqm of GLA to the portfolio. The development is expected to be completed in Q4 FY25.
- Importantly for investors, the above noted developments and acquisitions will add c. 3.9% of GLA growth to the Group portfolio (23 180 sqm).

- The **Digital First** marketing agency has continued to experience solid growth. The number of properties on the platform has increased by 10.32% to 139 properties. These digital marketing services are charging customers (located in the UK, continental Europe, Central America, Asia and Australia) in foreign currency while the cost base is largely in ZAR. Per the H1 FY225 investor presentation, the estimated annual revenue from current contracts on the platform is R18.6m or c. 1.51% of total revenue. This is not yet material in the Group's life but we do suspect that this could become more meaningful over time.

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

Table 1: SA segment

Key Forecasts (R m)	FY22A	FY23A	FY24A	H1 FY24	H1 FY25	% change	FY25E	FY26E	FY27E
Rental income	471	534	597	289	317	*9.7%*	665	709	755
Other and ancillary income	21	23	25	12	14	*13.5%*	29	30	32
Property revenue	**491**	**557**	**623**	**302**	**332**	***9.9%***	**694**	**739**	**787**
Year-on-year growth %	*8.7%*	*13.3%*	*11.9%*	-	*9.9%*		*11.4%*	*6.5%*	*6.5%*
ECL on tenant receivables	(2.7)	(4.4)	(4.4)	(2.3)	(1.8)	-23.9%	(4.7)	(5.0)	(5.3)
As a % of rental income	*0.6%*	*0.8%*	*0.7%*	*0.8%*	*0.6%*		*0.7%*	*0.7%*	*0.7%*
Direct property operating costs	(112)	(127)	(139)	(68)	(74)	*8.3%*	(156)	(166)	(177)
As a % of property revenue	*22.7%*	*22.8%*	*22.3%*	*22.6%*	*22.3%*		*22.5%*	*22.5%*	*22.5%*
Net property operating income	**377**	**426**	**480**	**231**	**256**	***10.7%***	**533**	**568**	**605**
Year-on-year growth %	9.2%	12.9%	12.7%	-	10.7%		11.1%	6.5%	6.5%
Net property operating income margin %	*76.7%*	*76.4%*	*77.0%*	*76.6%*	*77.2%*		*76.8%*	*76.8%*	*76.8%*
Management fee income	10	28	34	16.3	13.2	*-18.9%*	26	28	29
Administrative fees	(69)	(105)	(118)	(56)	(59)	*5.1%*	(128)	(136)	(144)
Net property operating profit	**318**	**349**	**395**	**196**	**213**	***8.9%***	**431**	**460**	**490**
Net property operating profit margin %	*64.7%*	*62.7%*	*63.5%*	*63.3%*	*63.4%*		*62.1%*	*62.2%*	*62.2%*
Total number of properties (incl. JV properties)	55	57	60	60	63		63	63	63
Investment property value	5090	5215	5462	5362	5744		5849	5966	6086
LTV	*23.2%*	*24.9%*	*24.8%*	*28.1%*	*26.4%*		*26.4%*	*26.4%*	*26.4%*
Occupancy level	*88.1%*	*92.2%*	*92.1%*	*90.6%*	*92.0%*		*92.0%*	*92.0%*	*92.0%*

Sources: Refinitiv, Stor-Age Integrated Annual Reports, Stor-Age FY25 interim results and Blue Gem Research

SA segment performance

- The SA segment continued to perform well in H1 FY25 with **rental income** increasing by 9.7% compared to H1 FY24. This growth was driven by a 130 basis point improvement in same-store occupancy to 91.9% and an increase in same-store rental rates of 8.2%.
- During September 2024, Stor-Age **acquired Extra Attic**, located in Airport Industria in Cape Town, for a consideration of R73m. The acquisition was funded through the issue of 4.978m Stor-Age shares (average issue price of R14.66 per share). Once fully let, the property will add 7 780 sqm of GLA to portfolio. This includes 180 sqm of office space. Assuming rental per sqm of c. R1 480 (the average rental per square meter for H1 FY25 grossed up) this acquisition can be expected to add c.R11.2m of annual rental income to the portfolio once fully let, or a 1.9% uplift to gross segmental rentals.

