

SHUR

Stored Value: Initiating With a Buy

26 November 2019

Key Takeaway

We initiate coverage on the Pan European self-storage company, Shurgard with a BUY rating (PT of €36) adding to our preferred Beds, Meds & Sheds cohort. SHUR has resources for large-scale capital deployment with the fragmented European self-storage markets under going structural growth and consolidation. SHUR operates in seven countries, and is best placed to take advantage of these internal and external growth opportunities.

We see structural growth and consolidation in the European self storage market with SHUR best placed to take advantage with 236 assets in 7 countries and exposure to key markets such as the UK, France and Netherlands. Structural growth (urban densification) and greater awareness are drivers of demand for self storage whilst increasing costs including marketing and IT make it difficult for smaller business to compete and is driving consolidation. We estimate the business has up to €750m capital to deploy as SHUR takes gearing from 16% LTV to an upper target of 35% which we forecast could add €65.5m of Net Operating Income (+43% on FY18's €153.8m NOI).

Our forecasts for FY20e and FY21e EPS are +6.2% and +9.6% respectively above median consensus estimates and we think the market is underpricing the rate of capital deployment. SHUR's all-store revenue growth guidance (medium term) is 4%-6% and whilst our estimates are at the top of this range, we believe consensus is assuming <4% with FY20 and FY21 acquisitions assuming a third of the €80m per annum we forecast. Detailed analysis of SHUR's 3Q19 results highlight improving underlying rental growth whilst 4Q19 has seen €34m of acquisition announcements and a further 2 development permits adding support to our, we think, cautious capital deployment assumptions.

The equity rating has room to grow. Our €36 PT is based on 26.0x Spot +1 PE multiple, a 5.0% premium to BYG (24.7x) and 6.1% premium to SAFE (24.5x). We think a premium is justified as we estimate both companies' EPS will grow by 6% over the next 3 financial years versus an average of 10% for SHUR in FY20 and FY21. This expansion is funded from a low-risk debt position and we estimate Net debt to EBIT to be 3.4x in FY21, remaining the lowest in our coverage universe (next best are SAFE on 4.2x and BYG on 4.5x).

We expect liquidity in the stock to improve. 28% of SHUR's shares are free float and with the two key shareholders', Public Storage (US REIT) and New York State Common Retirement Fund (together holding 72% of stock), lock-up period ended in April 2019, we expect liquidity to improve in the medium term.

Non-REIT but strong dividend growth potential. SHUR is a non-REIT but has a dividend target of distributing 80% of recurring earnings and with the strong cash generation nature of the asset class, we think this will lead to strong dividend growth, with residual free cashflow a cheap source of development finance, supporting medium term growth.

Initiating Coverage

Belgium | REITs

RATING	BUY
PRICE	€31.85 [^]
MARKET CAP	€2.8B / \$3.1B
PRICE TARGET (PT)	€36.00
UPSIDE SCENARIO PT	€42.00
DOWNSIDE SCENARIO PT	€28.00

[^]Prior trading day's closing price unless otherwise noted.

FY Dec

EUR	2018A	2019E	2020E	2021E
EPS*	1.43	1.22	1.38	1.49
FY P/	22.3x	26.1x	23.1x	21.4x
Adj				
EPS				

*Adj EPS

Shurgard Storage Facility, City Airport



Source: Company Data

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SHUR (SHUR BB)

Estimates				
€	2018A	2019E	2020E	2021E
Adj EPS	1.43	1.22	1.38	1.49
<i>Previous</i>				
DPS	0.22	0.98	1.11	1.19
<i>Previous</i>				
PBT (MM)	120.8	127.9	144.5	155.3
<i>Previous</i>				
NAV	24.1	25.0	26.0	26.9
<i>Previous</i>				

Valuation				
	2018A	2019E	2020E	2021E
FY P/Adj EPS	22.3x	26.1x	23.1x	21.4x
P/NAV	1.3x	1.3x	1.2x	1.2x
EV/EBIT	22.4x	21.6x	19.6x	18.4x

Market Data	
52-Week Range:	€34.30 - €23.51
Total Entprs. Value	€3.2B
Avg. Daily Value MM (USD)	0.42
Float (%)	28.2%

The Long View

Scenarios

Base Case

- Continued squeeze on consumer spending tempers average rate of psf growth with housing transactions also a headwind.
- Occupancy 87% for FY19(same stores).
- Average rent psf growth 2.0% per annum over 3 years.
- Continued dividend payout ratio of 80%.
- Price Target: €36 based on av. Forward PER.

Upside Scenario

- Wages return to real growth and consumer squeeze subsides.
- Occupancy 89% for FY20
- Average rent psf growth 3.0% per annum over 3 years.
- Faster rate of capital deployment meaning earnings growth is materially faster.
- Continued dividend payout ratio of 80%.
- Price Target: €42 based on av. Forward PER.

Downside Scenario

- Stuttering European economy and Brexit impact demand for self-storage.
- Occupancy reduces due to lower than expected demand
- Average rent psf growth 1.0% per annum over 3 years.
- Continued dividend payout ratio of 80%.
- Price Target: €28 based on av. Forward PER.

Investment Thesis / Where We Differ

- Based on a forward earnings basis.
- Consolidation in the sector providing structural growth with €750m of capital deployment over time.
- Analysis of cash flow underpins our assumptions of positive dividend and organic growth.

Catalysts

Self-storage is linked to housing transactions and therefore the economy and Brexit negotiations could impact UK growth over the next few years.

Shurgard = Pan-European Self Storage Provider

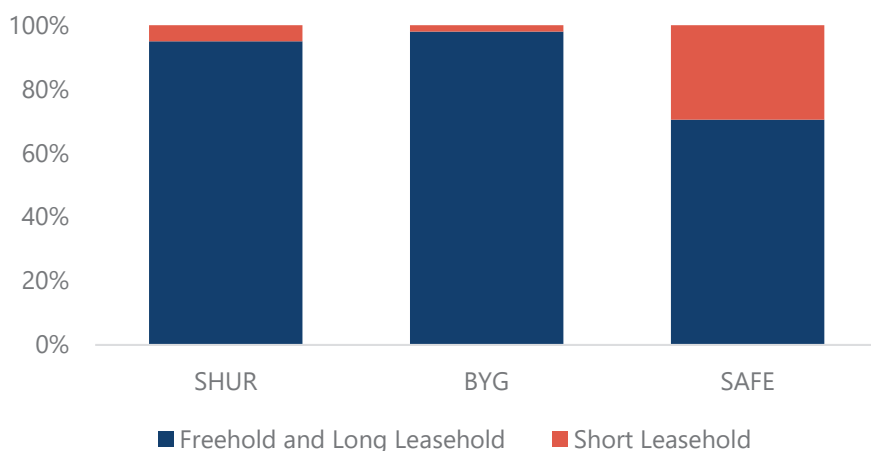
A focus on modern, purpose-built storage facilities

According to its website, "Shurgard (SHUR) is the larger owner and operator of self-storage facilities in Europe", with a portfolio of 236 stores across 7 European Countries, with its largest exposures in Netherlands, France, UK and Sweden. The portfolio has been grown principally through acquisition and the development of purpose-built stores with all stores wholly-owned with standard branding and operations throughout Europe.

SHUR was originally founded in 1995 before being acquired by US self-storage REIT, Public Storage ("PSA") in 2006. PSA originally tried to spin-off the European business in 2007 via an IPO, however, chose to form a JV with pension fund, New York State Common Retirement Fund ("NYSCRF"). SHUR was floated in October 2018 with the JV partners retaining significant stakes in the business (PSA 35%, NYSCRF 36%) leaving a free float of c. 28%. We expect the free float to grow as a percentage of total shares with the lock-up period, post IPO, ending in April 2019.

SHUR operates all of its stores and has 'full control' of its stores with 95% freehold or long leasehold. This splits down to 86% freehold (total rental area) with 9% long leasehold (at least 80yrs remaining on lease). The high level of freehold ownership, in particular, is important as it provides greater long-term security of income whilst also meaning lower hurdles for making changes to assets versus shorter leaseholds.

Exhibit 1 - Self-Stage Companies: Freehold and Leasehold Stores as % of Portfolio



Source: Company Data, Jefferies

SHUR classifies its stores into two categories:

- **Same-store:** "all developed stores that have been in operation for at least three full years and all measure stores that we have owned for at least one full year."
- **Non-same store:** Stores that fall outside of the category above with the acquisition measures from the 1 January each year.

Occupancy and rental growth rates vary markedly between the two store types, especially when considering developments. SHUR estimates that it takes 28-48 months (or longer) for a newly developed store to 'stabilise' and in the first year a newly developed store is largely EBITDA neutral, we estimate needing an occupancy of c. 30% to break even depending on the jurisdiction.

Given SHUR was one of the pioneers of the self storage sector, particularly on the Continent, its portfolio is a mix of purpose-built facilities as well as older stock, which tended to be converted warehousing. At the time of the IPO, 63% of the total rentable area was purpose-built self-storage with the remaining 37% in buildings "which incorporate modern conveniences and securities features" required for self-storage. The portfolio is largely modern with an average age of 14yrs versus an estimated economic life of 60yrs which means a low level of maintenance capex for the asset class.

80% of SHUR's business is driven by residential customers of which the larger proportion is due to lack of space (58%) with 21% moving between properties. 20% of customers are business of which 70% are small business (i.e. <10 employees) with commercial customers largely using the space as storage although 7% use it as a holding area for distribution.

The business is internally managed with an experienced management team lead by CEO Marc Oursin (since 2012) and CFO Jean Kreusch (since 2005) with a head office in Brussels which is where the majority of the business operation occurs. This allows the portfolio to be scalable at limited marginal costs. Most of the costs within the business are held within the cost of sales including marketing/IT costs as well as the regional employee costs. This can lead to SHUR having an optically lower NOI margin than its peers and thus should be compared on a fully costed basis (i.e. at the EBITDA margin: SHUR FY18 56%, BYG FY19 61%, SAFE FY18 50%).

Exhibit 2 - SHUR Portfolio by Country (FY18)

Country	Entry Date	Stores	Rentable Sq m	Openings	Acquired	Redevelopments
Belgium	1995	21	118	21	0	8
France	1997	56	273	45	11	11
Sweden	1998	36	183	31	5	4
UK	1999	31	164	25	6	6
Netherlands	1999	61	290	39	22	10
Denmark	2001	10	53	10	0	3
Germany	2003	17	90	12	5	3
Total Portfolio		232	1171	183	49	45

Source: Company Data, Jefferies

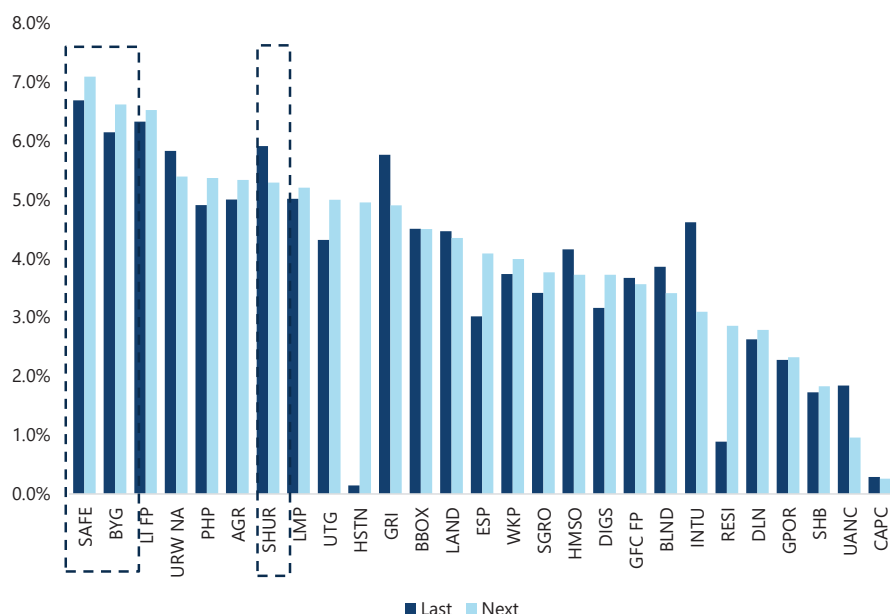
N.B. Portfolio Subsequently expanded to 236 stores since 2018 year-end

Valuation and Forecasts

Why we think a high premium to NAV for self storage is of little concern

The UK-listed self-storage companies have the highest Premium to NAVs amongst our coverage. On a spot basis, SAFE trades on a 68% premium to NAV with BYG on a 54% premium. Part of this high equity rating is due to underlying investment market of the sector. Compared to more traditional real estate sectors such as London office, there are few buyers for self-storage assets from an operational perspective due to the requirements of operating facilities within the sector. As a result, yields have not compressed to the same degree with BYG's FY19 net initial yield 6.4%.

