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CENKOS

16 SEPTEMBER 2011

UK REIT

Buy

Price at 16 Sept 2011 (p)	258
Price Target (p)	350
52-week range (p)	240-340

Reuter: BYG.L **Bloomberg:** BYG.LN
Exchange: LSE **Ticker:** BYG

Big Yellow

Attractive buying opportunity. Occupancy growth will drive a doubling in EPS in the next 4 years (prospective PE falling to <8) and the shares are supported by a well-covered 4% yield and largely freehold asset base conservatively worth 450p per share.

Share Price Performance

Performance(%)	1m	3m	12m
Absolute	+2	-18	-17
FT All Share	0	-7	-3

Stock Data

Market cap (£m)	335.0
Shares outstanding (m)	129.9

Key Indicators

Net debt/equity (%)	45
Net interest cover (x)	2.7

Activities

UK Self storage investor, developer and operator

Directors

Executive Chairman	Nick Vetch
CEO	James Gibson
Operations	Adrian Lee
CFO	John Trotman

Significant Share Holders

Management	14.4
BNP Paribas	5.0
Axa	5.0
Blackrock	4.9
Morgan Stanley I/M	4.9

Resilient customer base

Self storage companies have proved far more resilient than widely expected in the past 4-years – in terms of both occupancy and rental levels. Consumer weakness and a low number of housing transactions (home moves in 2010 and 2011YTD are approximately 50% lower than 2007's record house moves) provide a continuing challenging backdrop but self storage companies' customer base is far more diverse than widely appreciated and revenues more robust. Big Yellow generates 35% of revenue from business customers (and Safestore c50%), while an increasing percentage of customers are also involved in home rental, home improvements, de-cluttering etc (see page 2).

Well located predominantly freehold asset base

BYG owns 52 self storage centres in the UK, mainly in and around London, of which 94% are held freehold. Over 71% of group revenue is generated from assets within the M25 (c90% including other Southeast) and the group is conservatively financed with strong cash generation and asset backing.

Current Trading

Occupancy of the stabilised portfolio has risen to 73.6% or 61.3% allowing for lease-up stores. The group's target is to increase overall occupancy to over 80% in the next 3-years – a level which was consistently attained for over 2-years in the mid-2000's – with rental values rising by 2-3% pa.

Share Valuation

BYG is a high quality, operationally geared and conservatively financed business – and the recent share price fall has provided an attractive buying opportunity. The existing portfolio has the potential to generate 32-33p of adjusted EPS within 4-years through increasing occupancy to over 80% and rental growth. The shares are cheap on prospective PE and yield basis, with the support of a 450p per share mainly freehold asset base.

Forecasts and Valuation

Year to March	2009A	2010A	2011A	2012E	2013E
PBT adjusted (£m)	13.7	16.5	20.2	24.5	27.7
EPS adjusted (p)	11.9	13.0	15.5	18.7	21.1
DPS (p)	0	4.0	9.0	10.0	11.5
NAV adjusted (p)	457	453	450	470	490
PER (x)	21.7	19.8	16.6	13.8	12.2
Dividend Yield (%)	0	1.6	3.5	3.9	4.5
Discount to NAV (%)	44	43	43	45	48

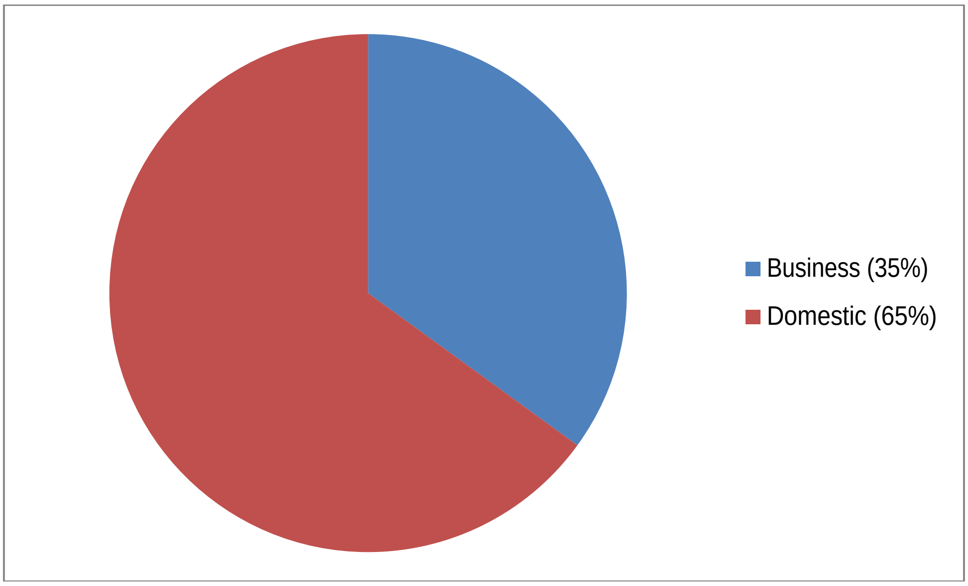
Source: Cenkos securities estimates, company data

