

National Storage Affiliates Trust (NYSE: NSA)

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Stock Analysis - Sep 25, 2023

After doing a quick analysis of all the competitors of NSA, I have come to the conclusion that all of them have huge debt and are overvalued. NSA looks the best among all of them and I decided to dig deeper into the company.

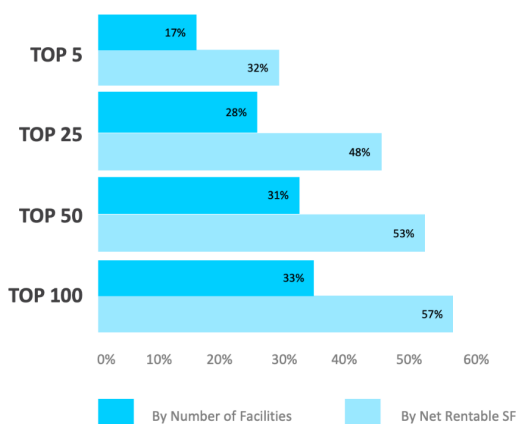
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Let's start by looking at the company presentation.

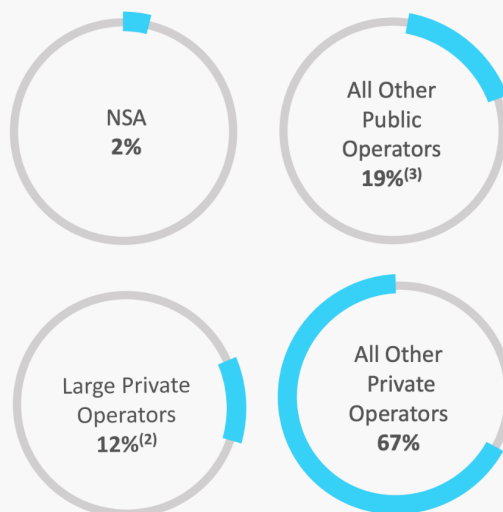
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HIGHLY FRAGMENTED INDUSTRY: CONSOLIDATION OPPORTUNITY

Self Storage Top Operator Market Share⁽¹⁾



Market Share by Number of Facilities⁽¹⁾
(Approximately 51,000 self storage facilities in the U.S.)



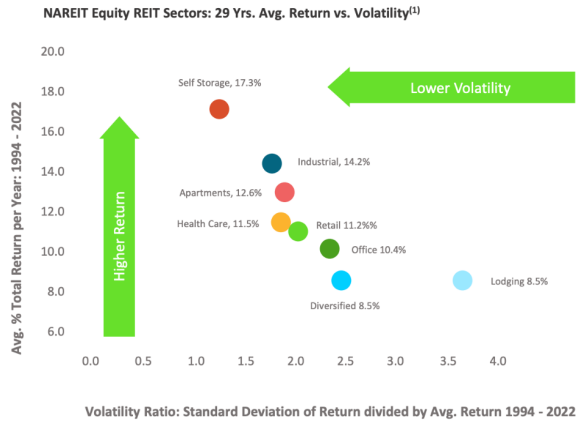
⁽¹⁾ Source: 2023 Self Storage Almanac

⁽²⁾ Represents top 100 operators, excluding publicly traded REITs and UHAL

⁽³⁾ Includes CUBE, DRX, LSI, PSA and UHAL

The industry is highly fragmented, and there is a low barrier to industry. People don't really care about the brand here. It is mostly about the facility that they are delivering and how the business is being managed.

