



Life Storage, Inc. (LSI)

Updated August 22nd, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$136	5 Year CAGR Estimate:	8.1%	Market Cap:	\$11.6 B
Fair Value Price:	\$119	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	10/11/2022 ¹
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.6%	Dividend Payment Date:	10/25/2022
Dividend Yield:	3.2%	5 Year Price Target	\$175	Years Of Dividend Growth:	4
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

Life Storage (LSI) is a real estate investment trust (REIT) that was founded in 1985. It is a leading U.S. owner and operator of self-storage properties, with more than 1,000 locations in 34 states. It serves both residential and commercial customers and has a market capitalization of \$11.6 billion. Its expansion to the West Coast in 2016 and its asset recycling in 2018-2019 have enhanced its demographics and its geographic diversification.

In early August, Life Storage reported (8/3/22) financial results for the second quarter of fiscal 2022. Revenue for the wholly owned stores grew 19% over the prior year's quarter thanks to a 20% increase in rental rates. The company achieved double-digit same-store revenue growth in 32 of its 33 major markets. As a result, it grew its adjusted funds from operations (FFO) per unit 37.5%, from \$1.20 to \$1.65, thus exceeding the analysts' consensus by \$0.12.

Thanks to its impressive business momentum, Life Storage raised its dividend by 8%, for a second time this year, for a total raise of 26%. It also improved its guidance for FFO per unit in 2022 for a second quarter in a row, from \$6.04-\$6.14 to \$6.27-\$6.33. Given the sustained momentum and management's tendency to issue conservative guidance, we have raised our annual forecast from \$6.15 to \$6.40. Life Storage has not missed the analysts' consensus for 20 consecutive quarters.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO	\$2.09	\$2.48	\$2.72	\$3.23	\$2.88	\$3.29	\$3.67	\$3.75	\$3.97	\$5.07	\$6.40	\$9.40
DPS	\$1.22	\$1.48	\$1.86	\$2.20	\$2.53	\$2.67	\$2.67	\$2.71	\$2.88	\$3.08	\$4.32	\$5.78
Shares²	44.2	47.2	49.8	53.4	65.1	69.7	69.9	70.0	71.2	82.5	90.0	120.0

Life Storage has stores in 20 of the top 25 fastest-growing markets in the U.S. Approximately 60% of its stores are in the Sun Belt region, which is characterized by high population and economic growth. The REIT grows by acquiring stores in markets with favorable demographics and high rental rates per square foot. During the last decade, it has grown its store count at a 10% average annual rate. It has thus greatly benefited from economies of scale. It also tries to expand the space of successful stores. This type of investment is low-risk, with attractive returns (higher than 8%). Thanks to its successful growth strategy, Life Storage has grown its FFO per unit at a 10.3% average annual rate over the last decade. As this industry is highly fragmented, it provides ample room for future growth via acquisitions. Life Storage posted record acquisition volume of \$2.3 billion in 2021. Moreover, as there are no signs of fatigue in the growth trajectory of Life Storage, we expect it to grow its FFO per unit at an 8.0% average annual rate over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/FFO	17.0	18.2	18.8	19.4	23.0	16.4	16.6	17.9	17.5	21.5	21.3	18.6
Avg. Yld.	3.4%	3.3%	3.6%	3.5%	3.8%	5.0%	4.4%	4.0%	4.2%	2.8%	3.2%	3.3%

¹ Estimated date.

² In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Life Storage is currently trading at a price-to-FFO ratio of 21.3, which is higher than the historical average FFO multiple of 18.6. If the stock trades at its average valuation level in five years, it will incur a -2.6% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	58%	60%	68%	68%	88%	81%	73%	72%	73%	61%	68%	62%