- **Total property revenue** for H1 FY25 increased by 9.9% from the comparative period. The increase in total revenue tracked ahead of the increase in rental income due to a 13.5% increase in ancillary income.
- **Expected credit losses** on tenant debtors as a percentage of rental income improved from 0.8% to 0.6%. This could be an indicator of easing pressure on the SA consumer with CPI inflation at multi-year lows and interest rates starting to come down (we expect both macro trends to continue for the H2 FY25E period but have kept expected credit losses flat in our forecasts).
- **Direct property operating costs** as a percentage of revenue improved to 22.3% in H1 FY25 compared to 22.6% in H1 FY24. This cost reduction was largely as a result of lower diesel spend due to South Africa's improved electricity supply in H1 FY25 (i.e. no loadshedding).
- **Management income** (excluding non-recurring JV development fees) was 43% higher in in H1 FY25 (R13.2m) than in the previous interim period. This decrease was as a result of additional JV properties added to the SA portfolio, which earn recurring management fees.
- Overall, the segment had a **net property operating margin** of 63.4% in H1 FY25, which is a marginal improvement compared to H1 FY24 (63.3%). We note that this is above our current forecast of 62.1% of for FY25E (previously 61.3%) and, if maintained, may indicate upside risk to our forecasts.
- Management's **outlook** for the segment is for continued strong performance in SA, with the positive growth trajectory expected to continue into H2 FY25. We agree with this outlook and do not foresee any internal factors that should prevent the company from achieving similar performance in H2 FY25 and, while we have refined our forecasts, our forecast net property profit and distributable earnings per share has been slightly lifted since our last report.

SA Segmental Forecast and DCF Changes

Refer to our Initiation of Coverage for the initial assumptions used in our segmental valuations.

- We previously forecast FY25E **rental income** for the segment of R665m. H1 FY25, grossed up to twelve months, equates to R635m. This however excludes any additional rental from Extra Attic. Our forecasted revenue for FY25E remains unchanged at R665m and has been calculated as H1 FY25 revenue grossed plus 3.0% of growth to account for rental rate increases in H2. We have then added the expected annual revenue from Extra Attic of R11.2m. From FY26E to FY29E we have forecast annual revenue growth of 6.5% (previously 5.5%), derived from a 5.5% (previously 4.5%) increase in same-store rental rates and 1.0% increase in GLA. We have increased our assumption of same-store rental rate increases from 4.5% to 5.5% given the segment's proven track record of being able to increases real rentals.
- The **Parklands expansion** is expected to add 3 200 sqm of GLA to the SA portfolio (+0.8%) and is expected to have a project cost of R50.3m and be completed in Q1 FY26. We have assumed this project cost will be incurred as a cash outflow with 75.0% of the cash flows occurring in FY25E and the remainder in FY26E. We have made no further adjustments due to this as our revenue growth assumption already accounts for a 1.0% annual GLA increase. The remaining development pipeline in the SA segment is still under the planning phase (**Table 2**):

Table 2: New developments

New developments

Property	Region	Country	Status	Project cost	GLA	Completion date
De Waterkant	Cape Town	SA	In planning	TBC	6 600m²	TBC
Sandton	Johannesburg	SA	In planning	TBC	6 200m²	TBC
JHB 1	Johannesburg	SA	Secured, subject to town planning	TBC	5 700m²	TBC
JHB 2	Johannesburg	SA	In planning	TBC	5 500m²	TBC
Hillcrest	Durban	SA	In planning	TBC	6 500m²	TBC

Source: Stor-Age H1 FY25 unaudited results

- Our assumption for **other income** as a percentage of rental income has remained unchanged at 4.3% of rental income and we have assumed **expected credit losses as a percentage of rental income of** 0.7% (previously 1.0%) – this considers the above noted improved performance and positive macro trends.
- **Direct property operating costs** have been forecast to be 22.5% of property revenue (previously 23.0% in FY25E to 22.6% in FY29E), adjusting our view to the improved margins observed in H1 FY25.
- Recurring **management fee income** (excluding any once-off management fees) has been forecast to grow at 5.0% annually, tracking interim results for the full-year.
- **Administrative expenses** as a percentage of property revenue is forecast to be 18.5% in FY25E and decrease at 10 basis points annually to 18.1% in FY29E (previously 19.0% in FY25E decreasing to 18.2% in FY29E). This assumption is based on returns to scale, as the portfolio grows, given administrative expenses are largely fixed in nature and, with each set of results, we will keep revisiting this assumption.
- Finally, **share of JV profit (net of tax)** has been forecast to increase by 6.5% annually in line with the forecast growth in revenue for the SA segment.