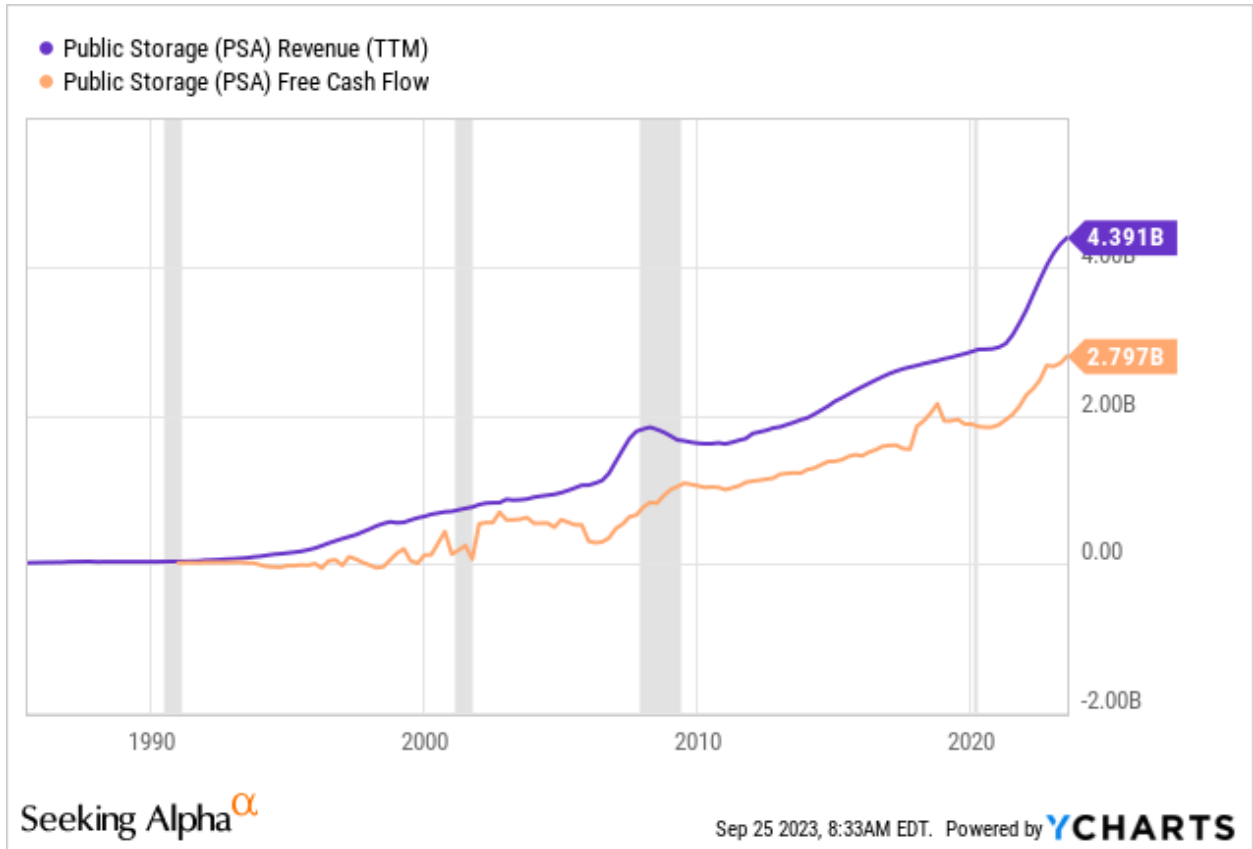
SELF STORAGE: HIGHER RETURNS, LOWER VOLATILITY SELF STORAGE HAS OUTPERFORMED OVER THE PAST 29 YEARS



Even in the worst five-year period, self storage delivered >4.5% total shareholder return per year⁽¹⁾



Self-storage is a business that will always do well over the long-term but it can certainly be affected by economic downturns.



Competitors, PSA, saw a drop of 10% in revenues in 2008, and operating margins went from about 50% to 25%.

NSA FAMILY OF BRANDS



CORPORATE BRANDS (788 properties; 185 of which are in joint ventures)



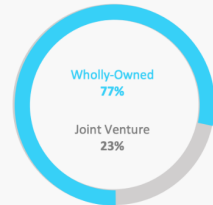
PRO BRANDS (329 properties)