Resilient Customer Base – and revenues

Occupancy levels for all of the self storage companies have proved far more resilient than expected in the past 4-years. The general perception is that the volume of housing transactions is the sole driver of occupancy levels but Big Yellow and its peer group's customer base is far more diverse than widely appreciated.

Consumer weakness and a historically low number of housing transactions (2010 and 2011YTD show that home moves have collapsed by almost exactly 50% since the record level in 2007) provide a continuing challenging backdrop for self storage owners and operators. However, 35% of Big Yellow's total occupied space is by business customers – generating c30% of its annual revenue - while an increasing percentage comes from customers involved with home rentals, home improvements, de-cluttering etc. Based on customer numbers, businesses account for 19% of total but they occupy far more space and on average stay far longer than domestic customers.

Customers based on total occupied space

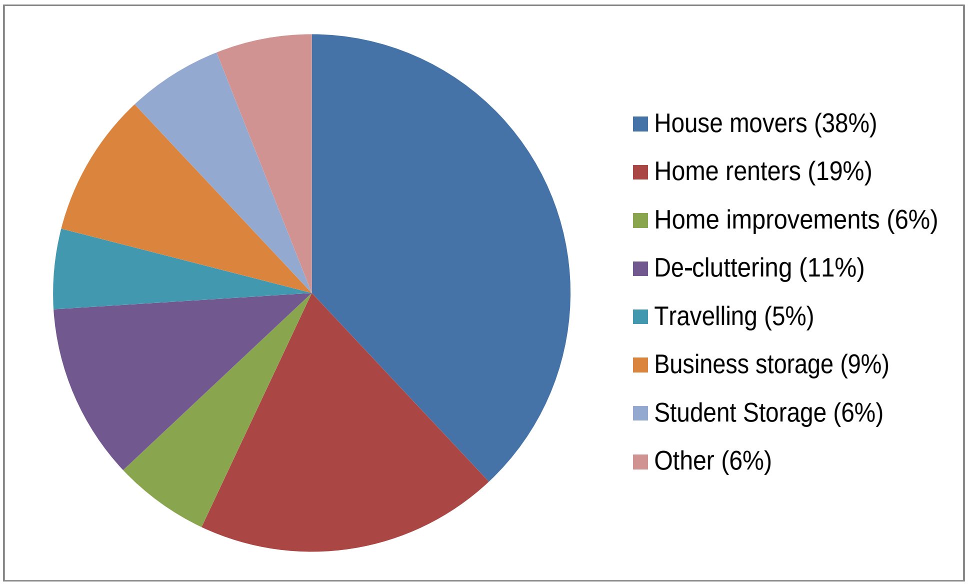


Source: Company

BYG's demand profile of customer move-ins in 2010/11 showed that home movers accounted for 38% of the total with home renters accounting for 19%. The other 43% comprised customers which are involved with de-cluttering (11%), home improvement (6%), travelling (5%), student storage etc.

Also, the average customer stay has been on a gradual rising trend for several years and 38% as at March 2011 rent space for over 3 years – providing a secure longer term revenue stream / cash flow – with 19% renting for between 1 and 3 years and 43% less than 1 year. In total, over 70% of customers are event-driven.

Demand profile of customer move-ins during 2010/11



Source: Company

Portfolio

Following the completion and opening of a 70,000 sq ft store at Eltham in April 2011, the wholly owned portfolio comprises 52 mainly freehold self storage assets – with an additional 11 centres in a partnership with Pramerica (33% stake). Throughout the consumer downturn of the past 4-years, BYG's operational performance has been resilient with occupancy rates of the stabilised portfolio falling to a low point of 67% in late 2009 before gradually recovering to 73.6% at June 2011. Rental levels have continued to rise, albeit below RPI in the past 18-months or so.