United Kingdom ("UK") segment – operating under the "Storage King" brand

Table 3: UK segment

Key Forecasts (R m)	FY22A	FY23A	FY24A	H1 FY24A	H1 FY25A	*% change*	FY25E	FY26E	FY27E
Rental income	379	463	547	269	286	*6.3%*	565	585	604
Other and ancillary income	40	51	59	29	31	*6.7%*	61	63	65
Property revenue	**419**	**514**	**606**	**299**	**318**	***6.4%***	**626**	**648**	**670**
Year-on-year growth %	20.4%	22.6%	17.8%	n.a.	6.4%		5.8%	3.0%	3.0%
ECL on tenant receivables	(1.1)	(1.8)	(2.0)	(1.1)	(1.4)	*33.0%*	(2.8)	(2.9)	(3.0)
As a % of rental income	*0.3%*	*0.4%*	*0.4%*	*0.4%*	*0.5%*		*0.5%*	*0.5%*	*0.5%*
Direct property costs	(110)	(147)	(179)	(88)	(92)	*4.5%*	(182)	(188)	(194)
As a % of property revenue	*26.1%*	*28.6%*	*29.5%*	*29.4%*	*28.9%*		*29.0%*	*29.0%*	*29.0%*
Net property operating income	**309**	**365**	**425**	**210**	**225**	***7.0%***	**442**	**457**	**473**
Year-on-year growth %	27.4%	18.2%	16.3%	n.a.	7.0%		4.0%	3.4%	3.4%
Net property operating income margin %	73.6%	71.0%	70.1%	70.3%	70.7%		70.5%	70.5%	70.5%
Management fee income	4.9	7.5	29.6	17.8	18.8	*5.8%*	7.6	8.4	9.2
Administrative fees	(35)	(48)	(66)	(30)	(31)	*2.4%*	(75)	(77)	(79)
Net property operating profit	**279**	**325**	**389**	**180**	**204**	***13.7%***	**374**	**388**	**403**
Net property operating profit margin	66.5%	63.2%	64.2%	60.2%	64.3%		59.8%	59.9%	60.1%
Total number of properties (incl. JV properties)	30	36	43	43	44		45	46	46
Profit from JV properties									
Investment property value	4445	5516	6212	5865	6081		6631	6914	7052
LTV	*32.5%*	*34.6%*	*37.0%*	*35.2%*	*35.7%*		*35.7%*	*35.7%*	*35.7%*
Occupancy	*88.3%*	*81.6%*	*83.5%*	*83.9%*	*85.3%*		*85.3%*	*85.3%*	*85.3%*
Average exchange rate (GBP/ZAR)	R20.29	R20.45	R23.54	R23.48	R23.39		R24.0	R24.49	R24.98

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

UK segment performance

- The UK segment generated **rental income** of R286m in H1 FY25, up 6.3% from H1 FY24 (R269m). Growth was achieved through an increase in average rental rates of 2.4% on a same-store basis but most of it came from an improvement of same-store occupancy of 140 basis points to 85.3% (previously 83.9%) as well as the addition of 2100 sqm of GLA to the owned portfolio.
- The **same-store rental rate increase** of 2.4% in the segment is significantly lower than the increase achieved in the SA segment (8.2%). This is due greater competition in the UK market from other

establish self-storage providers, including Big Yellow, Safestore, Access and Shurgard. Storage King was able to achieve growth in rental income through inflationary rental rate increases (in contrast to the SA segment that grew rental rates *above* inflation). The UK CPI ("inflation rate") in October 2024 was 2.3% per Statista and, thus, Storage King's rental rate increases tracked with inflation.