TOTAL PORTFOLIO BY PROPERTY COUNT



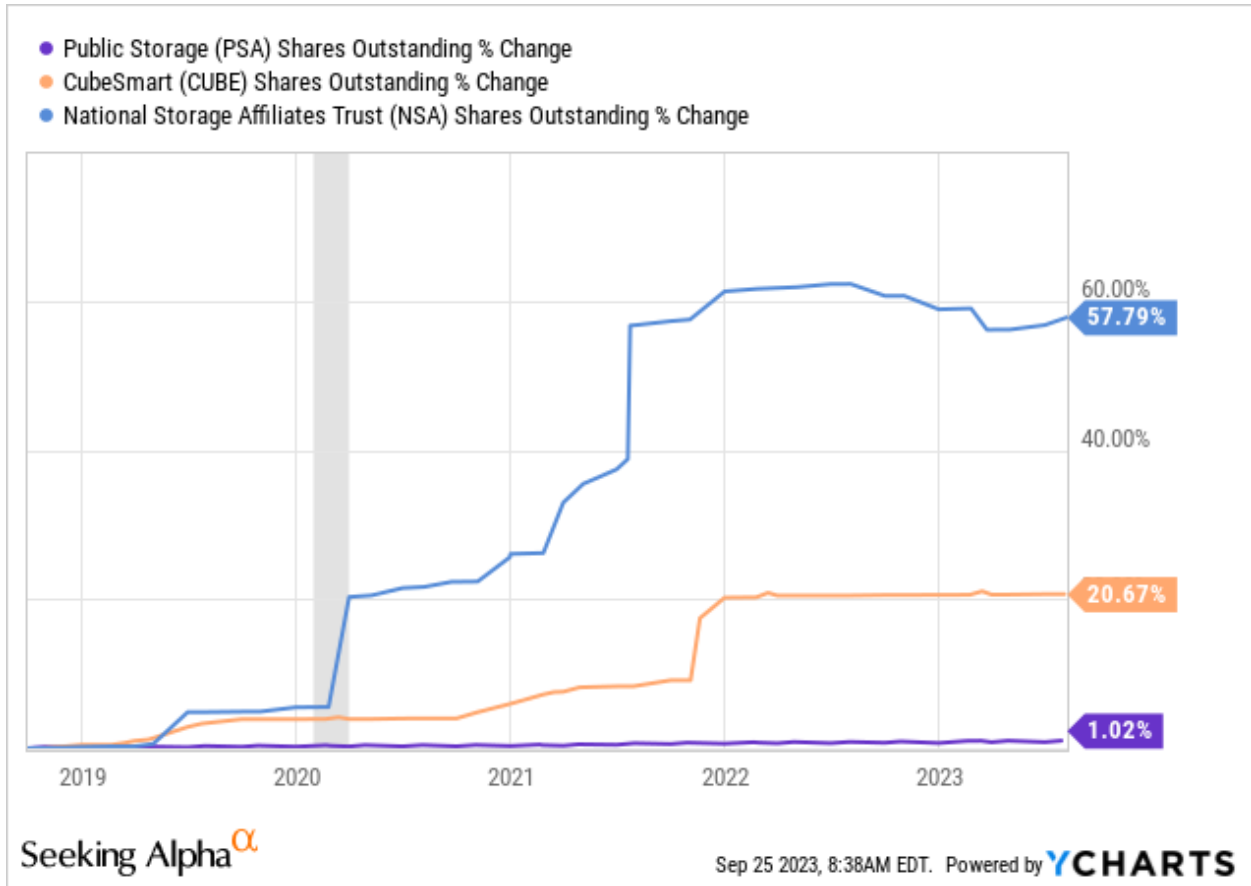
CORPORATE BRAND STORES



SELF STORAGE INDUSTRY OVERVIEW | COMPANY OVERVIEW | TRACK RECORD OF PERFORMANCE | MULTI-FACETED GROWTH STRATEGY | FLEXIBLE CAPITAL STRUCTURE SUPPORTS GROWTH | ESG OVERVIEW | APPENDIX

We will need to look in more details how they allocate equity to the PRO brands.

NSA is comprised of eight Participating Regional Operators (“PROs”) and four corporate brands. The PROs have contributed their properties in exchange for equity in NSA, while continuing to function as property managers for their managed portfolios under their existing brands. NSA’s PROs are widely respected industry owner-operators with an average of approximately 30 years of storage industry experience. NSA benefits from the local expertise and shared best practices among its PROs. Their strong network of industry relationships fuels NSA’s robust portfolio growth, while their significant ownership of NSA equity aligns interests with shareholders. Apart from its PROs, NSA also has four internal brands, iStorage, Move It, Northwest and SecurCare, that manage NSA’s joint ventures and corporate managed stores.



The fact that the shares outstanding increased by 60% in 5 years is a big red flag.

Let's have a look at the 10-K to know more about the PRO brands and equity allocation.