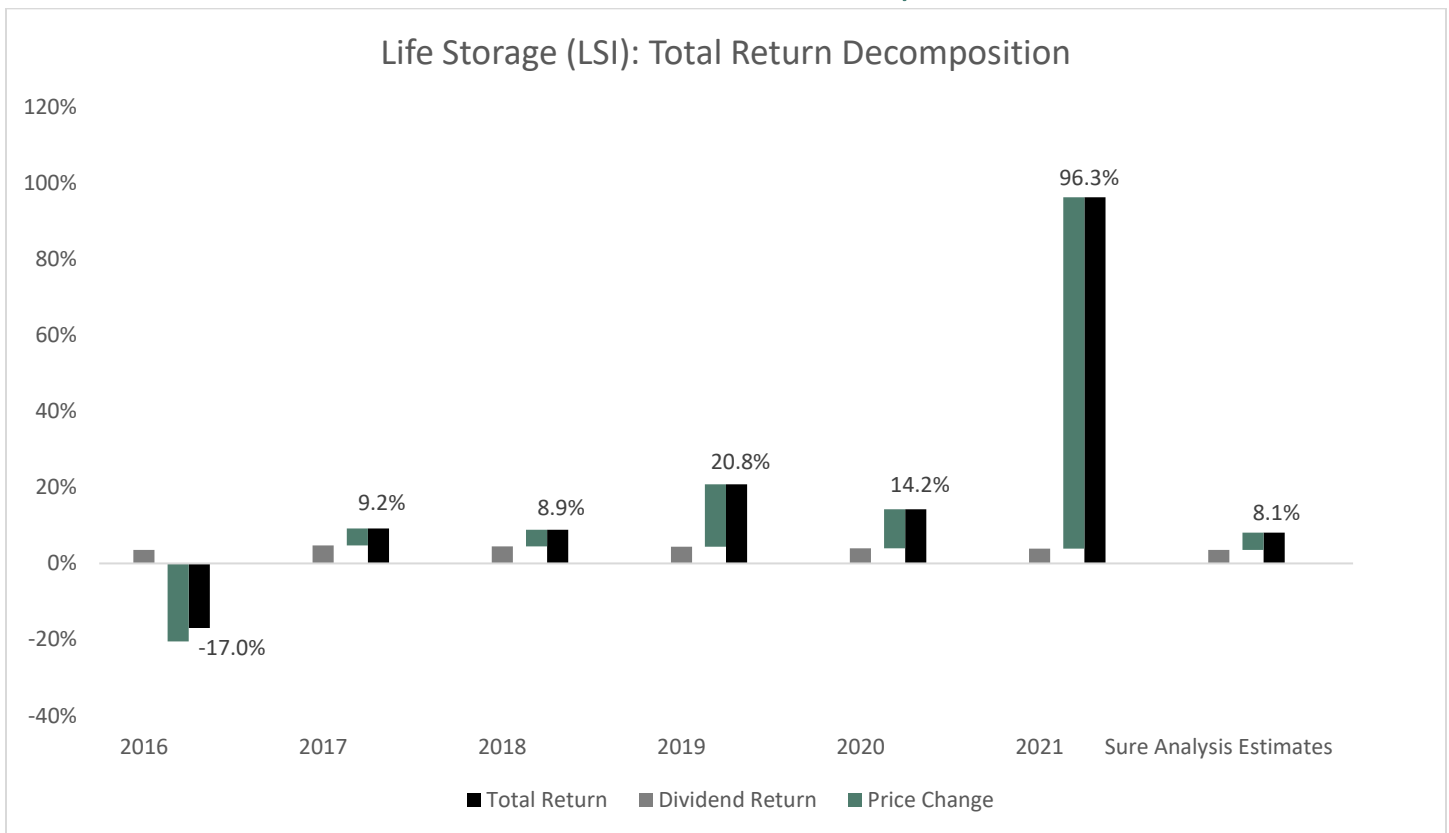
Life Storage operates in a market with niche characteristics, such as high operating margins and low capital expenses. As a result, the company has posted strong free cash flows every single year over the last decade. The REIT has also proved markedly resilient to recessions. In 2020, while most REITs came under great pressure due to the pandemic, Life Storage grew its FFO per unit 6%, to a new all-time high. It is thus both a growth stock and a defensive holding.

Life Storage is offering a 3.2% dividend yield, a 68% payout ratio and a decent balance sheet, with an interest coverage ratio of 4.3. Given also its promising growth prospects, Life Storage can raise its dividend at a meaningful rate in the upcoming years.

Final Thoughts & Recommendation

Life Storage is recovering from the pandemic, with accelerated business momentum. With that said, the stock has rallied 18% since our last research report, in May, and hence it has become somewhat less attractive. We now expect the stock to offer an 8.1% average annual rate over the next five years, thanks to 8.0% growth of FFO per unit and a 3.2% dividend, which may be partly offset by a -2.6% annualized contraction of valuation level. As a result, we lower our rating from “buy” to “hold”, though we remain excited about the long-term prospects of this promising REIT.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	218	253	302	338	428	485	502	546	584	749
Gross Profit	141	159	187	219	277	305	320	351	376	502
Gross Margin	64.6%	62.9%	61.8%	64.8%	64.7%	62.8%	63.7%	64.2%	64.3%	67.1%
SG&A Exp.	32	30	35	39	43	50	49	47	52	63
D&A Exp.	42	46	52	59	117	127	103	107	123	147
Operating Profit	84	104	124	150	151	171	217	225	233	332
Operating Margin	38.5%	41.1%	41.0%	44.4%	35.3%	35.3%	43.2%	41.3%	39.9%	44.4%
Net Profit	55	74	89	113	85	96	207	259	152	249
Net Margin	25.3%	29.3%	29.3%	33.2%	19.9%	19.9%	41.1%	47.4%	25.9%	33.3%
Free Cash Flow	99	121	146	186	226	249	262	279	299	434

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,484	1,562	1,855	2,119	3,858	3,877	3,892	4,233	4,728	6,557
Cash & Equivalents	7	10	9	7	24	9	14	17	54	172
Accounts Receivable	3	5	6	7	5	7	8	12	15	18
Goodwill & Int. Ass.	---	---	---	---	17	17	17	17	17	17
Total Liabilities	756	691	879	917	1,769	1,848	1,834	2,100	2,350	3,178
Long-Term Debt	684	626	801	828	1,654	1,727	1,714	1,958	2,193	2,785
Shareholder's Equity	729	871	976	1,202	2,088	2,028	2,058	2,133	2,378	3,379
LTD/E Ratio	0.94	0.72	0.82	0.69	0.79	0.85	0.83	0.92	0.92	0.82

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.9%	4.9%	5.2%	5.7%	2.9%	2.5%	5.3%	6.4%	3.4%	4.4%
Return on Equity	8.0%	9.3%	9.6%	10.3%	5.2%	4.7%	10.1%	12.3%	6.7%	8.7%
ROIC	4.1%	5.1%	5.4%	5.9%	3.0%	2.6%	5.5%	6.6%	3.5%	4.6%
Shares Out.	44.2	47.2	49.8	53.4	65.1	69.7	69.9	70.0	71.2	82.5
Revenue/Share	4.93	5.37	6.10	6.34	6.58	6.96	4.79	7.80	8.21	9.53
FCF/Share	2.23	2.56	2.95	3.49	3.47	3.57	2.50	3.98	4.20	5.52

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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