- **Expected credit losses** as a percentage of rental income have increased from 0.4% to 0.5%, indicating that the UK consumer may be under strain. Despite the increased ECL, this % ECL pressure remains relatively low and pegged below the SA segment's % ECL.
- **Direct property operating costs** have increased to R92m or by only 4.5% from H1 FY24 (R88m), helped by lower electricity costs and insurance costs (insurance costs were lower due to an amendment to the customer insurance programme). The resulting **net property operating income** margin expanded nicely to 70.7% (FY24: 70.1%).
- The total **management fees** earned by the UK segment for H1 FY25 was R18.8m which included non-recurring JV development fees (R3.4m), JV acquisition fees (R2.3m) and new store sign on fees (R2.5m). Recurring management fees were thus R10.9m for the 6-month period.
- **Administrative fees** relate to non-property specific costs (head-office costs) and include staff costs (including share-based payments), professional fees, auditor fees and other administrative expenses. These expenses tracked UK inflation and only grew by 2.4%.
- **Net property operating profit margins** saw a substantial improvement between H1 FY24 (60.2%) and H1 FY25 (64.3%) because of revenue growth increasing c.390 basis points more than expenses (i.e. positive operating leverage was achieved), predominantly due to improved occupancy levels.
- The **development pipeline** in the UK segment includes the Acton development in the Moorfield JV with an expected project cost of GBP27.4m which is expected to add 63 000 square feet of GLA to the UK portfolio (c.1.0% of Group GLA). This development is expected to be completed in Q1 FY26. In July 2024, the Group reduced their shareholding in the Acton development from 24.9% to 15.0% by disposing of a 9.9% interest for GBP1.3m. The UK development pipeline also includes the Leyton development, through the Nuveen JV, with project cost of GBP13.9m. The development has an estimated completion date of Q4 FY25 and will add 42 000 square feet to portfolio GLA on full fitout (adding c.0.64% to Group GLA).

UK Segmental Forecast and DCF Changes

Refer to our Initiation of Coverage for the initial assumptions used in our segmental valuations.

- We have raised our forecast growth in **rental income** to 3.4% per annum (previously 3.0% p.a.) due to an upwards revision to our same-store rental rates of 2.4% p.a. (previously 2.0% p.a.) and we have added a 1.0% increase in GLA. We have kept the exchange rate flat for this forecast period (unrealistic but the Group *does* have a policy of hedging FX exposure - Exchange rates for FY25E have been fully hedged at a GBP/ZAR rate of R23.67 whilst exchange rates for FY26E have been 85.0% hedged for R24.65. Given the current GBP/ZAR rate of R22.96, the hedges in place are currently value accretive).
- Our expectations for **other income** as a percentage of rental income has remained unchanged at 10.8% of rental income, and we have updated our view of **expected credit losses** as a percentage of rental income to 0.5% (previously 0.4%).
- **We have adjusted direct property operating costs** to 29.0% of property revenue (previously 30.0% in FY25E to 29.6% in FY29E) due to the improved margins observed in H1 FY25.
- Recurring **management fee income** (excluding any once-off management fees) has been forecast to grow at 5.0% p.a.
- **Administrative expenses** as a percentage of property revenue is forecast to be 12.0% in FY25E and decrease at 10 basis points annually to 11.6% in FY29E (previously 13.0% in FY25E decreasing to 12.2% in FY29E) as steady, incremental returns to scale are achieved in this segment. We will keep revisiting this view in subsequent notes.