<https://www.nationalstorageaffiliates.com/investor-relations/sec-filings/content/0001628280-23-005252/0001628280-23-005252.pdf>

Our executive chairman of the board of trustees and former chief executive officer, Arlen D. Nordhagen, co-founded SecurCare Self Storage, Inc. ("SecurCare"), in 1988 to invest in and manage self storage properties. While growing SecurCare to over 150 self storage properties, Mr. Nordhagen recognized a market opportunity for a differentiated public self storage REIT that would leverage the benefits of national scale by integrating multiple experienced regional self storage operators with local operational focus and expertise. We believe that his vision, which is the foundation of the Company, aligns the interests of our participating regional operators ("PROs"), with those of our public shareholders by allowing our PROs to participate alongside our shareholders in our financial performance and the performance of our PROs' "managed portfolios", which means, with respect to each PRO, the portfolio of properties that such PRO manages on our behalf. A key component of this strategy is to capitalize on the local market expertise and knowledge of regional self storage operators by maintaining the continuity of their roles as property managers.

As of December 31, 2022, our PROs managed 385 of our properties. We believe that our structure creates the right financial incentives to align the interest of our PROs with those of our public shareholders. We require our PROs to exchange the self storage properties they contribute to the Company for a combination of OP units and subordinated performance units in our operating partnership or subsidiaries of our operating partnership that issue units intended to be economically equivalent to the OP units and subordinated performance units issued by our operating partnership ("DownREIT partnerships"). OP units, which are economically equivalent to our common shares, create alignment with the performance of the Company as a whole. Subordinated performance units, which are linked to the performance of specific managed portfolios, incentivize our PROs to drive operating performance and support the sustainability of the operating cash flow generated by the self storage properties that they manage on our behalf. Because subordinated performance unit holders receive distributions only after portfolio-specific minimum performance thresholds are satisfied, subordinated performance units play a key role in aligning the interests of our PROs with us and our shareholders. Our structure thus offers PROs a unique opportunity to serve as regional property managers for their managed portfolios and directly participate in the potential upside of those properties while simultaneously diversifying their investment to include a broader portfolio of self storage properties. We believe our structure provides us with a competitive growth advantage over self storage companies that do not offer property owners the ability to participate in the performance and potential future growth of their managed portfolios.

We believe that our national platform, which includes our PRO structure and property management platform, has significant potential for continued external and internal growth. We seek to further expand our national platform by continuing to recruit additional established self storage operators to act as future PROs, pursuing strategic off-market acquisitions, as well as opportunistically partnering with institutional funds and other institutional investors in strategic joint venture arrangements while integrating our operations through the implementation of centralized initiatives, including management information systems, revenue enhancement, and cost optimization programs. We are currently engaged in preliminary discussions with additional self storage operators and believe that we could add one to three more PROs in addition to the PROs we have currently, which will enhance our existing geographic footprint and allow us to enter regional markets in which we currently have limited or no market share.

The company rewards the PROs through units which can be converted to cash or shares. This allows the company to expand without much cost in the short term.

	Year Ended December 31,		
	2022	2021	2020
Recurring capital expenditures	\$ 11,794	\$ 9,500	\$ 6,057
Value enhancing capital expenditures	11,732	8,738	4,026
Acquisitions capital expenditures	19,215	11,185	6,064
Total capital expenditures	42,741	29,423	16,147
Change in accrued capital spending	57	(1,846)	248
Capital expenditures per statement of cash flows	<u>\$ 42,798</u>	<u>\$ 27,577</u>	<u>\$ 16,395</u>

They are able to maintain low growth capex.

Unregistered Sales of Equity Securities

During the three months ended December 31, 2022, the Company, in its capacity as general partner of its operating partnership, caused the operating partnership to issue 13,184 common shares to satisfy redemption requests from certain limited partners.

On October 7, 2022, the operating partnership issued 95,000 OP units to an affiliate of Hide-Away, one of the Company's existing PROs, as partial consideration for the acquisition of a self storage property.

On October 28, 2022, the operating partnership issued 57,716 subordinated performance units to an affiliate of Moove In, one of the Company's existing PROs, in exchange for cash.

On November 8, 2022, the operating partnership issued 64,125 subordinated performance units to an affiliate of Moove In, one of the Company's existing PROs, in exchange for cash.

On November 8, 2022, the operating partnership issued 333,333 OP units to an unrelated third party as partial consideration for the acquisition of a self storage property.

On February 21, 2023, the operating partnership issued 276,980 subordinated performance units to an affiliate of Guardian, one of the Company's existing PROs, as partial consideration for the acquisition of a self storage property.