Exhibit 3 - Listed Real Estate Coverage by Last and Next Earnings Yield (% on Last NAV)



Source: Company Data, Jefferies estimates

The other key factor in the high equity rating is the earnings generation of sector. As per exhibit 3 above, SAFE and BYG are the highest yielding stocks (EPRA earnings divided by NAV) under our coverage when compared to the last NAV both on a last and a forward earnings basis. Despite the high level of cash on its balance sheet, SHUR ranked 7th out of 27 in our coverage for earnings yield (next earnings/last NAV) and as cash continues to be deployed we expect the company to improve its earnings yield significantly. Due to the high levels of cash generation, self-storage companies have 'broken' through the NAV ceiling which could well be followed by other operationally focused businesses such as UTG with management seeing a medium term progression to a 6.0% yield on NAV.

Since the UK REIT regime was introduced in Jan 2007, SAFE has been valued on a range of Spot+1 PE multiples of 6.5x-30.6x with BYG 13.2x-64.5x. In that period, BYG's average has been 22.8x with SAFE's average much lower at 15.3x. Much of SAFE's underperformance came due to the structural issues which have since been rectified since the current management arrived in 2013.

Both companies are currently trading above their long-term averages, we think due to the external growth opportunities present in their key markets of inside the M25 (BYG and SAFE) and Paris (SAFE only).

Exhibit 4 - SAFE & BYG Spot+1 PE



Source: Refinitiv, Company Data, Jefferies

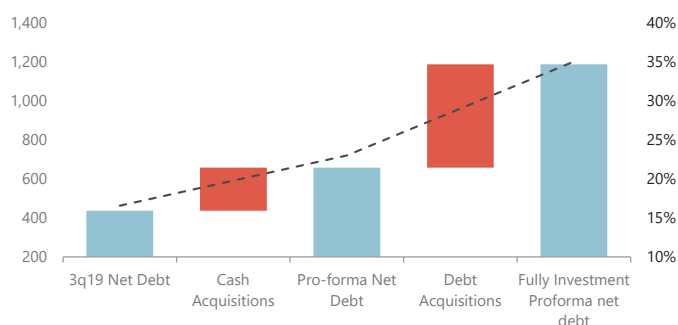
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Conservatively geared balance sheet leave significant opportunity for investment

SHUR has a very low level of leverage given the capital remaining available from the Oct 2018 IPO. As at 1H19, the LTV was 15.8% with net debt of €347m with €251m of cash on the balance sheet. In the periods prior to the company's IPO, gearing also remained modest with LTV 34% in 2015 dropping progressively to 24.8% in June 2018.

In the medium term, SHUR has a target of 25%-35% LTV which places it in between UK listed competitors BYG (target LTV 20%-30%) and SAFE (target 30%-40%). SHUR's target leaves significant room for capital investment with a cash position of €221m following the payment of the interim dividend on 3 October. As illustrated in exhibit 5, investing this cash and taking on additional debt to a 35% LTV target would allow for c. €750m of capital investment assuming flat capital values.

Exhibit 5 - SHUR Illustrative Proforma LTV



Source: Company Data, Jefferies estimates

The opportunity to deploy this level of capital investment adds significant potential for growth in earnings. In exhibit 6, we detail the projected incremental net operating income (in €m) depending on the level of LTV (again assuming flat capital values) and the NOI yield for the acquisition or development (SHUR targets a 8%-10% NOI yield).

Assuming a blended transaction cost of 3% for standing acquisitions and development land, SHUR could add €22.9m (8% NOI yield) to €28.6m (10% NOI yield) at a 25% LTV level which increases to €58.2m-€72.8m with a 35% LTV. Annualising SHUR's 3Q19 NOI to €161m (9mth €120.8m) and taking the lower and upper figures (€22.9m and €72.8m), this creates a wide spread of potential NOI growth of +14% to +45% before factoring in LfL rental growth of the current portfolio and margin improvements, whilst the increasing gearing would add a further potential multiplier effect for the equity rating.

Exhibit 6 - SHUR Illustrative NOI Accretive Grid (€m)

LTV (%)	Net Operating Income Yield (%)				
	6%	7%	8%	9%	10%
20%	6.7	7.8	8.9	10.0	11.2
25%	17.2	20.0	22.9	25.8	28.6
30%	29.4	34.3	39.2	44.1	49.0
35%	43.7	50.9	58.2	65.5	72.8
40%	59.9	69.9	79.9	89.9	99.9

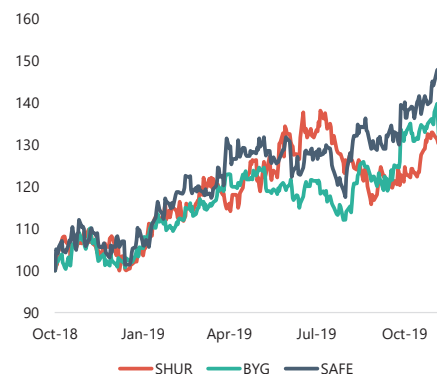
Source: Jefferies estimates

Increase in equity rating dictated by external growth rate

SHUR's share price has had a very strong run since its IPO with the stock +31% in the period. In that time period, SHUR has outperformed BYG by 2.1ppt but underperformed SAFE by 15.7ppts. We think the driver of this, particularly in SAFE's case, has been the improving occupancy driving revenue growth and reducing risk to earnings as high occupancy makes the portfolio more defensive, whereas SHUR's higher occupancy has trended down modestly. We expect occupancy to recover due to factors discussed on our 3Q19 analysis p. 24 whilst the cash on the balance sheet, has been an additional drag on performance. BYG was trading on a higher multiple than its peers and slightly softer growth has seen that de-rate modestly.

On a spot P/E basis, SHUR currently trades on multiple of 26.2x (adj. EPRA), which is in line with SAFE (25.9x adj EPRA) and BYG (26.1x). Looking forward a year (Spot +1), based on our earnings forecasts, SHUR looks comparably cheaper on 23.5x with BYG 24.7x and SAFE 24.5x.

Exhibit 7 - SHUR, BYG, SAFE Share Prices



Source: Refinitiv, Jefferies

Exhibit 8 - SHUR Valuation and other Key Metric Comparisons with BYG and SAFE

	SHUR	BYG	SAFE
Spot P/E	26.2	26.1	25.9
Spot +1 P/E	23.5	24.7	24.5
Last EV/EBITDA	22.5	28.5	29.1
Next EV/EBITDA	22.1	26.9	27.4
Premium to Spot NAV	28.8%	54.2%	77.3%
Premium to Spot+1 NAV	23.8%	45.7%	70.0%
Last Net debt/EBITDA	2.5	4.3	5.5
Next Net debt/EBITDA	2.9	4.3	5.1
Last Reported LTV (%)	14%	22%	31%
Next Dividend Yield (%) - on share price	3.2%	3.0%	2.3%
Next Earnings Yield (%) - on last NAV	5.3%	6.6%	7.1%
Est. Dividend Payout Ratio (%)	80%	80%	61%

Source: Company Data, Refinitiv, Jefferies estimates

Although important for this type of operational business, earning multiples miss some of the key differences in the capital structures and with SHUR having a comparably lower level of debt, the business trades significantly lower than its competitors on an EV/EBITDA metric. Based on last full year figures, SHUR trades on 22.5x EV/EBITDA whereas BYG is on a significantly higher rating (28.5x) with SAFE on 29.1x. This metric is distorted by the level of cash on SHUR's balance sheet, however, it also highlights the more defensive business with lower operational and balance sheet gearing.

As highlighted above, there is significant room for growth in SHUR's underlying earnings which should lead to further accretion of the share price and this will be dictated by the rapidity of its capital deployment. Despite being a short term drag to performance, we prefer SHUR's disciplined approach to capital deployment which will benefit the company in the medium and longer term rather spending on poorer quality assets to 'buy' short-term income. However, we think the market has reduced its expectation in the rate of capital deployment and we think this is beginning to accelerate again accompanied by encouraging same store growth in its market which we think warrants a higher equity rating.

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Developments a Key Factor in driving high quality earnings

Exhibit 9 - SHUR Disclosed development pipeline

Country	City	No. of Properties	Est. Period of Opening	Net Sq m ('000)	Est. Cost €m	Est. NOI €m
Netherlands	Utrecht	1	Q4 2019	5.9	9.5	0.9
UK (London)	Herne Hill	1	Q4 2019	5.9	15.3	1.4
Total 2019		2		11.8	24.8	2.2
Germany	Berlin	1	Q3 2020	6.1	9.5	0.9
Germany	Berlin	1	Q4 2020	5.3	8.6	0.8
UK*	London	1	TBC	6.0	12.7	1.1
France*	Paris	3	TBC	18.0	25.3	2.3
Total 2020		6		35.4	56.1	5.0
Additional announcements						
UK (London)	Croydon	1	H2 2020	7.0	NA	NA
Germany*	Cologne	1	2021	c. 6.0	NA	NA

*Building permit yet to be received (incl. 1 out of 3 in Paris)

Est. NOI is calculated using an NOI yield of 9% (Mid point of 8%-10% guidance)

Source: Company Data, Jefferies estimates

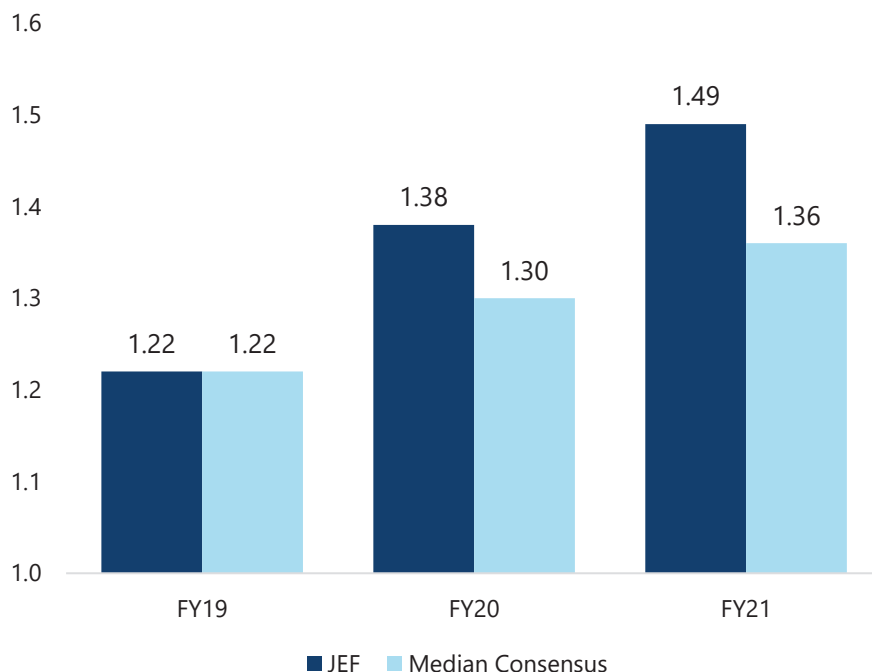
SHUR's pipeline offers further scale in key markets as detailed above, particularly in London, Paris and the Dutch Randstad area whilst adding further capacity in growth markets such as Berlin which have seen large-scale development of apartments and increasing density. The identified, near-term pipeline (as per exhibit 9) with completions in 2019-20 could provide an additional €7.2m of NOI once the assets are stabilised (assuming a 9% NOI yield). The further scale in established geographies not only adds to revenue but also spreads costs of sales (e.g. marketing) over a larger number of assets leading to margin improvement.

As we saw on our asset tour of two of SHUR's London assets, a significant advantage of developing self-storage is that they need to be functional rather than 'attractive' and the building shape can be highly flexible. The City Airport asset (pictured on front page) fits between a road and raised rail line in a space which would be inappropriate for residential or office development but works very well in an area of London where there remains a high rate of residential development (Silvertown, E16). SHUR's Greenwich asset is largely built on a raised platform above a car park again highlighting the flexibility in which self-storage can be adapted to.

SHUR offers greater diversity than its peers as well given its exposure and dominant position in most European key markets whilst it is achieving scale in developing markets, such as Berlin, which, we think, could see a level of growth in excess of the already undersupplied European market. The metropolitan supply outlook looks relatively lacking in most key markets with competition for land from higher value residential still a key barrier to a substantial supply response.

Given the relatively low valuation, we think the market is currently underestimating the level of expansion of earnings through acquisition and development. As per exhibit 10 Our forecasts for FY20e and FY21e EPS are +6.2% and +9.6% respectively above median consensus estimates and we think the market is underpricing the rate of capital deployment.

Exhibit 10 - JEF vs Consensus Median EPS estimates



Source: Refinitiv, Jefferies

SHUR's all-store revenue growth guidance (medium term) is 4%-6% and whilst our estimates are at the top of this range, we believe consensus is assuming <4% with FY20 and F21 acquisitions assuming a third of the €80m per annum we forecast. We think that the recent increase in acquisitions (€34m spent on operating assets in Q4 2019) and development progression will see earnings growing at a faster rate than is currently priced in. External growth is the key driver here and as a result, the rate of this expansion is also a substantial component of our upside and downside scenario price targets.