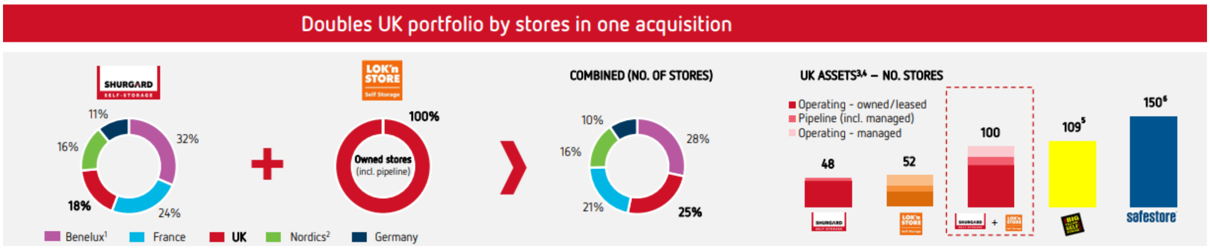
Group Forecast Update

- Our updated expectations for FY 25E Group rental income is largely unchanged at R1.23bn (previously R1.24bn). This change is largely due to a change in how we have accounted for the additional GLA of the development pipeline for JV properties as almost fully offset by a change in same-store rental rate increase assumptions.
- Our updated FY 25E forecast net property operating profit is R808m (previously R795m); a marginal increase largely because of expected margin improvements due to lower direct property costs and administration expenses as a percentage of revenue in the two segments.
- FY 25E distributable income is forecast to be 122cps (previously 119cps), or within management's own guidance range of 122~126cps. The rise in our forecast here is mostly due to higher forecast net property operating profit (our margin assumptions have been refined), only partially offset by increased shares outstanding from the Extra Attic acquisition.

Industry Corporate Action – Shurgard/Lok'nStore

Effective from 1 August 2024, a major UK-based self-storage player (Shurgard) acquired another large UK-based self-storage player (Lok'nStore). This is a significant transaction in the UK self-storage market with the previously fourth and fifth largest players in the UK market consolidating to become the third largest player in the UK (behind Big Yellow and Safestore). Through this transaction, Shurgard has effectively doubled its footprint in the UK market from 47 to 99 self-storage facilities.

Figure 2: Shurgard Lok'nSotre acquisition



Source: Shurgard Investor Presentation

This transaction serves as a good arm's length benchmark of the possible takeover value of Stor-Age's Storage King business due to the similarities (at least on "paper") between Storage King and Lok'nStore (**Table 4**):

Table 4: UK segment

	Storage King	Lok'nStore
Owned properties	18	17
Leasehold properties	8	9
Managed properties	5	17
Joint venture properties	13	0
Total properties	**44**	**43**
Development pipeline	5	8

Sources: Shurgard investor presentation, Stor-Age investor presentation

The total transaction value paid for Lok'nStore was EUR613m, which represents an equity value of GBP378m. Using the implied multiple from the Lok'nStore acquisition price, we can apply the comparable transaction approach ("CTA") to determine a value for Storage King.

For the most recent financial year, Lok'nStore reported a net asset value per share ("NAVPS") of GBP9.86 (or GBP230.47m for the Group). The acquisition price paid by Shurgard in the all-cash deal was GBP11.10 per Lok'nStore share and, thus, the implied price-to-book multiple for the transaction was c. 1.13x.

Assuming a control premium of 22.0% (based on the average per the latest PwC valuation survey) for the 100.0% stake in Lok'nStore, we can apply a discount for lack of control ("DLOC") to the multiple of 18.0%. This arrives at a logically adjusted price-to-book multiple for Storage King based on the CTA approach is thus 0.92. Based on the NAV of Storage King (UK segment) at 30 September 2024 of ZAR3.9bn we can derive an equity value of Storage King of ZAR3.6bn (**Table 5**).

Table 5: CTA valuation

Storage King CTA approach valuation	
Lok'nStore NAV per share	9.86
Acquistion price per share	11.10
Implied price-to-book multiple	**1.13**
Control premium for 100% stake	22.0%
Discount for lack of control	18.0%
Adjusted price-to-book multiple	**0.92**
Storage King NAV (ZAR'm)	3 917
Storage King Equity Value (ZAR'm)	**3 614**

Sources: Various company disclosures & Blue Gem Research analyst workings and assumptions

This is somewhat lower than the equity value per our segmental DCF valuation of the UK segment (ZAR4.5bn) but may not take into account the individual asset quality differences, the value of the Digital First business and the cost arbitrage from utilizing the South African (internal) operational platform. Assuming no DLOC is applied to the CTA, the equity value of Storage King would be c. ZAR4.41bn and largely in line with our segmental DCF valuation and perhaps hints at the value of the segment being held (and, importantly, *controlled*) by the JSE-listed Group.

Valuation and 12m TP

Our valuation of Stor-Age has been performed based on a Discounted Free Cash Flow ("DCF") valuation and a Relative Valuation Model 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 implied twelve-month Target Price (12m TP).

Based on our DCF, we have derived an equity value of **R16.86 per share (previously R15.92)** and based on our relative valuation approach we have derived an equity value of **R15.45 per share (previously R15.08)**. On an equal-weighted basis, thus our current fair value is **R16.16 per share (previously R15.50)**.