Occupancy peaked at 84% in September 2007 and was consistently well over 80% for the stabilised portfolio in the previous 3-years. The June 2011 occupancy was 73.6%, an increase of 47,000 sq ft or 2.5% in Q1, with rental rates effectively flat at £26.78 per sq ft. Rents have risen by a cumulative 11% in the past 4-years, while capital values have fallen by only half as much as the general commercial property market. BYG's freehold portfolio valuation by Cushmans is Wakefield is based on a 10 year DCF, a stabilised yield of 8.3% (as at March 2011) and an average occupancy rate of 83% (reduced from 84% since the September 2010 valuation).

Since 2007 site purchases have been curtailed and new development starts largely deferred – annual capex has been reduced significantly to below £15m and surplus sites sold (with a further £17.3m of surplus land for sale). The consistent strategy has been to maximise occupancy of the existing portfolio and cash generation, and the core objective in the medium term is to increase occupancy to over 80%.

The greatest opportunity to increase revenues (and hence profit) is from the lease-up stores, many of which opened during the recession. Of the 19, 15 are located in London, the strongest and most resilient market, and occupancy of these at June 2011 was 44.7%. A strong focus on customer service, innovative marketing (mainly its online focus with price transparency and operational efficiency) and retention of incentivised store management / staff are all important in leveraging its brand and maximising returns.

We are confident that occupancy of the 52-store wholly owned portfolio will recover to over 80% in the next 3 years and our profit estimates also assume that rental rates will rise by an average of c2.5% per annum. This rental growth rate would be slightly lower than the average of 4% in the past 5-years and below current inflation but, with a fixed cost base, the group is highly operationally geared. Leasing an additional 0.75m sq ft at an average rent of around £27 per sq ft would add over £20m to group revenue – which would largely feed through to profits. Additional revenue growth will come from the sale of higher margin packing materials and insurance to new customers – in 2010/11, these accounted for 15% of group revenue.

Revenue growth will also be generated from new developments. Eltham opened in April 2011 and two further centres are due to open in 2012 viz New Cross in April and Chiswick in May. New sites are initially earnings dilutive but become EPS accretive when occupancy reaches around 30% (normally within 12-18 months of opening).

Forecasts

Assuming a rise in occupancy to over 80% and 2.5% compound rental growth, group revenue would rise to over £85m in 2014/15 with EBITDA of c£55m. Adjusted PBT therefore, which excludes unrealised property revaluation gains / losses, would rise to c£43m – with EPS of 32-33p giving a prospective PER of under 8x.

If achieved, adjusted profits would more than double in the next 4-years – from £20.2m last year to £43m. As a REIT, the dividend will continue to show strong growth although the annual PID (property income distribution) will depend on the scale of the development programme with additional shadow capital allowances offsetting the tax exempt profit contribution. Our dividend estimates are for a 11% increase to 10p this year (covered 1.87x) and 11.5p in 2012/13 but in the medium term the dividend is likely to increase to a far higher level to fully reflect the group's REIT status.

Big Yellow and Safestore – Business and Valuation comparison

	Big Yellow	Safestore
Investment Portfolio	3.3m sq ft	5.0m sq ft
Gross Assets	£761m	£693m
Net Debt	£269m	£309m
NAV	£545m	£271m
Net debt equity (%)	45	114
Property LTV (%)	35	45
Portfolio Location	London / South east	UK and Paris
No of stores	52	118
Freehold	94%	60%
Average rent (£psf)	26.78	25.91
Average store size (psf)	60,000	<50,000
Stabilised portfolio occupancy (%)	73.6	67
Overall occupancy rate (%)	62.1	63.2
Average revenue per store	>£1m pa	c£0.7m pa
Average EBITDA per store	>£0.5m pa	<£0.4m pa
Share Valuation		
Share price (p)	258	106
NAV (adjusted) (p)	450	209
Discount to NAV (%)	43	49
PER (Prospective)	13.8	10.0
Dividend Yield (2011/12) (%)	3.9	5.2

Source: Cenkos estimates

BYG's portfolio is geographically focused on London and the Southeast in contrast to Safestore's national coverage and in Paris. In addition, its freehold content is far higher and average store size 20% larger. Its occupancy rate is also greater for the stabilised portfolio and EBITDA per store significantly higher.

In terms of share valuation, Big Yellow is slightly more expensive than Safestore on PER, dividend yield and NAV discount – but we are buyers of both shares on a 2-year view. BYG is a higher quality business in our view and its management team owns over 14% of the shares.

Finances

Financially the group is strong with a loan to value ratio of 33% and net debt equity ratio of 45% as at March 2011 - with EBITDA cover rising from 2.5 to 2.8. Debt has been secured against the mainly freehold estate.