Valuation

We have arrived at our Price Target of €36 for SHUR based on a multiple (26x) of Spot +1 EPS. This is currently at a 5% and 6% premium to BYG and SAFE both trade. We think this premium is justified due to SHUR's superior earnings growth along with a greater safety net due to SHUR's very lower level of gearing and EV/EBITDA multiple as well as comparably lower rental rates which gives us confidence of medium term rate growth.

Given the high levels of cash, we think the nearest short-term risk in both an upside and downside scenario is the rate of capital deployment. These are the principal drivers of such scenarios - there are large portfolios/corporates that could potentially be acquired which would see a step change in earnings both at the NOI and EBITDA level and SHUR deploying capital through a major M&A transaction would be a blue sky scenario. Given the binary nature of such an event, we have not factored this into our upside scenario, instead choosing a higher rate of individual/small portfolio acquisitions which would provide increased earnings accretion with little additional cost at G&A or finance costs levels. This upside scenario provides us with a PT of €42.

Likewise, our downside scenario is driven by a lower level of capital deployment and slow rates of developments permits which reduces total store earnings growth and in the medium term would likely lead to a lower level of NOI margin as costs are spread

across fewer stores. Taking these factors into account, we have a downside scenario PT of €28.

Economic growth drivers are a factor with confidence in the economy likely to have some impact on individuals willingness to spend on self-storage, along with other factors such as the level of housing transactions. We think this has a lower impact in the shorter term given the structural changes both within the self-storage industry as well as the investment capacity SHUR currently has.

Income Statement Forecasts

Exhibit 11 - JEF Income Statement Forecasts

Summary income statement	FY2018	FY2019E	FY2020E	FY2021E
<i>Year end: December</i>	€m	€m	€m	€m
Gross Revenue	244.7	258.3	278.5	291.0
Cost of Sales	(91.0)	(96.1)	(101.2)	(105.5)
Net Operating Income (NOI)	153.7	162.2	177.3	185.5
Admin expenses	(9.6)	(13.0)	(12.3)	(12.6)
EBIT	141.8	146.8	162.2	173.0
Net interest payable	(21.0)	(18.9)	(17.7)	(17.7)
Recurring PBT	120.8	127.9	144.5	155.3
Revaluation surplus/(deficit)	94.6	26.1	54.2	57.9
Profit/(loss) on invt prop disposal	0.0	0.0	0.0	0.0
Exceptional items	(7.4)	0.0	0.0	0.0
IFRS PBT	208.0	154.0	198.6	213.1
Tax	(36.3)	(26.4)	(21.7)	(23.3)
IFRS PAT	171.7	127.5	177.0	189.9
Adj EPS (€)	1.43	1.22	1.38	1.49
DPS (€)	0.22	0.98	1.11	1.19
Dividend Cover (x)	6.5	1.3	1.3	1.3
Interest Cover (x)	6.8	7.8	9.2	9.8
Net Debt/EBIT	2.4	2.5	2.9	3.4

Source: Company Data, Jefferies estimates

SHUR's medium term NOI-related guidance is as follows:

- All store revenue growth: 4%-6% per annum
- Same store growth: 1.5%-2.5% per annum
- NOI Margin: >2% NOI margin improvement
- Stabilised occupancy of 92%

Over our three financial year forecasts, we expect all store revenue growth to be above this level, especially given the available cash on the balance sheet for development. Our revenue estimates over 3yrs are at the top end of guidance (av. 6.1% per annuma. We have factored in the mid-point, 2% per annum same-store growth given the improving metrics in weaker markets.

We have estimated €40m of acquisitions in FY19 which increases to €80m in FY20 and FY21 and we think this is supported by the increased level of investment in 4Q19 which has seen four standing assets acquired (2 completing in early 2020) along with land acquired with a building permit in Cologne.

We have forecast €50m per annum development capex in FY20 and FY21, again this is supported by the increased level of building permits achieved towards the end of the year including in Croydon and Berlin. For both acquisitions and developments we have assumed a 9% NOI yield.

By 2021, we expect a 1% improvement in the NOI margin as occupancy of established stores increases and the increasing occupancy of completed development stores will be offset by newly completed stores which would be NOI dilutive for at least the first two years from completion.

We expect admin fees to increase modestly whilst forecasting finance costs to decrease due to a higher level of capitalised interest. As highlighted in the balance sheet on the next page, we expect gross debt to be largely stable at just below €600m as SHUR invests the cash on the balance sheet (€221m on 3 Oct 2019).

We have factored average tax rates of 16% in our investment horizon due to lowering headline corporate tax rates in most jurisdictions that SHUR operates. This arrives at a 3yr EPS CAGR of 2.2% per annum which is distorted by the drop in EPS expected in FY19e following the increase in shares due to the IPO. From this lower level, we estimate average EPS growth in FY20e and FY21e of c. 11% per annum. For DPS, we have modelled in the distribution of 80% of adj. EPRA EPS, in-line with SHUR's guidance.

Balance Sheet Forecasts

Exhibit 12 - JEF Balance Sheet Forecasts

Summary balance sheet	FY2018	FY2019E	FY2020E	FY2021E
Year end: December	€m	€m	€m	€m
Investment properties	2,559.3	2,739.8	2,924.0	3,111.9
Net debt	(346.8)	(368.2)	(474.3)	(583.5)
Other liabilities	(413.9)	(481.4)	(481.4)	(481.4)
Net assets	1,798.7	1,890.2	1,968.4	2,046.9
EPRA adjustments	355.1	348.0	348.0	348.0
Adjusted net assets	2,153.8	2,238.2	2,316.3	2,394.9
IFRS NAV per share (p)	20.3	21.3	22.2	23.1
EPRA NAV per share (p)	24.1	25.0	26.0	26.9
LTV (%)	14%	16%	19%	21%
Gearing (%)	16%	19%	23%	27%

Source: Company Data, Jefferies estimates

The driver in investment property growth is largely through capital investment as described on the previous page. Investment properties are €60m higher in FY19 vs FY18 due to the treatment of operating leases which are now capitalised but this is largely neutralised on the balance sheet by a corresponding liability (in 'other liabilities' above).

Due to the expected growth in average store rates, we forecast capital values to increase on average 3% year on year with additional valuation growth from development properties as they let up. We have not factored in any yield compression given the low investment volumes in the sector. Institutional capital, as highlighted by Carlyle's JV with SAFE in the Netherlands, has taken renewed interest in the sector however large scale investment, we think, is unlikely at the property level due to the small lot-sizes and operational intensity required to manage the assets.

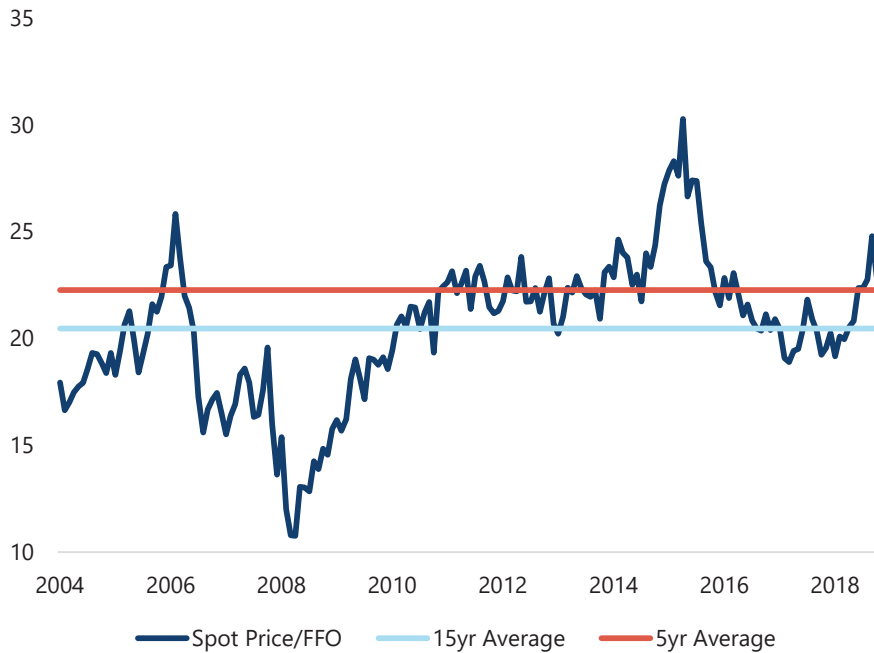
Due to the large amount of cash still on the balance sheet, net debt is driven by investment of this rather than new debt although SHUR does have the capacity for larger scale investment with a €250m RCF should any opportunities arise that require significant capital deployment.

We expect LTV to remain below the lower end of the medium term gearing forecast (25%-35%) however we expect balance sheet productivity to improve post-FY21 as we think the business will largely have deployed its cash and will likely be gearing up further.

Medium Term View

Looking at the more mature US REIT market in exhibit 13 below, 35% shareholder PSA has traded at a 15yr average of 20.5x recurring FFO (Funds from Operation, broadly similar to EPRA Earnings). Over the 15yr time period, PSA has traded in a Price/FFO range of 10.7x (GFC) to 30.3x.

Exhibit 13 - PSA Spot Price/FFO Multiple (x)



Source: Company Data, Refinitiv

We think due to the structural changes and lack of penetration self-storage in Europe, particularly on the Continent, there is the opportunity for SHUR to see sustained earnings growth with management guiding 4%-6% all-store revenue growth in the medium term. Due to the external catalysts and potential acquisition opportunities for the business, this could be sustainable for some time. Following full deployment of post-IPO cash (we estimate in FY2021), a increasing level of gearing should contribute to this, increasing the rate of underlying cash generation of capital deployed.

We will discuss in further detail on p. 31 but the longer-term catalyst towards consolidation in the sector is driven by the cost of marketing and need for fit-for-purpose website and mobile-app technology and we expect the expense of staying relevant for both Google Search and IT purposes, will continue to see smaller operators struggle to compete in what is a yet to be discovered sector to most of the European population.

SHUR portfolio performance

SHUR has built up its portfolio through a combination of acquisitions, developments and heavy refurbishments/extensions. Since inception, it has been management's intention to own properties in or in the vicinity of major (i.e. capital like London, Paris, Berlin) cities or major urban areas (Randstad: urban area of Amsterdam, Rotterdam, Utrecht & The Hague). The majority of the portfolio is in such areas with 92% of stores in capital or 'major' cities with 95% on a freehold or very-long leasehold basis which provides greater security of tenure versus short-term leasehold.

SHUR's business model has traditionally been occupancy-led with the average occupancy of the portfolio never being below 80% let since 2007. The nadir was c. 81% after the Eurozone banking crisis in 2013, however, occupancy recovered quickly and was above 85% by 2014 with the most recent reading 86.2% in 1H19.

Occupancy rate drives rental levels

At FY18, the Net Operating Income ("NOI") margin on its same stores was 63.7%, a level that continues to improve (FY17 62.4%) as SHUR adds to its current jurisdictions with regional costs spread over a larger number of assets. SHUR's model has been occupancy driven with the same store portfolio 87% occupied with rental growth tending to increase most >85% whilst historically rental growth has been weakest when occupancy has been lower.

The average storage rate across the portfolio was €214.5 per sq m (c. £20psf) at 1H19 and due to the focus on occupancy, rents in key jurisdictions tend to be modest compared with competitors. We think this should lead to lower volatility in storage rates and a more resilient level of rates in downturns whilst leaving room for steady like-for-like growth in the medium and longer term.

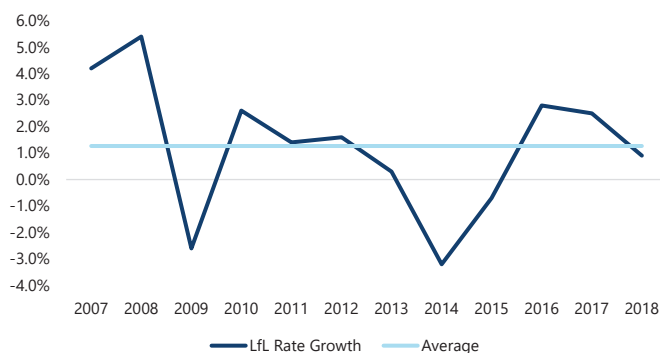
Self-storage is a seasonal business with stronger quarters Q2 and Q3 of the calendar year (also SHUR's fiscal year). This is due to a higher level of activity in the residential sector with housing transactions higher in the spring and summer months for Europe. Additionally, there tend to be temporary jobs and student move-ins during that same period as occupancy tends to tail-off in Q4.

Exhibit 14 - SHUR Portfolio Occupancy



Source: Company Data, Jefferies

Exhibit 15 - SHUR LfL Rate Growth



Source: Company Data, Jefferies

Same-store rental growth has been more volatile compared with occupancy with the average rate growth (psm) 1.3% since 2007. The periods around the GFC and restoring occupancy after the Eurozone banking crisis has seen periods with a drop in average rates. 2018 saw a reduction in rates growth (+0.9 vs +2.8% and +2.5% in 2016 and 2017

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resp.) due to a number of factors including increasing occupancy again in Brussels following a unit mix change, as well as increased competition in Sweden.