Discounted Cash Flow (DCF) Valuation

We have performed a DCF valuation of the South African and the UK segments of the Stor-Age. Each segment has a separate Weighted Average Costs of Capital ("WACC") and terminal growth rate that we have selected as appropriate to the region it operates in:

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 of 9.53% (previously 9.53%).
    - We have used an Equity Risk Premium ("ERP") 6.0% (previously 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 0.51 (previously 0.52), based on 5-year monthly beta per Refinitiv.
    - This resulted in a CoE of 12.5% (previously 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% (previously 9.59%) is based on the company's effective interest rate on ZAR facilities as disclosed in its H1 FY25 financials. 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% (previously 2.0%) based on our long-term expected growth in SA real GDP.

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

- Computed the Cost of Equity ("CoE") using the Capital Asset Pricing Model ("CAPM"):
    - Applied a risk-free rate of 4.26% (previously 3.99%) based on the yield of UK 10YR gilts.
    - We have applied an ERP of 5.48% (per *Damodaran* ERPs for the UK - previously 5.48%).
    - We have applied a beta on 0.80 (previously 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 8.6% (previously 8.4%) for the UK segmental DCF.
    - The CoD applied was 4.72% (previously 4.84%), but, 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 expected effective tax rate in the UK segment of 17.0%. This percentage is based on management's guidance of the excepted effective tax rate going forward.
- Our terminal value has been determined using a terminal growth rate of final year free cash flow of 1.5% (previously 1.5%) based on our long-term expected growth in UK real GDP.

Based on the above assumptions coupled with our segmental forecasts, our DCF model is represented overleaf.

Finally, we have sanity checked this model's outputs by comparing its implied EV/EBITDA's against average multiples in the market:

- The SA DCF's implied EV implies an EV/EBITDA multiple of 12.3x, &
- The UK's DCF implies one of 15.9x.

Both of these implied multiples compare favourably to our peer group comparisons:

- UK-listed self-storage REIT's average EV/EBITDA is 18.0x, &
- SA-listed REIT's (not specifically self-storage REITs) average EV/EBITDA is 14.9x.
    - **Note**: In our calculation of the average of SA-listed REIT, we have excluded what we consider to be an outlier: Vukile Property Fund Ltd (trading at EV/EBITDA multiple of 37.1x).
    - This outlier exclusion arrives at a better quality relative for our purposes.

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, which adds to our confidence in the fair value outputs from this model.

DCF -SA Segment

ZAR'm	FY25	FY26	FY27	FY28	FY29
Rental income	665	709	755	804	856
Other income	29	30	32	35	37
Property revenue	**694**	**739**	**787**	**838**	**893**
Expected credit losses on tenant receivables	(4.7)	(5.0)	(5.3)	(5.6)	(6.0)
Direct property costs	(156)	(166)	(177)	(189)	(201)
Net property operating income	**533**	**568**	**605**	**644**	**686**
Management fee income	26	28	29	31	32
Administrative expenses	(128)	(136)	(144)	(153)	(162)
Net property operating profit	**431**	**460**	**490**	**522**	**556**
Taxes paid	0	0	0	0	0
Share of profit from JVs net of tax	1.3	1.4	1.4	1.5	1.6
Development costs	(25)	(25)			
Free cash flow	407	436	491	524	558
Terminal value					5 959
Free cash flow incl. terminal value	407	436	491	524	6 517
Discounted cash flows	365	350	354	338	3 773
Enterprise Value - SA Segment (NPV)	***5 180***				

DCF - UK Segment

	59.8%	59.9%	60.1%		
ZAR'm	**FY25**	**FY26**	**FY27**	**FY28**	**FY29**
Rental income	565	585	604	625	646
Other income	61	63	65	68	70
Property revenue	**626**	**648**	**670**	**693**	**716**
Expected credit losses on tenant receivables	(2.8)	(2.9)	(3.0)	(3.1)	(3.2)
Direct property costs	(182)	(188)	(194)	(201)	(208)
Net property operating income	**442**	**457**	**473**	**489**	**505**
Management fee income	7.6	8.4	9.2	10	11
Administrative expenses	(75)	(77)	(79)	(81)	(83)
Net property operating profit	**374**	**388**	**403**	**418**	**433**
Taxes paid	(64)	(66)	(68)	(71)	(74)
Share of profit from JVs net of tax	38	39	40	41	43
Free cash flow	**348**	**361**	**374**	**388**	**403**
Terminal value					7 366
Free cash flow incl. terminal value	348	361	374	388	7 768
Discounted cash flows	325	315	305	296	5 526
Enterprise Value - UK Segment (NPV)	***6768***				