As of February 24, 2023, other than those OP units held by the Company, 41,482,271 OP units were outstanding (including 665,056 outstanding Long-Term Incentive Plan Units ("LTIP units") and 2,120,491 outstanding OP units in certain consolidated subsidiaries of the operating partnership ("DownREIT OP units"), which are convertible into, or exchangeable for, OP units on a one-for-one basis, subject to certain conditions).

As we can see above, there are 41 OP units outstanding and this number keeps increasing.

	Year Ended December 31,		
	2022	2021	2020
Net income	\$ 183,765	\$ 146,935	\$ 79,478
Add (subtract):			
Real estate depreciation and amortization	231,870	156,930	115,757
Company's share of unconsolidated real estate venture real estate depreciation and amortization	17,072	15,408	15,297
Gain on sale of self storage properties	(5,466)	—	—
Mark-to-market changes in value on equity securities	—	—	142
Distributions to preferred shareholders and unitholders	(14,510)	(14,070)	(14,055)
FFO attributable to subordinated performance unitholders ⁽¹⁾	(58,838)	(49,810)	(29,708)
FFO attributable to common shareholders, OP unitholders, and LTIP unitholders	353,893	255,393	166,911
Add:			
Acquisition costs	2,745	1,941	2,424
Casualty-related expenses ⁽²⁾	6,388	—	—
Core FFO attributable to common shareholders, OP unitholders, and LTIP unitholders	\$ 363,026	\$ 257,334	\$ 169,335
Weighted average shares and units outstanding - FFO and Core FFO:⁽³⁾			
Weighted average shares outstanding - basic	91,239	81,195	66,547
Weighted average restricted common shares outstanding	27	33	30
Weighted average effect of outstanding forward offering agreement ⁽⁴⁾	—	100	60
Weighted average OP units outstanding	35,421	30,127	29,863
Weighted average DownREIT OP unit equivalents outstanding	1,925	1,925	1,906
Weighted average LTIP units outstanding	514	542	543
Total weighted average shares and units outstanding - FFO and Core FFO	129,126	113,922	98,949
FFO per share and unit	\$ 2.74	\$ 2.24	\$ 1.69
Core FFO per share and unit	\$ 2.81	\$ 2.26	\$ 1.71

The good news is that the OP units are not the ones that increased the shares outstanding the most but it is actually, the common shares issued.

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Equity Transactions

Issuance and Repurchase of Common Shares

On July 11, 2022, we approved a share repurchase program authorizing, but not obligating, the repurchase of up to \$400.0 million of the Company's common shares from time to time. During the year ended December 31, 2022, we repurchased 1,986,175 common shares for approximately \$90.1 million.

During the year ended December 31, 2022, after receiving notices of redemption from certain OP unitholders, we elected to issue 627,896 common shares to such holders in exchange for 627,896 OP units in satisfaction of the operating partnership's redemption obligations.

Issuance of OP Equity

In connection with the 45 properties acquired during the year ended December 31, 2022, we issued \$68.9 million of OP equity (consisting of 353,030 series A-1 perpetual preferred units, 887,291 OP units and 167,396 subordinated performance units). We also issued \$3.2 million of OP equity (consisting of 46,540 OP units) as consideration for Northwest's rights to property management contracts, brand, intellectual property, and certain intangible assets in connection with the PRO retirement.

As discussed in Note 3 to the consolidated financial statements in Item 8, during the year ended December 31, 2022, the Company also issued (i) 3,911,260 OP units upon the non-voluntary conversion of 2,078,357 subordinated performance units in connection with Northwest's retirement, (ii) 235,241 OP units upon the voluntary conversion of 82,611 subordinated performance units and (iii) 192,296 OP units upon the conversion of an equivalent number of LTIP units. We also issued 393,614 subordinated performance units upon the conversion of 800,556 OP units.