There are signs of the rate growth recovering with the 9mths to 30 September seeing average rents increase +2.0% (+2.5% CER) on the same period a year earlier and we expect a return to positive trends in occupancy and growth metrics (exhibit 14 and 15). This adds confidence that SHUR will be able to achieve a medium term same-store rate growth target of 1.5%-2.5% per annum on a portfolio-wide basis.

Another reason we are confident in the long-term rental growth story is the level where current rents are. Taking the UK for example, SHURs average in-place rent at 30 June 2019 was €265psm which equates to c. £22.0 (€24.6) per sq ft. This compares very favourably to SAFE's London/SE like-for-like rate of £29.10 and BYG's £27.21 and £28.08 psf for Mature and Established stores. This again highlights SHUR's focus on occupancy rather than higher rates giving us confidence in the sustainable medium term rate growth rate.

Same-store occupancy has a seasonal trend which peaks in the summer meaning closing occupancy is higher either in Q2 or Q3 before tailing off during the year. The largest driver of this is housing transactions which tends to be at higher levels during those quarters. Other factors are likely to be student move-outs coinciding with term-times and short-term summer jobs ending.

The Underlying Real Estate

SHUR's portfolio has been built up over time through a combination of acquisition and development with further stores redeveloped, which usually comprises an extension. As per exhibit 16 below, SHUR's (as part of PSA) first market was Belgium in 1995 before expanding into France, Sweden, UK and Netherlands in the late 1990s. The last market entered was Germany in 2003 and whilst we wouldn't necessarily expect SHUR to be confined to these markets, we think further expansion into additional markets is unlikely in the near term unless a sizeable platform acquisition/merger is available to enter a new market in scale.

Exhibit 16 - SHUR Portfolio by Country

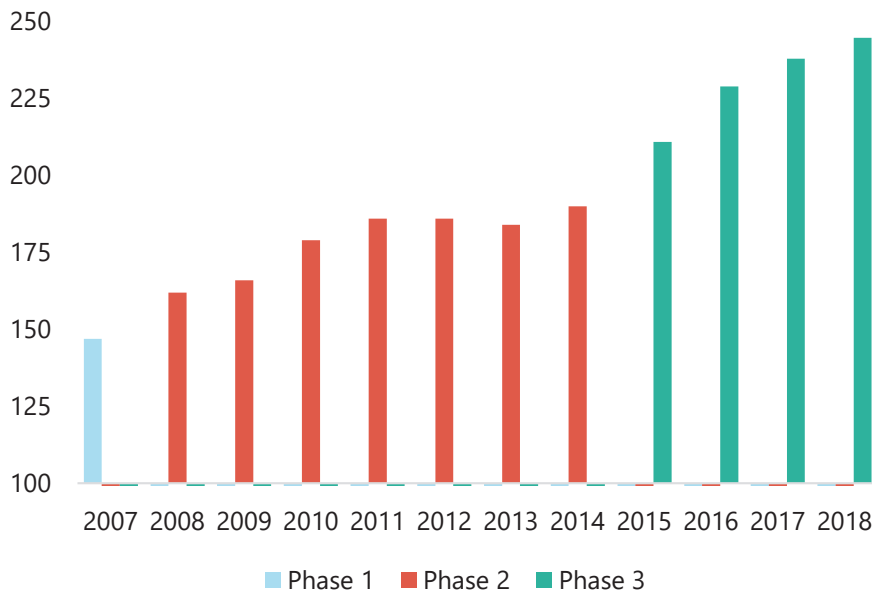
Country	Entry Date	No. of stores	Total Rentable Area		Stores		
			Sq m	Sq ft	Developed	Acquired	Redeveloped
Belgium	1995	21	118	1,270	21	0	8
France	1997	56	273	2,939	45	11	11
Sweden	1998	36	183	1,970	31	5	4
UK	1999	31	164	1,766	25	6	6
Netherlands	1999	61	290	3,122	39	22	10
Denamrk	2001	10	53	571	10	0	3
Germany	2003	17	90	969	12	5	3
Total Portfolio		232	1,171	12,607	183	49	45

Source: Company Data, Jefferies

The business itself has gone through various stages. The phase 1 to 2007 seen as the building of the pan-European portfolio. As per exhibit 17 below, SHUR then went through a "create platform" phase 2 from 2008-2014 where revenue growth was modest at a c. 2.8% CAGR between 2008-2014. As discussed earlier, the operating platform is increasingly important in a consumer focused business such as self-storage and as we have seen in the UK REITs such as student accommodation and self-storage, the development of this can be a drag on performance in the short term, although is beneficial in the medium and longer term, if successful.

The positive for SHUR is that this lower level of growth and focus on operational capability was performed under the umbrella of the larger PSA so performance was less impactful than as a standalone entity whilst also being able to leverage the expertise from the more mature US parent.

Exhibit 17 - SHUR Revenue (€m)



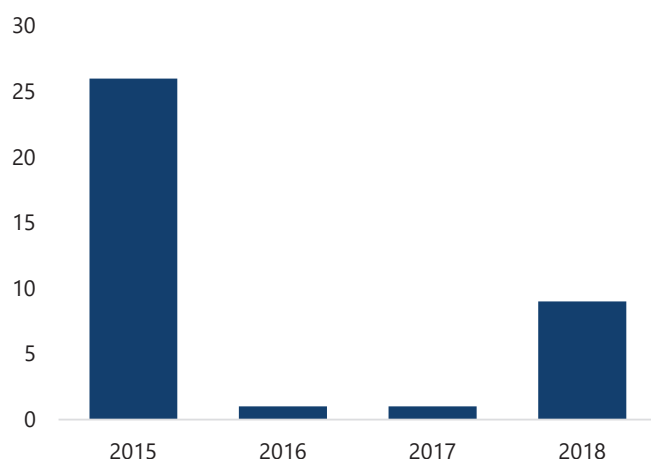
Source: Company Data, Jefferies

Phase 3, from 2014 onwards, is defined as the leveraging of the platform through M&A and up until the end of 2018, SHUR has acquired 37 stores at a total investment of €339m. This has been a powerful driver of revenue growth over the period (ex. 19) with the CAGR revenue growth increasing substantially to 6.5% 2014-2018. Taking the mid point of SHUR's expected stabilised NOI yield (9%: target NOI yield on acquisition and development is 8%-10%), these acquisitions should add c. €31m of net operating income.

As highlighted in exhibits 18 and 19, SHUR has acquired opportunistically with 2015 establishing the business as the largest operator in the Netherlands by acquiring Dutch operator City Box (21 stores) in 2015 for €115m. This also took Netherlands to SHUR's largest exposure by number of stores, whilst 2015 saw a total of €180m acquisitions. 2018 was also a significant year for investment with €130m spent on 8 stores and of that, 4 stores acquired in London at an average price of €23m per store.

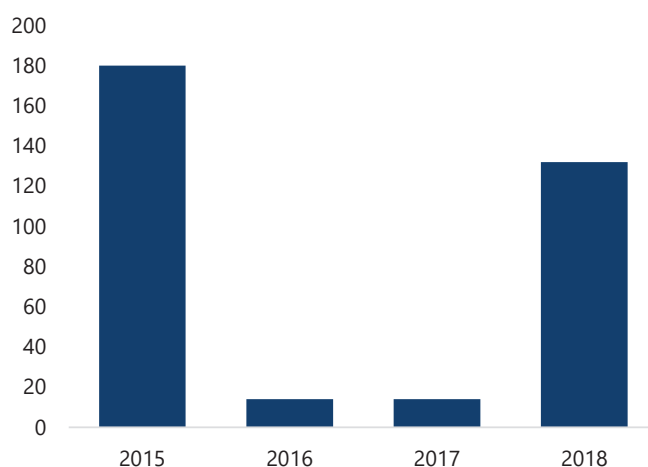
2019 saw a quieter period until Q4 where the business has spent c. €34m on four assets with two in Paris (to complete early 2020) and two in Randstad, Netherlands. We expect to see the rate of acquisition increase in 2020 versus 2019 overall.

Exhibit 18 - Stores Acquired (no. stores)



Source: Company Data, Jefferies

Exhibit 19 - Stores Acquired (€m)



Source: Company Data, Jefferies

Although the Netherlands has the largest number of facilities in SHUR's portfolio (61, 26% of portfolio at 1H19), France has the largest proportion of NOI with c. 27% of the business. This is due to SHUR's significant exposure to central Paris, where together with SAFE, it dominates the market. Due to the density of population in the centre of the city, there is little supply of self-storage and so rates are materially higher than most other geographies with SAFE's recently reporting average storage rates for 2019 of €39.23 per sq ft or c. €422 per sq m. SHUR's average French rents are considerably lower than this due to exposure, 18 of its 56 French stores being outside of Paris.

Exhibit 20 - SHUR 3q19 Segmental Data

	Revenue (€m)		Av. Occupancy		NOI In-place rent	
	9mths 2019	9mths 2018	%	%	€/sqm/yr	
France	48.9	48.0	86.0%	53.5%	229	
The Netherlands	40.9	39.9	87.1%	65.6%	180	
Sweden	28.2	28.9	90.6%	70.5%	234	
UK	23.1	21.9	87.1%	61.0%	265	
Belgium	15.5	15.6	85.3%	56.9%	174	
Germany	13.6	13.2	87.8%	62.2%	216	
Denmark	9.8	9.9	88.5%	67.5%	239	
Total (Average)	180	177.4	87.4%	61.6%	214	

Source: Company Data, Jefferies

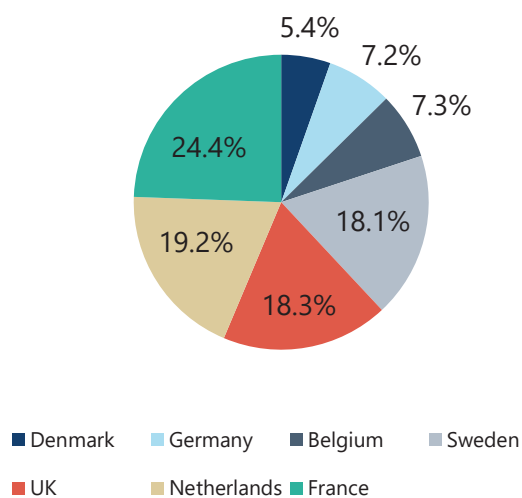
SHUR's highest in-place rents are in the UK at €265 psm with 28 of the 31 operating stores within London's M25 orbital motorway with the remaining 3 stores south-west of the capital but in close proximity. SHUR's lowest rents are observed in Belgium and the Netherlands. Again this is partly due to the company's exposure to cities outside of the capital (e.g. 33% of stores outside of Brussels) whilst there are also other factors particular in Belgium where the unit mix has tended towards larger sizes however with SHUR's changes to 8 stores, the average storage rates should increase.

Most fixed costs are largely similar across the portfolio however the UK has an additional local tax of business rates (up to 48% of rentable value) making it a substantial fixed cost. France also has high levels of local tax which along with the UK means it has a lower NOI margin compared with the Nordic exposure where storage rates are amongst the highest in Europe and local operational taxes lower than the UK

and France. Belgium's low storage rates mean a lower NOI however given the change in storage mix, we expect this to improve over time.

The portfolio split alters when viewed from a valuation perspective. As at FY18, the fair value of investment property was c. €2.6bn and as per exhibit 21, again France is the greatest exposure of the portfolio (24%) which is roughly in-line with its 23% share of the net rentable area. London, however, has a higher percentage of the portfolio by value (18%) than share of rentable area (14%) with higher values in the capital. Belgium and the Netherlands have much lower proportions of fair value than their share of net rentable area.

Exhibit 21 - SHUR 1h19 Fair Value - Geographical Split



Source: Company Data, Jefferies

In exhibit 22 above, we have extrapolated SHUR's FY18 data both for sq m per country and fair value per country to find the capital value for each store on an average €psm and €psf basis. Even in London where capital values per sq ft are the highest at an average of €265, this is well below where we see alternative use.

According to Zoopla, the average residential capital value in London is £496 per sq ft (c. €580 per sq ft) which is c. 2.2x higher than where SHUR's UK portfolio is valued at. Specific stores such as Kensington have been acquired at €6,928 psm, whereas average capital values for residential are 2.4x (€16,700 psm in Royal Borough of Kensington and Chelsea). There is a similar picture of lower value use in Continental Europe where, for example, the average capital value of Berlin residential condominiums is €4,440psm (Source: JLL), 2.3x SHUR's €1,967psm value for self storage facilities.

This lower value use of land, well below that of residential and other uses including office and retail gives us increasing comfort of the underpinning of the valuation through the cycle. This in addition to most major cities having seen a reduction in industrial space in favour of residential means that in most cases, the availability of land is low with competition either from higher value use or from commercial use which offers a greater level of employment making it more favourable to planning authorities. This reduces the risk of large-scale supply response in major cities.