Total Enterprise Value	11 948
Plus: Cash and cash equivalents	272
Less: Interest-bearing debt	(4 098)
Equity value	**8 122**
Share outstanding	481 663 300
Equity value per share	**R16.86**

Sources: Refinitv, Stor-Age Interim Results, Stor-Age Integrated Annual Reports and Blue Gem Research analyst workings and assumptions

Relative Valuation Model

Our relative valuation model has been performed based on the median EV/EBITDA and P/B multiples of comparable listed self-storage companies.

Given Stor-Age has exposure to South Africa (i.e. an Emerging Market) and our peer set is composed of Developed Market peers, we have applied a country risk adjustment to the relative multiple in our model.

Finally, Stor-Age also has a significantly smaller market capitalisation than the average of the peers and, as 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	20.02	3.92
Public Storage	PSA	NYSE	21.45	6.12
Extra Space Storage Inc	EXR	NYSE	20.28	2.50
National Storage Affiliates Trust	NSA	NYSE	15.50	3.37
Shurgard Self Storage Ltd	SHUR.BR	EBR	20.93	0.96
Safestore Holdings PLC	SAFE.L	LSE	18.09	0.77
Big Yellow Group PLC	BYG.L	LSE	17.83	0.80
Abacus Storage King	ASK.AX	ASX	21.17	0.75
National Storage REIT	NSR.AX	ASX	23.14	0.98
Mean			19.82	2.24
Median			**20.28**	**0.98**
25th percentile			17.96	0.79
75th percentile			21.31	3.65
Selected multiple			20.28	0.98
Adjustments				
Country risk adjustment [1]			8.50%	8.50%
Size adjustment [2]			17.60%	17.60%
Adjusted multiple			15.29	0.74
Stor-Age EBITDA H1 FY25 grossed up (ZAR'm)			851	
Stor-Age Book Value Sep-24 (ZAR'm)				8 119
Enterprise value (ZAR'm)			**13 017**	
Less: Debt			(4 420)	
Plus: Cash			309	
Equity value			**8 906**	**5 980**
Average equity value			**7 443**	
Shares outstanding			481 663 300	
Equity value per share			**R15.45**	

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 its 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.

Sources: Refinitv, Stor-Age Interim Results, Stor-Age Integrated Annual Reports and Blue Gem Research analyst workings and assumptions

12m TP and Implied Return

Rolling forward our implied fair value of R16.16 a share by twelve months at our CoE (using a blended CoE for the SA and UK segments that is weighted based on the FY25E revenue split—less the implicit *cum*-dividend yield assumed of 7.14%—we arrive at a **12m TP of R16.73 (previous 12m TP R15.97)**.

This 12m implies a price upside of 6.9% from the current share price, excluding dividend payments (which we expect to add a further 7.14% yield to this implied return). Thus, **our 12m TP implied total return is 14.1%.**

Key risks to our forecast & valuation

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

- Normal property and self-storage operations risks: i.e. Management's ability to grow and maintain occupancy levels and hike rentals faster than the underlying property costs and administration expense growth.
- Any significant price war erupts in the UK self-storage market and irresponsible pricing puts pressure on rental growth in this segment.
- Any significant and quicker than expected growth in Digital First (we would consider this an upside risk).
- The Group is exposed to interest rate and foreign exchange rate risk, and the change 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 but, further note, that at some point, these hedges are likely to be rolled and a vastly different exchange rate at that date may have an impact on our forecasts and valuation).
- 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

Terminal growth rate	Discount rate: +100bps	Discount rate: Base	Discount rate: -100bps
-100 bps	11.81	14.37	17.72
Base	13.64	16.86	21.28
+100 bps	16.05	20.30	26.58

Source: Blue Gem Research workings & assumptions

- While we have forecast current developments coming online in an orderly basis, any 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 (including if they involve significant share issues).

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