	Dec 2013	Dec 2014	Dec 2015	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020	Dec 2021	Dec 2022	TTM
Cash Flow From Financing Activities											
Long-Term Debt Issued	150.4	372.8	258.4	812.5	760.9	822.5	822.0	929.5	2,348.5	1,572.0	-
Total Debt Issued	150.4	372.8	258.4	812.5	760.9	822.5	822.0	929.5	2,348.5	1,572.0	1,157.0
Long-Term Debt Repaid	(48.7)	(144.0)	(357.3)	(558.6)	(679.1)	(507.2)	(561.6)	(546.1)	(1,322.2)	(960.4)	-
Total Debt Repaid	(48.7)	(144.0)	(357.3)	(558.6)	(679.1)	(507.2)	(561.6)	(546.1)	(1,322.2)	(960.4)	(658.7)
Issuance of Common Stock	-	-	278.1	378.3	140.3	175.6	70.6	82.9	901.0	-	-
Repurchase of Common Stock	-	-	-	-	-	-	-	-	-	(90.1)	(159.4)
Issuance of Preferred Stock	-	-	-	-	166.6	-	43.6	-	-	-	-
Common Dividends Paid	-	-	(12.4)	(26.7)	(47.7)	(62.2)	(74.5)	(90.1)	(131.7)	(195.7)	(197.7)
Preferred Dividends Paid	-	-	-	-	(2.3)	(10.4)	(12.4)	(13.1)	(13.1)	(13.4)	(16.1)
Common & Preferred Stock Dividends Paid	-	-	(12.4)	(26.7)	(50.0)	(72.5)	(86.9)	(103.2)	(144.8)	(209.1)	(213.9)
Other Financing Activities	5.5	(15.5)	(43.5)	(51.8)	(52.6)	(65.7)	(83.4)	(76.6)	(109.6)	(157.8)	(155.4)
Cash from Financing	107.1	213.4	123.3	553.7	286.1	352.6	204.3	286.5	1,672.9	154.6	(30.4)

The company has also been making use of shares issuance to raise capital.

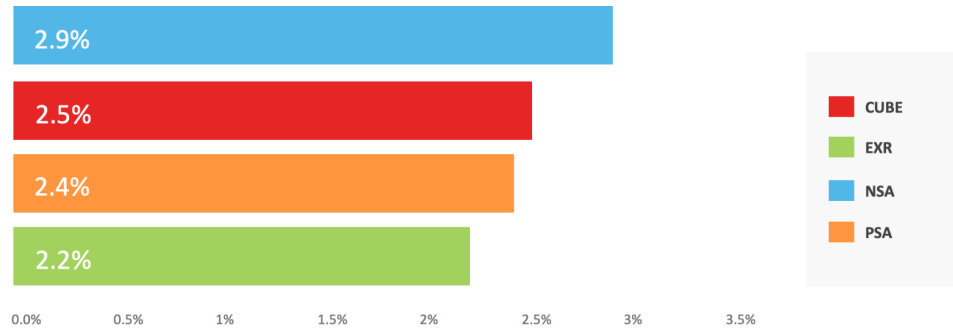
We will need to be careful with this as much of the cash flows are ultimately not going to shareholders who will be diluted.

Let's go back to the presentation.

NSA'S MARKETS ARE WELL POSITIONED VS PEERS

Population growth in NSA's markets is expected to outpace the peers⁽¹⁾

Projected Population Growth 2023 - 2028



(1) Source: Evercore ISI Q3 2023 Storage Demographic Update (August 20, 2023)

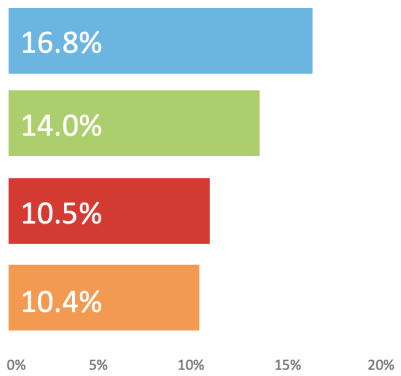
This is one of the tailwinds for the company over competitors.