The group has a £325m senior debt facility with 4 banks until September 2013. HSH Nordbank is the largest lender (£150m) followed by Lloyds Bank (£100m), HSBC (£50m) and Santander (£25m). The facility is arranged in two tranches – the first is for up to £50m and finances non-stabilised assets (and carries a margin of up to 150bp) and the second is for stabilised assets (and carries a 112bp margin). As assets stabilise they are transferred to the second tranche, reducing the margin.

The group had £59m of cash and unutilised facilities at year-end. The development programme and partnership capex will be funded by these facilities, cash flow and further sales of surplus land.

The weighted average interest cost has remained low at 3.6%, one of the lowest in the REIT sector. This reflects interest rate hedging arrangements in respect of £190m of debt – with interest rate swaps to 2015 or 2 years after the core debt facility expires – of which £120m is fixed at 2.99% including margin (and the balance of £70m fixed at 3.93% excluding margin). Overall, 70% of gross debt is fixed.

The fair value of the interest rate derivatives at March 2011 was a £7.8m liability (6p per share).

Development pipeline

Big Yellow has shown substantial organic growth since formation in 1999. The £792m investment portfolio has been exclusively built up through site acquisitions, securing planning consent and developing on average circa 60,000 sq ft self storage centres. As at March 2011 the investment portfolio covered 3.3m sq ft, which would increase to 3.6m sq ft when the current and prospective developments are completed and open.

The number of store openings has been curtailed in the past 4 years – with 3 in 2008/9 and just 2 since then. Following the 70,000 sq ft store opening in Eltham in April, 2 sites are currently under construction and 3 have consent granted (with 1 planning under negotiation).

Store Location	Planning Status	Capacity (sq ft)
New Cross, SE London (A20)	Due to open April 2012	60,000
Chiswick, W London (A4)	Due to open May 2012	75,000
Enfield, N London (A10)	Consent granted	60,000
Guildford Central (Woodbridge Meadows)	Consent granted	56,000
Gypsy Corner, W London (A40)	Consent granted	70,000
Manchester Central (Water Street)	Planning under negotiation	70,000
Total		**391,000**

Source: Company

The additional development cost of the 5 wholly owned sites is £30.7m (excludes Manchester Central – which will be transferred to the JV on receipt of planning permission).

BYG has become increasingly focused on London since 2007's economic downturn. Site acquisitions have been concentrated inside the M25 and the prospective development programme shows that the site in Guildford is the only one outside the M25. London sites have been more resilient during the downturn. Average occupancy of its stabilised London stores have been up to 5% higher than for provincial sites, while premium rents are also secured - average London rents of c£29 per sq ft are at least 10% above provincial sites.

Development capex will be funded by further land sales (surplus sites are included in the Balance Sheet at £17.3m), surplus cash flow and banking headroom / unutilised cash.

Portfolio Valuation

At March 2011, the investment portfolio was externally valued by Cushman & Wakefield at £746m – of which 94% was freehold, 3% long leasehold and 3% short leasehold properties. In addition, there was £46m of property under construction and £15m in associate company Big Yellow Partnership.

The freehold assets were valued on the following basis:

- a 10 year DCF assuming notional sale in year 10
- stabilised yield of 8.4% pre admin costs
- weighted average occupancy of 83.1% (84.2%)
- purchaser's costs of 5.8% assuming property sale
- weighted average discount rate of 11.29% (11.35%)

The March 2011 adjusted NAV fell by 3p to 450p with the investment portfolio marked down by c2% and a small surplus for the development portfolio (net of capex). This NAV calculation is based on a purchaser's cost of 2.75% (rather than 5.75%), which reflects the fact that property sales would take place in a corporate structure, thereby reducing stamp duty costs.

Our March 2012 NAV estimate is for a 4% increase to 470p. This will be driven by retained earnings, surplus from the development portfolio but no valuation movement for the investment assets.

Big Yellow Limited Partnership

The Limited Partnership was formed with Pramerica Real Estate Investors in November 2007 with BYG having a 33% equity interest. The partners' strategy was to build a portfolio of Big Yellow branded self storage centres outside the M25, mainly in the North and Midlands.

The partnership was initially targeted at £150m with BYG subscribing for £25m and Pramerica £50m – and £75m secured from a group of banks. The group's share of net assets at March 2011 had risen to £14.9m, a £1.3m surplus over its equity investment. Fee income was £0.9m.

The group has an option expiring in March 2013 to acquire the assets or Pramerica's 67% equity interest - with the consideration to be based on the market value for the assets and liabilities, depending on the IRR achieved.

