Big Yellow – QuickView

Edison investment research

19 November 2009

Event	Interim results to end September 2009

Investment summary: Slow recovery underway

The first half saw patchy recovery in letting, although self-storage is yet to show a pick-up in value in line with other classes of commercial property. The statement reported occupancy rates stabilising, but BYG's rating already builds in growth from current levels and recovery in NAV. The shares are broadly up with events, on just a 5% discount to EPRA NAV/share of 436.6p, although NAV/share declined 4% after May's share placing (11.55m shares at 285p). The H1 external appraisal actually showed a modest reversal of recent valuation declines. Additionally, the assumptions behind the valuation of the investment portfolio look defensive, with an 8.59% yield, based upon a relatively lengthy 41 months until the portfolio reaches stabilised occupancy levels.

Profitability assisted by higher yields/sq ft and cost control

Big Yellow's high-visibility self storage units attracted tenants despite a difficult market. A 'noticeable improvement' in occupancy growth in H1 helped push rental yields up by 5.8%. Average occupancy in the stabilised portfolio of 32 mature units at 71% was, however, below the 78% at this stage last year. The group did let 87,000 sq ft in 16 newer stores still in initial lease-up phase, over 80% achieved since April 2009. That pushed up occupancy in that part of the portfolio from 31% to 36%. The impact on profits was mitigated by cost savings; same store costs were down 7.5% y-o-y, there were lower staffing levels and a wage freeze. Better demand during the spring allowed BYG to rein back promotions and restore net rents to September 2008 levels.

Outlook geared to lettings, particularly new units and pipeline

A £3.6m fall in interest costs drove a 2% increase in H110 adjusted pre-tax profit to £7.7m. Average cost of debt was 3.7%, vs 6.5% a year ago. Operating cash flow improved to £7.9m (2008: £2.3m) in line with better occupancy and per sq ft yield. Net debt fell by £35m in the first half to £273m, leaving a robust balance sheet 59% geared vs a 130% loan covenant. Interest cover is 2.7x vs a 1.4x minimum required. BYG's medium-term potential pivots upon raising occupancy levels from 55% currently, to 85%. Letting another 1m sq ft should generate over £25m in revenues and, at minimal marginal cost, have a big impact on the bottom line.

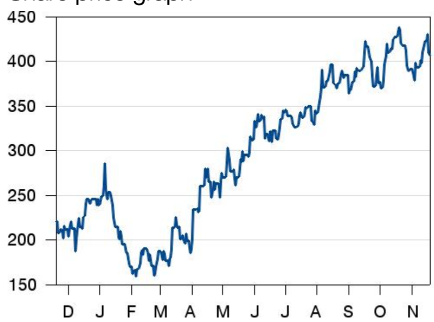
Consensus estimates

Year End	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/08	56.9	15.0	11.7	15.0	34.7	3.7
03/09	58.4	13.8	11.9	0.0	34.1	N/A
03/10e	59.3	15.0	11.5	0.0	35.3	N/A
03/11e	65.8	21.3	18.0	8.0	22.6	2.0

Note: PBT adjusted for revaluation and movements in fair value of derivatives.

Price	406p
Market Cap	£526m

Share price graph



Share details

Code	BYG
Listing	FULL
Sector	Real Estate Investment Trusts
Shares in issue	129.5m

Business

Big Yellow is the UK's leading self-storage group. It operates from 59 stores, 52 in London and the south and has another 11 stores in development. The fully built portfolio will comprise approximately 4.4m sq ft of flexible storage space.

Bull

- Financial stability
- Potential for strong revenue growth as newer properties are let
- Valuations stabilising

Bear

- Development will push up vacancies
- Sensitivity to UK housing market
- Need to restore dividend

Analyst

Roger Leboff 020 3077 5700

rleboff@edisoninvestmentresearch.co.uk

EDISON QUICKVIEWS ARE NORMALLY ONE OFF PUBLICATIONS WITH NO COMMITMENT TO WRITING ANY FOLLOW UP. QUICKVIEW NOTES USE CONSENSUS EARNINGS ESTIMATES.

Edison Investment Research

Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ www.edisoninvestmentresearch.co.uk
Registered in England, number 4794244. Edison Investment Research is authorised and regulated by the Financial Services Authority.