Exhibit 22 - SHUR Segmental Valuation Table

	Net Rental Area		Fair Value		Av. Cap Value	
	%	sq m	%	€m	€ psm	€ sq ft
Netherlands	25%	292,750	19%	491.4	1,679	156
France	23%	269,330	24%	624.5	2,319	215
Sweden	16%	187,360	18%	463.2	2,472	230
UK	14%	163,940	18%	468.4	2,857	265
Belgium	19%	222,490	7%	186.8	840	78
Germany	8%	93,680	7%	184.3	1,967	183
Denmark	5%	58,550	5%	138.2	2,360	219
Total/average	100%	1,171,000		2,559	2,071	192

Source: Company Data, Jefferies

Capital and Business Structure

We have written extensively on the use of debt by UK REITs and despite the REIT regime lending itself more to an earnings based model, most of the companies have continued to be over-levered with retail REITs in particular, finding themselves unstuck as the cycle has turned. The trouble with LTV is that a stable V requires liquid markets with assets transacting in an orderly manner.

Earnings from more operationally leveraged businesses such as self-storage with short-term income are impacted to a greater degree than other real estate sectors which was highlighted particularly in the UK self-storage market during the GFC. We have little concern on SHUR's current capital structure with respect to gearing with net debt to EBITDA 2.5x and interest cover of 7.4x at 1H19.

LTV was 16% at 30 June as the business spends its way through the €575m new equity raised during the IPO (with €255m subsequently distributed to PSA and NYCRF). Additionally, we highlight the debt metrics against the other major UK/European listed self storage companies, BYG and SAFE, with SHUR clearly having significantly lower gearing metrics with a significant cash pile for investment.

Exhibit 23 - SHUR's 1h19 Debt Facilities

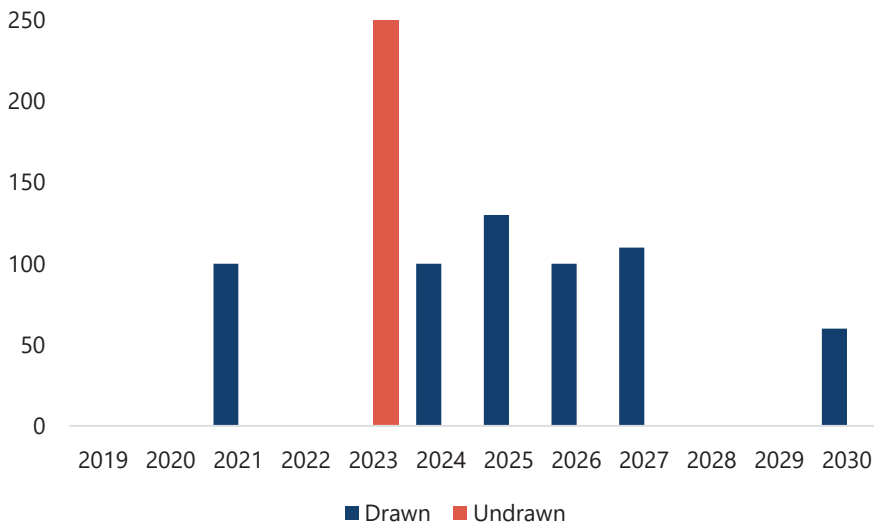
Drawn Debt	Issue date	Coupon	Maturity	Nominal Value (€m)
Guaranteed Notes	Jul-14	2.83%	Jul-21	100
Guaranteed Notes	Jul-14	3.24%	Jul-24	100
Guaranteed Notes	Jul-14	3.38%	Jul-26	100
Guaranteed Notes	Jun-15	2.67%	Jun-25	130
Guaranteed Notes	Jul-15	2.86%	Jul-27	110
Guaranteed Notes	Aug-15	3.03%	Aug-30	60
Weighted av./Total		2.98%		600
Undrawn Debt	Issue date	Coupon	Maturity	Nominal Value (£m)
RCF	Sep-18	Euribor+45-95bps	Oct-23	250

Source: Company Data, Jefferies

Exhibit 23 above details the drawn debt profile of the SHUR which is solely unsecured guaranteed notes which were issued before the IPO. The weighted average interest rate of 2.98% is relatively low however assuming the current low-interest rate environment continues and the fact SHUR is now a listed business, there could be future financing savings. However, as exhibit 24 details below, most of these potential gains aren't in the near term investment horizon with €100m refinancing in July 2021 the only significant refi event in the next 3 years.

As detailed, the notes are unsecured so there are no asset specific covenants however the business must keep up a ratio of unencumbered property assets to total unsecured liabilities of 1.85:1.00. Additionally, LTV must not exceed 55% whilst fixed charge cover must not be less on 1.25x.

Exhibit 24 - SHUR Debt Maturity Profile



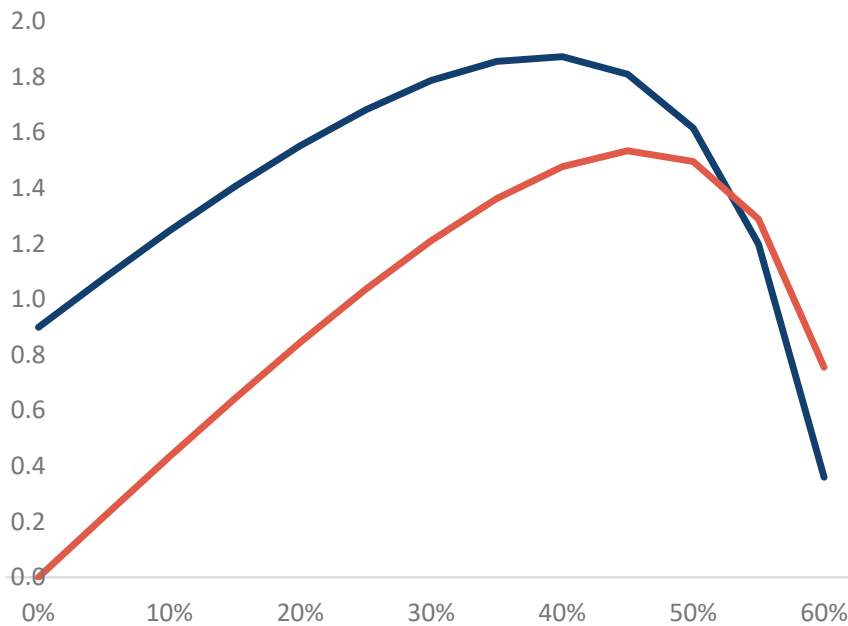
Source: Company Data, Jefferies estimates

Once SHUR has largely exhausted its cash pile, the business has a €250m revolving credit facility (“RCF”) with a maturity in 2023. The RCF is benchmarked to Euribor with the initial margin of 45bps, increasing to 95bps depending on LTV. Once the RCF starts being used, we expect to see the economic productivity of the business significantly improve with an incremental cost of debt that is close to zero.

In the medium term, SHUR has an LTV target range of 25%-35% which we think is prudent for the business and broadly in line with its peers, with SAFE’s target range at 30%-40%. BYG takes a more prudent approach with gearing target of 20%-30% with Exec Chairman Nick Vetch highlighting *“It is clear to us that lower geared businesses, both operationally and financially, outperform over the longer term.”* We agree that most REITs and listed real estate companies in the past and many currently have business models that rely too heavily on debt (and development) but see reason, particularly for a non-REIT company to have a modestly higher level of gearing.

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Exhibit 25 - Gross (Blue) REIT EVA vs Net (Red) non-REIT EVA



Source: JEfferies estimates

As highlighted in our last REIT sector note, 'The Fox in the HenHouse' one of our themes was on the level of gearing and the most productive level at which gearing occurs. Exhibit 25 above details the increased level of productivity a REIT can enjoy and although this keeps increasing until c. 40% LTV, the steepest level of improvement is up to c. 30%. Due to the tax shield on debt, a non-REIT continues to see improving profitability beyond this level and thus we think a higher level of through-cycle gearing is appropriate for a non-REIT like SHUR or a hybrid non/REIT like SAFE (REIT status in UK, non-REIT in France).

Structure of the business

The REIT structure is applied on a geographical rather than a group level and there is no Pan-European REIT regime. Most of the jurisdictions that SHUR operates in either do not have a REIT regime (e.g. Sweden) or don't allow operational businesses like self-storage to have REIT status. As a result, SHUR does not have REIT status in any of the geographies that it operates in. The UK, we think, is the most likely place in which it might apply for REIT status however there are additional costs to the business such as requiring a local listing and other disclosure whilst the business as a whole would have to restructure so we think this is unlikely to occur.

We think that whilst the business continues to deploy capital and develop assets, the current non-REIT structure is a positive. The benefit of SHUR not having REIT status is that there is no compulsory distribution requirement from each geography to group level. As the business is trading in multi-currencies (EUR, GBP, SEK and DKK), this is particularly beneficial to SHUR whilst developing it can, for example, retain all its Sterling free-cashflow within the UK business and deploy this into local developments, mitigating currency risk.

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Shareholding Structure

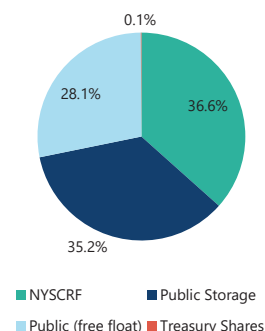
Despite having a €2.8bn market cap, the liquidity in SHUR's stock is relatively low due to the shareholding structure. As detailed in exhibit 26, the business has two principal shareholders with pension fund, New York State Common Retirement Fund ("NYSCRF") having a 36.6% holding and US Self Storage REIT, Public Storage ("PSA") holding 35.2% of the stock. This leaves a free float of 28.1% from the IPO.

Both institutional shareholders signed lock-up agreements which prohibited the sale of shares for 180 days post-IPO and this has now passed (April 2019). SHUR isn't the first investment vehicle in which both PSA and NYSCRF have been significant shareholders together in. Although primarily a self-storage REIT, PSA was also a majority owner in an office/industrial portfolio, PS Business Parks, was created as part of the merger/listing transaction in 1998 with PSA owning 54% of stock and NYCRF owning 18% of stock with the remainder mainly across seven institutional investors.

As of November 2019, PS Business Parks (Ticker: PSB) is still listed and whilst PSA has greatly reduced its holding in the business, it still remains by far the largest shareholder with 26.1% of stock. NYSCRF on-the-other hand holds just 0.1% of stock. PSA has highlighted that they see a holding in SHUR as a long-term strategic exposure to Europe much like Simon Property Group's c. 20% holding in Klepierre. However NYSCRF is expect to reduce its holding (or allow itself to be diluted) over time, similar to its behaviour in PS Business Parks. There is clearly significant uncertainty as to timing and size of future share placements but we expect the free float and liquidity in SHUR's stock to increase in the medium term.

SHUR also has a royalty agreement with PSA equivalent to 1% of revenue in exchange for the rights to use the "Shurgard" trading name. Although a separate company, SHUR and PSA share strategic and marketing ideas on their respective jurisdiction which is particularly helpful for SHUR to learn from a more mature market and a company that has been in self-storage since 1972.

Exhibit 26 - Summary SHUR Ownership



Source: Company Data, Jefferies

Financials and Accounting Considerations

SHUR divides its revenue into three categories receiving c. 86% from the rent of storage units which is a similar level to BYG. SHUR receives additional revenue from insurance (c. 10% of revenue) and other ancillary revenue (such as merchandising) which are both bought wholesale and then retailed on to customers. As discussed earlier in the document these two additional revenue streams are very strong for the earnings profile of the business as there is no incremental capital cost to the real estate portfolio for this income.

Income Statement

Exhibit 27 - SHUR 1H19 vs 1H18 Income Statement

Revenue	1h19 €m	1h18 €m	Change %	Comments
Rental Revenue	107.8	102.0	5.6%	Occupancy -1.6ppts, av. rents +2.1ppts
Insurance Revenue	13.0	12.1	8.1%	
Ancillary Revenue	5.1	5.3	-2.8%	
Total RE Revenue	126.0	119.4	5.5%	
Total Operating Revenue	126.0	119.5		
Cost of sales	(49.0)	(48.2)	1.7%	Largest increase from marketing expense
Net Operating Income	77.0	71.3	7.9%	
Administration Costs	(6.2)	(4.0)	53.2%	Additional headcount since Ipo
EBIT	70.8	67.3	5.2%	
Net Finance Costs	(9.5)	(9.9)	-3.4%	
Recurring PBT	61.3	57.4	6.7%	
Tax	(9.0)	(9.8)	-8.6%	Lower effective tax rate
Other adj.	(1.3)	(1.3)	6.6%	
Adj. EPRA Earnings	50.9	46.3	9.9%	
Adj. EPRA EPS	0.57	0.72	-20.8%	Larger number of shares from IPO

Source: Company Data, Jefferies

The Net Operating Income ("NOI") margin has seen some improvement in 2019 due to the addition of IFRS 16 (leases) which is cash neutral but splits cost of operating leases from the one charge recognised pre-2019 (all in EBIT) into a smaller operating cost and a finance cost (below EBIT).