TRAILING FIVE YEARS OF PERFORMANCE (Q3 2018 – Q2 2023)

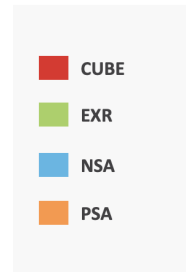
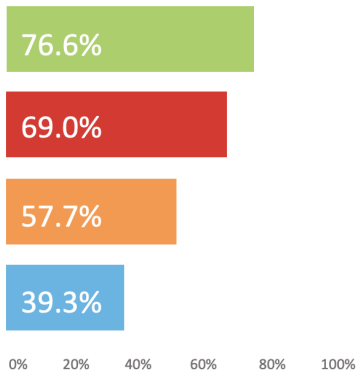


TRAILING FIVE YEARS OF PERFORMANCE (Q3 2018 – Q2 2023)

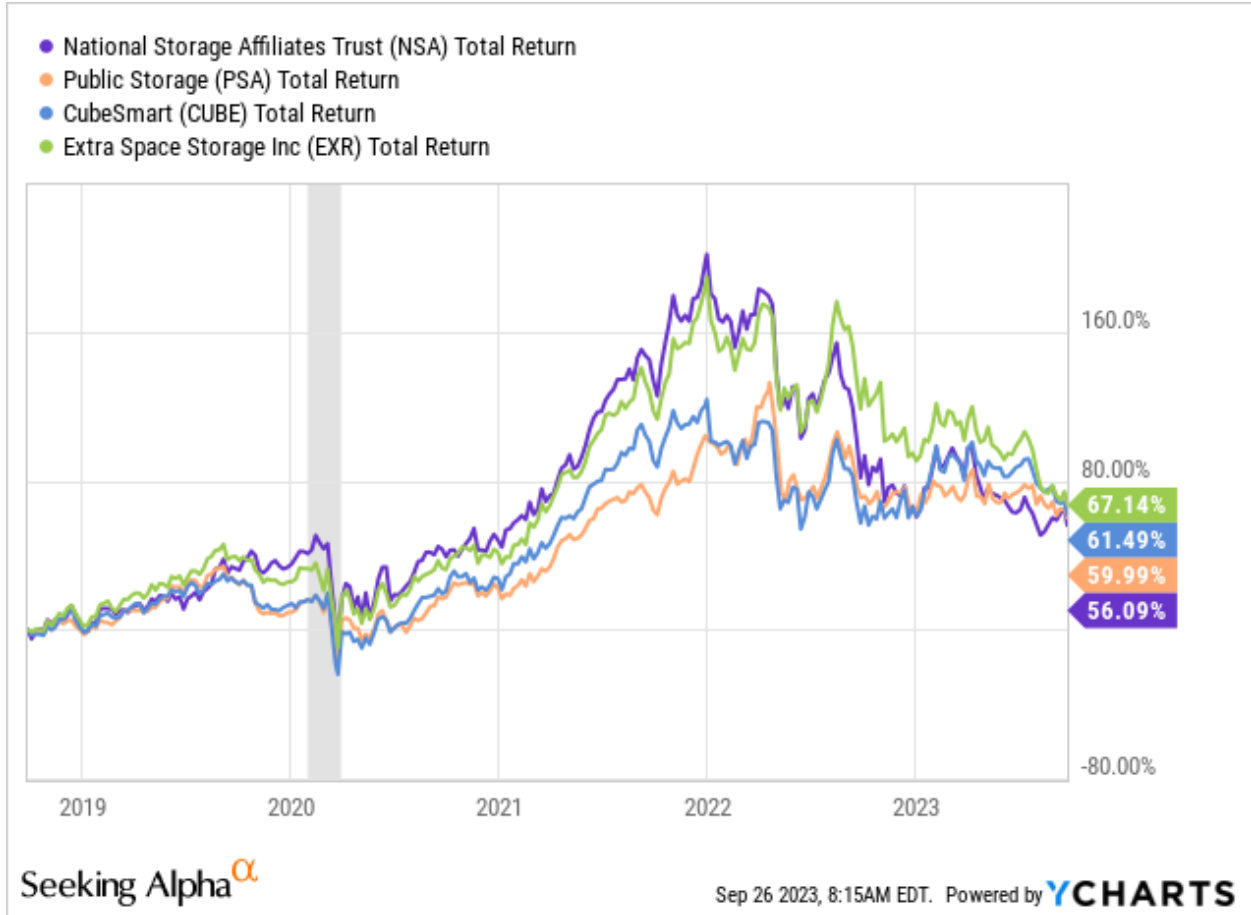
Average Quarterly Core FFO
Per Share Growth



Total Shareholder Return



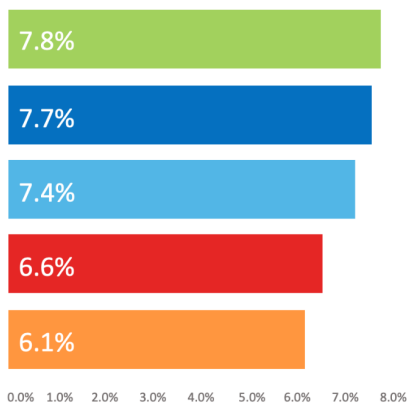
Their stock has been underperforming competitors in the last 5 years.