Income Statement

Year to March (£m)	2009A	2010A	2011H1	2011A	2012E	2013E
Revenue	**57.1**	**56.4**	**30.4**	**60.6**	**65**	**71**
Cost of sales	-21.8	-22.1	-11.8	-22.7	-24	-25.5
Fee Income	1.4	1.6	0.7	1.3	1.5	1.5
Gross Profit	36.7	35.9	19.3	39.2	42.5	47
Admin Costs	-5.8	-6.9	-3.4	-7.2	-7.5	-7.8
Associates	-0.1	-0.7	-0.3	0	0.5	0.5
OPERATING PROFIT	**30.8**	**28.4**	**15.6**	**32**	**35.5**	**39.7**
Net Interest	-17.1	-11.9	-5.8	-11.2	-11	-12
PBT (Adjusted)	**13.7**	**16.5**	**9.7**	**20.8**	**24.5**	**27.7**
Property revaluation	-52.8	-3.6	4.3	-16	10	10
Non-recurring items	-11.6	-2.1	0	0	0	0
Fair value derivatives	-18	-2.7	-7.7	0	0	0
Refinancing costs	-1.3	0	0	0	0	0
Associates revaluation	-1.5	2	2.3	1.8	2	2
PBT (reported)	-71.5	10.2	8.6	6.6	36.5	39.7
EPS (Adjusted) (p)	**11.9**	**13**	**7.5**	**15.5**	**18.7**	**21.1**
EPS (Reported) (p)	-62.9	8.1	6.6	5.3	27.9	30.3
DPS (p)	**0**	**4**	**4**	**9**	**10**	**11.5**

Source: Cenkos Securities

Consolidated Balance Sheet

Year to March (£m)	2009A	2010A	2011A	2012E	2013E
Investment property	**735.1**	**761.6**	**745.8**	**775**	**800**
Development property	**73.6**	**34**	**46.3**	**35**	**30**
Leasehold property	21.9	22	21.2	21.5	21
JV Investment	9.3	12.1	14.9	16.5	18
Other Assets	4.5	4.3	4.1	4	4
Fixed Assets	844.3	833.9	832.4	852	873
Surplus land		20.2	17.6	10	7
Cash	3.2	30.6	9	6	4
Other current assets	11.9	11.4	11.9	12	12
Current Assets	15.1	62.2	38.5	28	23
Total Assets	859.5	896.1	870.9	880	896
Less:					
Gross debt	**-308.7**	**-297.8**	**-273.2**	**-258**	**-250**
Finance leases	-21.8	-22	-21.3	-21	-21
Other liabilities	-26.7	-29.1	-31.4	-31	-30
Total Liabilities	-357.2	-348.8	-325.9	-310	-301
Reported Net Assets	**502.3**	**547.3**	**545**	**570**	**595**
Reported NAV / share (p)		**424**	**422**	**438**	**454**
Fair Value derivatives	6.3	8.8	8.4	8	8
Exercise of share options	2.6	0.6	0.6		
Red book valuation	32.7	37.1	37.5	38	38
Adjusted NAV	**543.8**	**593.8**	**591.5**	**616**	**641**
Adjusted NAV / share (p)	**457**	**453**	**450**	**470**	**489**

Source: Cenkos Securities

Cash Flow Statement

Year to March (£m)	2009A	2010A	2011A	2012E	2013E
Operating profit / loss	-33.5	23.4	16.1	45	50
Property revaluation	52.8	3.6	16	-10	-10
Land writedown	11.6	2.1	-0.1	0	0
Depreciation	1.4	1.4	1.5	1.5	1.5
Employee share options		1.7	1.6	0	0
Working capital	-1.1	-0.9	-0.3	0	0
Cash from Operations	**31.2**	**31.3**	**34.9**	**36.5**	**41.5**
Net Interest	-39.1	-12.2	-11.4	-10.5	-11
Investment in associate	-5.4	-1.5	-1	0	0
Purchase of assets	-33.9	-13.2	-11.9	-10	0
Property sales	3.8	0	0	0	0
Surplus land sales	0	1.9	4.5	7	5
Additions to surplus lands	0	0.4	0	0	0
Share capital	0	33.6	0	0	0
Dividends Paid	-6.3	0	-10.3	-13	-14.5
Sundry items	-0.2	0.9	-0.9	0	
Repayment of bank facility	-291	0	0	0	
Increase / decrease in debt	318.3	-11.3	-25	-15	-15
Increase / decrease in cash	1.6	27.4	-21.7	-5	-4
Net debt	**308.1**	**269.4**	**-266**	**-254**	**-245**
Net Gearing (%)	**57**	**45**	**45**	**41**	**38**

Source: Cenkos Securities

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