Compared to other real estate sectors, the cash quality of self-storage earnings is high given the short-term leasing structure with incentives for new customers broadly an introductory storage rate at commencement of the lease. SHUR does capitalise G&A (e.g. staff) costs and interest costs related to development where appropriate which totalled €1.3m in 1H19 (or 1% of revenue). Capitalisation of G&A development costs is common practice in the European listed real estate sector and given the low level, compared to total revenue, this doesn't have a significant impact on the overall earnings results.

SHUR's 1H19 NOI Margin was 61.3% which is lower than FY18's 62.8% due to the seasonality of the business with the 2nd half the fiscal (and calendar) year tending to be stronger. SHUR's NOI margin looks comparably weaker compared with BYG's (Gross Profit 69.5% for last full-year) however there are some differences due to assigning of costs with BYG assigning a greater level of costs to G&A. However, BYG retains higher margins given its higher levels of rent from a pure UK exposure. SAFE, on the other hand, has a strong return on assets but this is partially impacted by a higher level of short term leasehold assets c. 35% of assets meaning higher leases costs each year meaning an EBITDA of c. 50%.

Exhibit 28 - SHUR 1H19 vs 1H18 NOI by Store Type

Revenue	1h19 €m	1h18 €m	Change %	Comments
Same Store	118.7	117.8	0.8%	217 facilities in both periods
Non-Same Store	7.3	1.7	338.6%	14 facilities in 1h19 vs 5 in 1h18
Property op. Revenue	126.0	119.4		
Same Store NOI	73.4	72.7	0.9%	
Non-Same Store NOI	3.9	0.4	934.4%	
Net Operating Income	77.3	73.1		
Same Store NOI Margin %	61.8%	61.7%		
Non-Same Store NOI Margin (%)	53.3%	22.6%		
NOI Margin (%)	61.3%	61.2%		Before operating lease expenses

Source: Company Data, Jefferies

SHUR splits its stores between Same Store and Non-Same store. 1H19 saw significant growth in non-same store revenue due to the acquisition of 4 further stores in 2H18 along with development/extension completions over the previous 12 months. As detailed in exhibit 28, the non-same store revenue can be a significant contributor to revenue, however in the short term, especially with development completions, they are largely dilutive to margins mainly due to lower levels of occupancy.

SHUR has a very high level of transparency with respect to costs with exhibit 29 showing a detailed breakdown. As discussed, most of the costs are recognised within the NOI margin with marketing costs seeing the largest growth (+10.5%) whilst utilities saw a reduction of 6% with improved energy management.

Staffing costs (either in-store or regional) remains by far the largest expense. In 1H19, the growth in payroll expenses (+5.7%) was largely in-line with revenue growth (+5.5%) and these costs can grow at a higher level than revenue depending on the number of new store openings there are in a period.

Exhibit 29 - SHUR Expenses - 1H19 vs 1H18

Direct expense line	1h19	1h18	% change	Comments
Payroll Expense	18,714	17,701	5.7%	In-line with revenue growth despite new stores
Real Estate and other taxes	9,601	9,224	4.1%	
Repairs and maintenance	3,401	3,378	0.7%	
Marketing Expense	3,373	3,053	10.5%	Google costs increasing above inflation
Utility Expense	1,933	2,056	-6.0%	Energy management initiatives bearing fruit
Other operating expenses	7,267	6,901	5.3%	
Doubtful debt expense	2,081	1,895	9.8%	
Cost of insurance & merchandise sales	2,347	2,175	7.9%	
RE op-ex (ex-Lease expense)	48,717	46,383	5.0%	
Property Lease expense	273	1,785	-84.7%	IFRS 16 changes to recognition
Real Estate operating expense	48,990	48,168	1.7%	
G&A/other expenses	1h19	1h18	% change	Comments
Payroll expense	4,077	2,824	44.4%	Increased acquisition capabilities
Shared based compensation	800	803	-0.4%	
Capitalisation of development costs	(1,029)	(527)	95.3%	Increased level of development
Depreciation/amortisation	883	830	6.4%	
Other general and admin expenses	1,447	103	1304.9%	
Total G&A costs	6,178	4,033	53.2%	
Total Direct Property and G&A Costs	55,168	52,201	5.7%	
Total Revenue	125,974	119,510	5.4%	
Costs as % of revenue	43.8%	43.7%		
NOI Margin	61.1%	59.6%		
EBITDA Margin	54.6%	57.6%		

Source: Company Data, Jefferies

As discussed on the previous page, property lease expenses in cost of sales have reduced due to the change in accounting treatment (IFRS 16), with the remainder recognised in finance costs.

G&A costs saw a +53% increase in 1H19 over the same period a year earlier which was largely due to head office payroll increases. Much of this was in relation to SHUR improving its acquisition capabilities. Development costs nearly doubled due to the larger development pipeline.

Segmental analysis

As detailed the company reports on an all-store and same-store basis. On top of the full financial data SHUR provides on a bi-annual basis, the company also provides revenue, earnings and property-level metrics on a quarterly basis as per exhibit 30 below. The data below highlights the seasonality of the business with same store NOI margins improving from 56% in Q1 2019 to 68% in Q3 2019.

Exhibit 30 - SHUR segmental reporting on a quarterly basis.

All Store Financials	2018			2019			Period-on-Period Change (%)			
	Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3	9mths
Property Operating Rev	59.5	59.8	61.9	62.8	63.1	64.9	5.5%	5.5%	4.8%	5%
Net Operating Income	32.6	38.6	41.3	35.3	41.7	43.8	8.3%	8.0%	6.1%	7%
EBITDA	30.0	35.7	37.9	31.6	37.2	40.2	5.3%	4.2%	6.1%	5%
Adj EPRA Earnings	21.7	24.6	27.5	22.3	28.6	29.1	2.8%	16.3%	5.8%	8%
NOI Margin	55%	65%	67%	56%	66%	67%	1.4%	1.5%	0.8%	
Stores/rents	Q1	Q2	Q3	Q1	Q2	Q3	Period Change (%)			
Number of stores	222	222	227	231	231	231	4.1%	4.1%	1.8%	
Net Rental Sq m	1,122	1,122	1,146	1,166	1,166	1,170	3.9%	3.9%	2.1%	
Net rented sq m	977	994	1,011	1,002	1,019	1,032	2.6%	2.5%	2.1%	
Av. in place Rent (€psm)	212.3	208.2	209.4	215.0	214.2	216.2	1.3%	2.9%	3.2%	
Rent per available sq m	213.1	213.3	217.2	215.6	216.7	222.4	1.2%	1.6%	2.4%	
Closing Occupancy (%)	87.1%	88.6%	88.2%	86.0%	87.4%	88.2%	-1.1%	-1.2%	0.0%	
Av. Occupancy (%)	86.0%	87.4%	88.3%	85.9%	86.5%	87.8%	-0.1%	-0.9%	-0.5%	
Same Store Financials	2018			2019			Period Change (%)			
Financials	Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3	
Property Operating Rev	58.8	58.7	59.8	59.2	59.5	61.1	0.7%	1.3%	2.2%	1.4%
Net Operating Income	32.5	38.2	40.3	33.4	39.7	41.5	2.8%	4.0%	3.0%	3.3%
NOI Margin	55%	65%	67%	56%	67%	68%	1.1%	1.7%	0.5%	
Stores/rents	Q1	Q2	Q3	Q1	Q2	Q3	Period Change (%)			
Number of stores	217	217	217	217	217	217	0.0%	0.0%	0.0%	
Net Rental Sq m	1,085	1,084	1,085	1,088	1,088	1,092	0.3%	0.4%	0.6%	
Net rented sq m	963	975	968	948	961	971	-1.6%	-1.4%	0.3%	
Av. in place Rent (€psm)	212.3	208.0	210.0	215.0	214.1	216.6	1.3%	2.9%	3.1%	
Rent per available sq m	213.1	216.4	220.4	215.6	218.8	224.5	1.2%	1.1%	1.9%	
Closing Occupancy (%)	88.7%	89.9%	89.2%	87.1%	88.3%	88.9%	-1.6%	-1.6%	-0.3%	
Av. Occupancy (%)	87.5%	88.9%	89.5%	87.2%	87.5%	88.7%	-0.3%	-1.4%	-0.8%	
Same Store Revenue	Q1	Q2	Q3	Q1	Q2	Q3	Period Change (%)			
Netherlands	13.2	13.2	13.5	13.4	13.5	13.9	1.5%	2.2%	3.0%	2.2%
France	15.9	15.9	16.3	16.0	16.1	16.8	0.6%	1.7%	3.1%	1.8%
Sweden	9.9	9.3	9.5	9.4	9.3	9.5	-5.1%	-0.3%	0.0%	-1.8%
UK	7.1	7.3	7.5	7.6	7.7	7.8	7.0%	4.7%	4.0%	5.2%
Belgium	5.2	5.2	5.3	5.1	5.1	5.3	-1.9%	-2.0%	0.0%	-1.3%
Germany	4.3	4.4	4.5	4.5	4.5	4.6	4.7%	2.6%	2.2%	3.2%
Denmark	3.3	3.3	3.3	3.2	3.2	3.3	-3.0%	-1.9%	0.0%	-1.7%
Total	58.9	58.7	59.9	59.2	59.5	61.2	0.5%	1.4%	2.2%	1.4%

SHUR also provides a breakdown of same store revenue received on a country-by-country basis. As per exhibit 30, we can identify the stronger performing jurisdictions where dynamics have been more favourable such as the UK, which has performed strongest on a 9mth basis (period-on-period) with 5.2% revenue growth. Countries such as Belgium (change of storage unit mix which impacted same store data) and Sweden (softness due to aggressive competition) have been weaker, however, Q3 2019 saw all 7 countries having flat or positive same store revenue growth (av. 1.8%) compared with the same quarter a year earlier which we think is an indication of underlying dynamics strengthening.

Balance Sheet

Exhibit 31 - SHUR Balance Sheet

Balance Sheet	1h19 €m	1h18 €m	Change %	Comments
Investment Properties	2,608.0	2,339.6	11.5%	Additional £60m due to IFRS 16 treatment of leases
Development Properties	30.7	12.1	154.5%	
Net Debt	(347.1)	(575.4)	-39.7%	£251m cash remained from IPO
Other net assets/liab.	(481.4)	(406.2)	18.5%	Largest components deferred tax and lease obligations
Net Assets	1,810.2	1,370.1	32.1%	

Adj. EPRA NAV (€) 23.5 23.8 -1.2%

Source: Company Data, Jefferies

SHUR's investment properties are fair valued by Cushman and Wakefield (CW) using the RICS 'Red Book' valuation and perform these on a bi-annual basis. Like BYG and SAFE, each operating asset is valued on a discounted cashflow basis with key drivers projected revenues, occupancy, capitalisation and purchases costs with an exit yield for Freehold and Long-leasehold assets. For short-term leasehold, a DCF is also used but until the termination of the lease. Again, a DCF is used for properties under construction, however, the valuation also takes into account outstanding costs from the current state of completion to full fit out whilst factoring in contingencies as well.

Due to SHUR's non-REIT status, the balance sheet has a significant level of deferred tax recognised as the valuation of the portfolio has increased over time. The EPRA NAV adds these back to leave a higher value and we think as an operating business, taking this as the primary NAV level is appropriate (when considering return on capital) given the assumption the company is being run as a long-term business.

As per above, the drivers in investment property have been the acquisitions (€130m in FY18) of assets with the majority in 2H18. Additionally, due to the change in IFRS accounting, IFRS 16 requires short-term leasehold assets are capitalised on the balance sheet as a "right-to-use" value determined. This inflates the level of assets, however, there is also a corresponding leasehold liability which means the impact on NAV is broadly neutral.

Looking forward, there is potential for tightening yields as institutional capital enters the market (L&G in UK with SureStore and Carlyle Group with Dutch JV with SAFE) having historically found it difficult to deploy capital in any scale due to the small lot sizes and lack of purpose-built facilities. Given the difficulty in obtaining land and navigating the planning system, we think institutional investment will largely remain in standing assets with the listed players likely to remain the leaders in development.

European Self-storage market background

Exhibit 32 - European Self Storage by Country

	Population	Est. Facilities	Current Lettable area (sq ft)	Floor Space per Capita	Facilities per m population
UK (incl containers)	66,858,000	1582	45,600,000	0.68	23.7
Iceland	337,780	7	205,000	0.61	20.7
Netherlands	17,084,459	303	9,580,000	0.56	17.7
Sweden	9,982,709	159	4,628,000	0.46	15.9
Denmark	5,754,356	92	2,110,000	0.37	16.0
Finland	5,542,517	68	1,668,000	0.30	12.3
Norway	5,353,363	139	1,432,000	0.27	26.0
Ireland	4,803,748	41	1,124,500	0.23	8.5
Spain	46,397,452	426	9,795,000	0.21	9.2
France	65,233,271	480	12,378,000	0.19	7.4
Belgium	11,498,519	88	2,153,000	0.19	7.7
Austria	8,751,820	47	947,000	0.11	5.4
Switzerland	8,544,034	91	915,000	0.11	10.7
Germany	82,293,457	234	6,049,000	0.07	2.8
Portugal	10,291,196	19	608,000	0.06	1.8
Hungary	9,688,847	16	441,000	0.05	1.7
Latvia	1,929,938	3	81,000	0.04	1.6
Italy	59,290,969	56	1,884,000	0.03	0.9
Estonia	1,306,788	3	32,000	0.02	2.3
Czech Republic	10,625,250	5	151,000	0.01	0.5
Romania	19,580,634	5	161,000	0.01	0.3
Poland	38,104,832	17	280,000	0.01	0.4
Lithuania	2,876,475	1	16,000	0.01	0.3
Total	492,130,414	3,882	102,238,500	0.21	7.9

Source: SSAB UK

European self-storage remains a largely under-developed market with low penetration, particularly compared with more mature markets such as the US and Australia. As per exhibit 31 above, the average self-storage floor space per capita in Europe is 0.21sq ft per capital versus 1.8sq ft in Australia and 9.4 sq ft in the US. Rennie Schafer, CEO of the Federation of European Self Storage Associations (Fedessa) highlighted for European self storage "Challenges facing the industry are still awareness, land availability and planning approval."

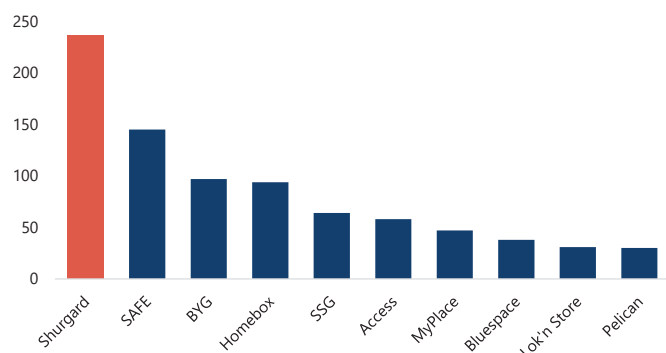
The most developed market in Europe is the UK with 0.68sq ft per capita (66.9m population) and 1,582 stores (Source: Self Storage Association UK "SSA UK") which equates to 45.6m sq ft. Compared with the other large countries in Europe with similar population sizes, despite being well behind Australia and US with respect to self-storage penetration, the UK has significantly more lettable space with 4.6x more than Spain, 3.7x more than France and 7.5x more than Germany. Even in the UK, less than half the adult population (48%) have 'Good awareness' of self storage according to SSA UK

Estimates vary depending on the definition of the number of self-storage facilities in Europe with SSAB UK estimating 3,882 whilst Fedessa estimates 4,290 facilities. At the number of facilities level, the market is very fragmented and taking the higher Fedessa figures, SHUR has c. 5.5% of all the stores in Europe. However, the larger operators also tend to have larger stores and on a lettable area figure, SHUR has a greater share of total space, c. 11.9%.

The top ten largest operators in Europe had 19% of facilities but 35% of the total space. This level of market share is more concentrated than the US where although the top 6 operators manage nearly 20% of all space, the size of operators then drops off rapidly with 73% of all space operated by 'Mom and Pop' companies implying a lower level of competition in Europe and stronger pricing power.

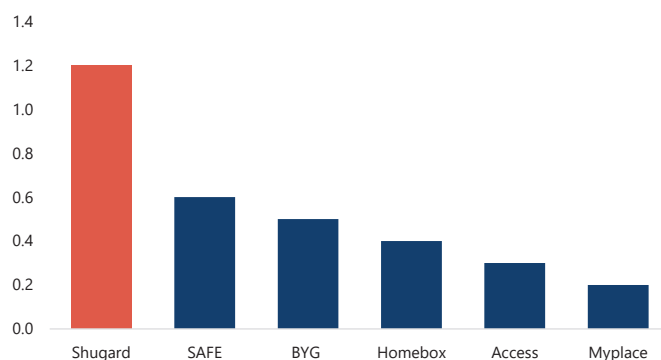
SHUR is by some way the largest operator of assets in Europe (c. 2x lettable area of SAFE which is 2nd) and one of the key players in most mature markets. In the 7 markets it operates in, SHUR is the largest operator of facilities in four of them (France, Netherlands, Sweden & Belgium), 2nd largest in Germany and Denmark and 4th largest in the UK, although this is largely driven by it remaining focused on London only.

Exhibit 33 - Largest European Operators by No. of Stores



Source: Company Data

Exhibit 34 - European Operators by Lettable Area (m sq m)



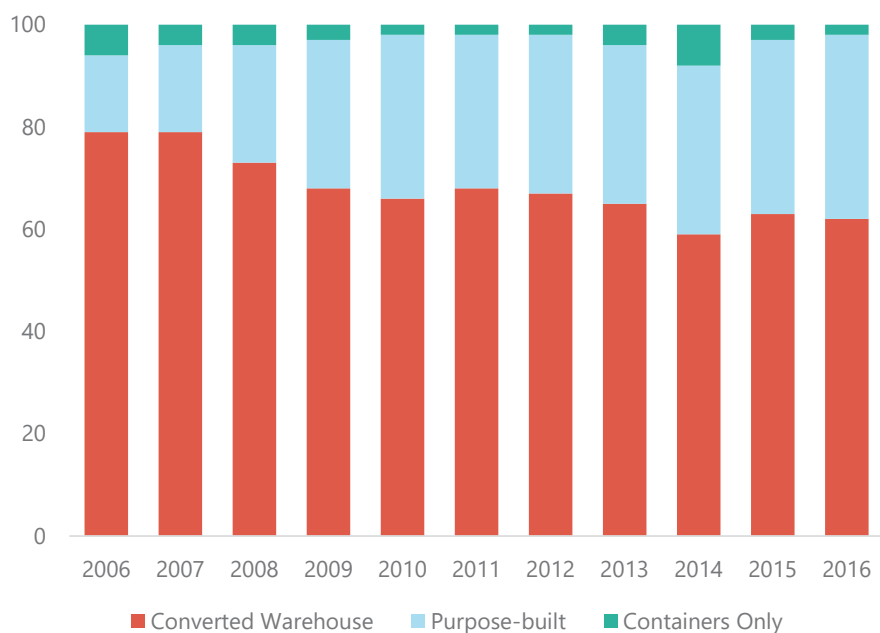
Source: Company Data

As the European self-storage market evolves and gains wider recognition, the ratio of purpose-built facilities to conversions has increased. Taking the UK for example, in 2006, only around 15% of the overall stock of self-storage facilities were purpose-built. Warehouse conversions are less efficient (Net Internal Area as % of Gross External Area) than new, purpose-built facilities; consequently, as operators seek to drive margin as well as rents, it is a natural evolution. In addition, it is easier and more cost effective to install high-tech security features that increase the attractiveness to potential customers in purpose-built stores than in converted space, which in turn allows an operator to charge a premium rent.

As per exhibit 35 below, SSA UK's survey of a sample of self storage facilities has seen the average store make-up to be 16% purpose-built in 2006-2007 growing to c. 36% purpose-built in 2016 and we expect this trend to follow on to the Continent as it continues to mature.

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Exhibit 35 - Sampled Self Storage facilities by type



Source: SSA UK

Across the wider UK self storage market, the average store size of purpose-built facilities has been relatively static at 46,000 sq ft (4,000 sqm). The larger operators tend to run stores in excess of this with c.60,000 sq ft (c. 5,500sq m) the average facility size for BYG, 55,000 sq ft (c. 5,000 sqm) for SHUR and 48,000 sq ft (c. 4,400 sqm) for SAFE. Despite the increase sized assets, they are more likely to have a higher number of smaller rooms than a greater offering of large rooms with customers prepared to pay a premium rent (in € or £ per sq m/per sq ft) for smaller rooms. This is likely because customers do not calculate the rental level in €/£psm/psf but rather in the 'affordability' of the rent per week (€ or £/week) which is a similar approach to how individuals view residential housing prices.

SHUR has responded to this in how the business develops new facilities but has also altered the mix in current facilities. In the company's Belgian portfolio, SHUR altered the size mix in 8 assets reducing the average storage unit size from 8.8sq m to 7.2sq m. Although on the face of it, this average jump doesn't seem significant however SHUR converted the largest units, subdividing these into much smaller ones and as a result was able to increase the €psm price by an average of 2.3x on that converted space.

A key operating metric for self-storage operators is NOI margin (also called 'store EBITDA' by other operators), which gives an indication as to store potential and allows for cross comparison with other stores within the portfolio. Direct store costs are relatively static, giving high levels of operational leverage and making earnings acutely sensitive to occupancy levels. Cashflow can't lie; given the short term nature of the lease contracts and comparably lower rental incentives compared with longer-let asset classes, valuations are less robust, especially given the paucity of transactional data. As such, there is pressure to minimise the fixed cost base; investing in leasehold properties increases the fixed operating overhead, reducing store profitability.

Another advantage of self-storage as an asset class is its relatively lower level of maintenance capex as a percentage of gross revenue. A key component of this is related to the revenue stream, self-storage has a relatively low percentage of its total revenue from direct rental payments. For SHUR, 15% of its FY18 revenue wasn't from storage

rates/rent, primarily insurance and ancillary revenue (e.g. merchandise such as boxes). This revenue doesn't require capitalised expenditure on the balance sheet and as result the cost of these sales is expensed in its entirety each year.

At the asset level, there are many factors why self-storage requires a lower level of capex. In comparison to an office building or shopping centre, there is less reason for the asset to be "attractive" to draw customers in with other factors such as functionality a greater concern. As a result, the original fit-outs are less capital intensive and cheaper to maintain in the long-run with SHUR estimating c. 2.5% of revenue is required as maintenance capex per annum with the life cycle of a property >30yrs (up to 60yrs) and nearly no large refurbishment or redevelopment required in that period which compares very favourably to asset classes such as Shopping Centres or Office which may require significant refurbishment every 10-15yrs as leases shorten implying a much high level of maintenance capex, even before considering much higher levels of leasing incentives and capital contributions.

Security concerns

One of the key challenges for management to overcome is one of perceived security. Customers are unlikely to want to use a self-storage facility or to pay a premium rent if they perceive that their belongings will not be safe. Provision of individual room alarms has the most positive impact on room rates; according to the self-storage surveys, provision of individual room alarms adds to rents vs unalarmed room rates.

Branding and location are as important in this regard as actual security features. Something SHUR, for example, has worked hard to develop and provide is a 'safe environment', which appeals to both male and (particularly) female customers. An important way to do this includes the provision of well-presented, professional and courteous centre staff. SHUR regularly makes use of online reviews, mystery shoppers, etc to ensure the centres are delivering an acceptable level of service, which allows it to react quickly should standards slip.

Structural drivers of demand and consolidation

We believe there are structural changes which should continue to drive growth and consolidation in the asset class:

What Drives Demand?

The self-storage market is intrinsically linked to the health of the economy, with share price and occupancy levels typically reacting to sentiment ahead of changes in the physical data. We believe that the three key numbers to watch are housing transaction levels (#), unemployment (%) and GDP (%YoY).

- **Housing:** The robustness of the European housing market has a strong impact on consumer sentiment; if house prices are rising, mortgage availability is good/improving and transaction levels are high, the indirect wealth effect strengthens confidence and the consumer is more likely to spend in spite of the fact that most people are unlikely to lock in the gains and leverage up (in particular with the 2007-09 credit crisis still so fresh in the memory). In addition, rising transaction levels generate increased demand for temporary, short-term storage solutions.

In reality, it can be difficult to tie up selling with buying; rather than 'double move', sellers will often store their possessions through the inter-regnum period (and what is the spread between the rates charged by removals companies and self-storage

companies?). Before the point of sale, would-be sellers may seek to declutter their homes to increase the sense of space/attractiveness to would-be buyers.

Although housing transactions are a key driver of demand transactions, particularly in the UK, they remain well below their 2006-07 peak. A growing market of professional renters has emerged in institutional-grade build-to-rent portfolios providing high quality accommodation for the increasing number of renters. Although a significant driving of 'generation rent' is the impact of QE in raising house prices in major cities, renting (again particularly in the UK) is seen as a long-term solution for people who want greater flexibility. As a result, a greater proportion of the population are moving more regularly and living in flats/apartments with inadequate storage.

- **Unemployment:** Rising unemployment levels in the wider economy negatively impact perceptions of job security and thus consumers' willingness to spend, and at times of high/rising inflation, expectations of real wage growth weaken. In reverse, if there is a consensus that the health of the economy is improving (see next bullet point), expectations of job security and real wage growth rise, exacerbated by falling unemployment/rising employment. It is difficult to say with certainty what the outlook for real wage growth will be, and in which sectors and wage brackets these jobs will be created, but an improving labour market outlook is better for self-storage operators than a deteriorating outlook.
- **GDP:** Due to the lagged timing of GDP data release, occupancy trends have already moved with consensus, reacting in real time to economic events. At times of GDP recovery, the consumer savings ratio falls and spending levels rise; in general, the consumer feels wealthier. Self-storage is not necessarily a part of discretionary spend, a strong/recovering economy tends to coincide with a rise in discretionary spending levels as the consumer worries less about 'saving for a rainy day'. We view GDP growth as the kicker given the continued structural changes in favour of self-storage, so low or recessionary economic growth is likely to dampen the sectoral growth, whilst a booming economy would add an additional kicker.

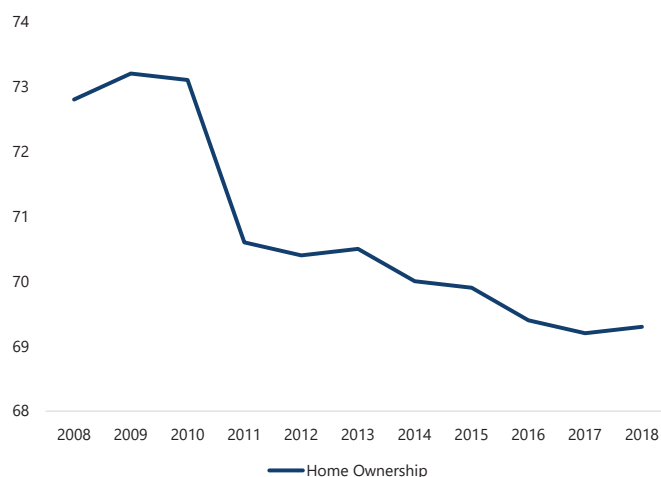
Small/medium-sized Businesses are also using self-storage as a means of expansion, rather than committing to long-term lease warehousing space. Strong GDP and business confidence are likely to lead to an increase in demand from expanding businesses.

We see two key drivers of why we think there will be further consolidation of the sector:

1. Housing

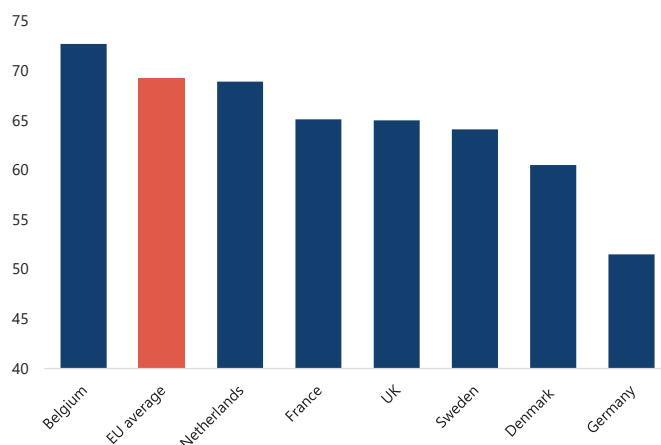
Housing transactions used to be the key driver of self-storage pre-GFC, particularly in the UK where 35%+ of self-storage demand was due to owner-occupiers moving house. With less generous mortgage terms, this has become a smaller part of the overall storage demand and remains seasonal equating to c. 20% of demand (with an additional 20% of demand from renters). As per exhibit 36, across the EU, home ownership has dropped too since the GFC having been >73% in 2009 to c. 69% in 2018 highlighting the increase in 'generation rent' and meaning that larger proportion of the population is more mobile.

Exhibit 36 - EU Home Ownership



Source: Eurostat

Exhibit 37 - SHUR Countries by Home Ownership



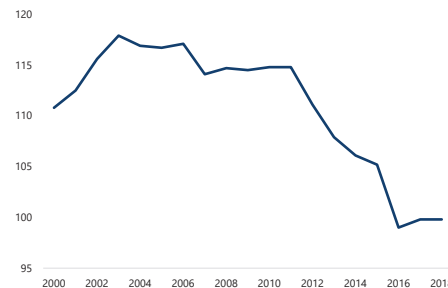
Source: Eurostat

As per exhibit 37, in the countries in which SHUR operates in, only Belgium is above the EU average in terms of home ownership with the remaining 6 countries below. Germany is the anomaly here with a very large rental market but has one of the most under-developed self-storage markets in Europe. However, this is as much to do with the traditional renter in the country who tend to sign very long lets meaning there isn't the same level of movement compared to the UK where an assured shorthold tenancy is <3yrs.

There are structural drivers in countries, including Germany (particularly Berlin), which we think will add additional demand for self-storage. As a result of factors including low interest rates/QE and low levels of housing supply, house prices in most major European cities have increased substantially since the GFC and the behaviour of traditional residential buyers tends to be on a total EUR or £ basis, rather than looking at capital value per sqm or sq ft. As a result, we are seeing increasing urbanisation and densification in large cities.

This densification is impacting the size of new-built properties. Taking Germany as an example, the average size of newly constructed flats has dropped 13% since 2011 to 100 sqm. With less space, likely means less storage space and this is a trend seen in most markets where affordability is an issue and we think will lead to greater demand for self storage.

Exhibit 38 - Av. Size of New-build flats (sqm)



Source: Federal Statistics Bureau

2. The Internet

The internet and increasingly mobile devices are the main driver of enquiries with 73% of all enquiries for space through self-storage company websites in 2019 according to

Fedessa, having been <60% in 2016. Across Europe, an average of 74% of operators have prices available online with 71% offering the ability to reserve online.

Spend on technology and ease in which to reserve self-storage space is one factor between competitors but the other is increasingly marketing spend. Due to a relatively low brand awareness across Europe for self-storage, being in the top 2 or 3 in the Google search function is a key attribute in attracting new customers. The cost of guaranteeing a top hit has increased substantially (e.g. for SHUR's UK business, Google advertising costs c. 3.5% of its UK revenues with Sweden lowest at 1.0%, average 2.2%) over the past few years highlighted by the increased marketing spend of the major listed operators.

Cost the attracting customers is creating a squeeze on small operators with BYG's executive Chairman, Nick Vetch, highlighting the increased return companies with larger scale can achieve through more sophisticated operations and costs spread across a larger number of units. He illustrated that it might cost BYG £60 to sign up a customer and on average the company received £1,800 to £2,000 over the average 8.6mth customer stay. For a sub-scale UK competitor, the cost of bringing in a customer can be as high as £200 whilst receiving £500-£600 during their average stay which is a substantial difference in terms of return economics.

We think this will continue to drive consolidation to larger operators who can afford both the IT and marketing spend to have the most compelling offering to consumers. This should continue to bring the opportunity for small-scale acquisition/M&A. The benefits of acquiring or developing stores in a similar geography for larger operators such as SHUR, BYG and SAFE is two fold.

With centralised functions, the incremental cost of opening a new store for centralised G&A costs should be minimal for an established regional location like London or Paris. Additionally, the marketing spend can be shared across a larger number of stores so as the density of a store portfolio increases, there should be an improvement in margins at both the company EBITDA and NOI levels.

Risks

We believe the key risks for SHUR shareholders include:

- Withdrawal of government stimulus aimed at boosting demand in Eurozone key market
- A hard Brexit would likely impact the value of UK earnings although the upside is that SHUR would have greater pricing power if Sterling were to devalue.
- SHUR is present in multiple jurisdictions across four currencies (EUR, GBP, SEK & DKK) and volatility in currency could impact earnings and net asset value materially with Sweden and UK the 3rd and 4th largest markets (by NOI) for the company.
- Changes to the planning/zoning and legislative regime in key cities could make expansion by development and redevelopment/extension more challenging likely resulting in a lower earnings growth trajectory.
- Weakening of employment outlook and rising inflation combine to dampen job security and depress real earnings growth expectations, which leads to a rise in household savings ratios;
- Unforeseen changes to tax (inc VAT) legislation, which make the effective costs of self-storage more expensive for the consumer.

SHUR Summary Financials and Forecasts

Summary income statement	FY2018	FY2019E	FY2020E	FY2021E
Year end: December	€m	€m	€m	€m
Gross Revenue	244.7	258.3	278.5	291.0
Cost of Sales	(91.0)	(96.1)	(101.2)	(105.5)
Net Operating Income (NOI)	153.7	162.2	177.3	185.5
Admin expenses	(9.6)	(13.0)	(12.3)	(12.6)
EBIT	141.8	146.8	162.2	173.0
Net interest payable	(21.0)	(18.9)	(17.7)	(17.7)
Recurring PBT	120.8	127.9	144.5	155.3
Revaluation surplus/(deficit)	94.6	26.1	54.2	57.9
Profit/(loss) on invt prop disposal	0.0	0.0	0.0	0.0
Exceptional items	(7.4)	0.0	0.0	0.0
IFRS PBT	208.0	154.0	198.6	213.1
Tax	(36.3)	(26.4)	(21.7)	(23.3)
IFRS PAT	171.7	127.5	177.0	189.9
Adj EPS (p)	1.43	1.22	1.38	1.49
DPS (p)	0.22	0.98	1.11	1.19
Dividend Cover (x)	6.5	1.3	1.3	1.3
Interest Cover (x)	6.8	7.8	9.2	9.8
Net Debt/EBIT	2.4	2.5	2.9	3.4

Summary balance sheet	FY2018	FY2019E	FY2020E	FY2021E
Year end: December	€m	€m	€m	€m
Investment properties	2,559.3	2,739.8	2,924.0	3,111.9
Net debt	(346.8)	(368.2)	(474.3)	(583.5)
Other liabilities	(413.9)	(481.4)	(481.4)	(481.4)
Net assets	1,798.7	1,890.2	1,968.4	2,046.9
EPRA adjustments	355.1	348.0	348.0	348.0
Adjusted net assets	2,153.8	2,238.2	2,316.3	2,394.9
IFRS NAV per share (p)	20.3	21.3	22.2	23.1
EPRA NAV per share (p)	24.1	25.0	26.0	26.9
LTV (%)	14%	16%	19%	21%
Gearing (%)	16%	19%	23%	27%

Source: Company Data, Jefferies estimates

Summary Cashflow Statement

Summary Cashflow Statement	FY2018	FY2019E	FY2020E	FY2021E
Year end: December	€m	€m	€m	€m
<i>Operating Cashflow</i>				
Funds Available for Distribution	102.2	107.9	120.8	130.0
Net dividends paid	-	(54.0)	(96.8)	(101.8)
Free Cashflow	102.2	53.9	24.0	28.2
Cashflow from Investing	(175.4)	(75.0)	(130.0)	(130.0)
Cashflow from financing	554.8	-	-	-
Total Net cashflow Movements	481.6	(21.1)	(106.0)	(101.8)

Source: Company Data, Jefferies estimates

Company Description

SHUR

Shurgard is a pan-European self-storage company with >200 assets and largest markets France, Netherlands, Sweden and UK.

Company Valuation/Risks

SHUR

PT based on av. Forward PER. Risks inc. weakening economic growth and slowing housing transactions.

Big Yellow Plc

PT based on av. Forward PER. Risks inc. weakening economic growth.

Safestore Holdings Plc

PT based on 19.3x average est. Next & Next+1 EPS. Risks include slowdown in European growth, inc UK.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

Recommendation Published November 25, 2019 , 14:48 ET.

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Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold

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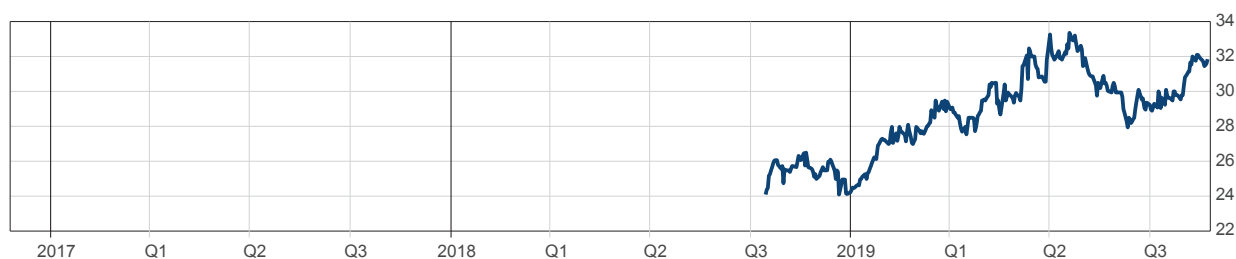
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Other Companies Mentioned in This Report

- Big Yellow Plc (BYG LN: p1,113.00, HOLD)
- Safestore Holdings Plc (SAFE LN: p738.50, HOLD)
- Shurgard Self Storage SA (SHUR BB: €31.85, BUY)

Rating and Price Target History for: Shurgard Self Storage SA (SHUR BB) as of 11-22-2019



Rating and Price Target History for: Big Yellow Plc (BYG LN) as of 11-22-2019



Rating and Price Target History for: Safestore Holdings Plc (SAFE LN) as of 11-22-2019



Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

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- D: Dropped Coverage
- B: Buy
- H: Hold
- UP: Underperform

Distribution of Ratings

Distribution of Ratings						
			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	1207	53.29%	87	7.21%	14	1.16%
HOLD	902	39.82%	28	3.10%	3	0.33%
UNDERPERFORM	156	6.89%	1	0.64%	0	0.00%

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