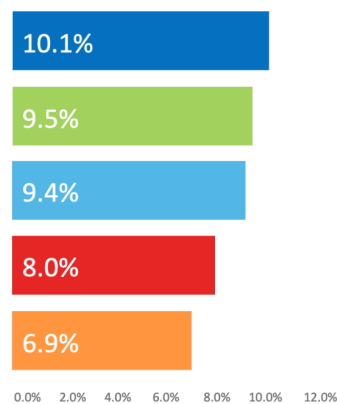
The stock is also more volatile and in a bull market might outperform competitors.

TRAILING FIVE YEARS OF PERFORMANCE (Q3 2018 – Q2 2023)

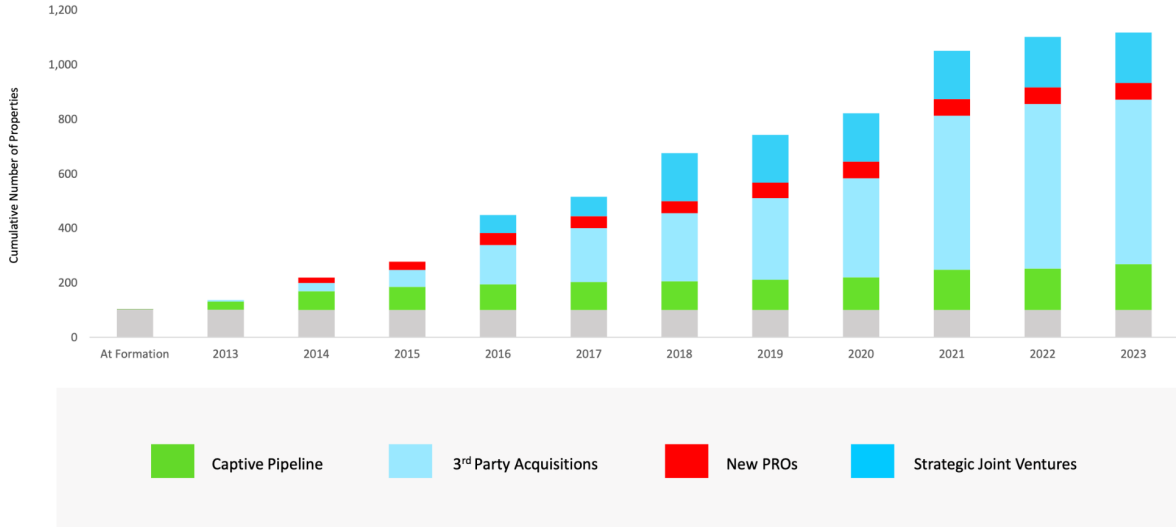
Average Quarterly Same Store Revenue Growth



Average Quarterly Same Store NOI Growth

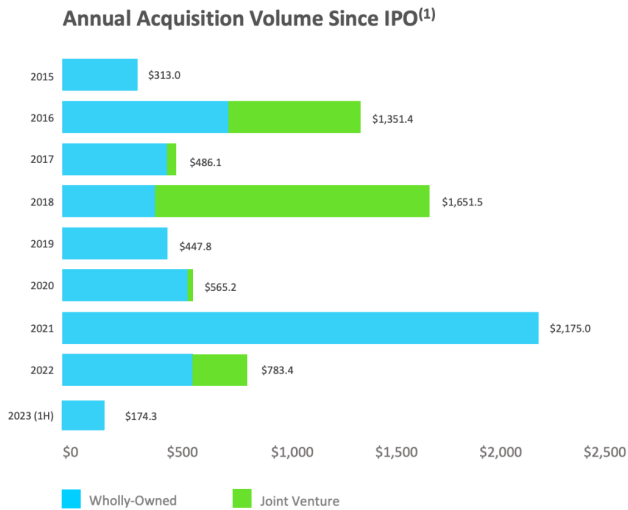


MULTI-FACETED ACQUISITION STRATEGY

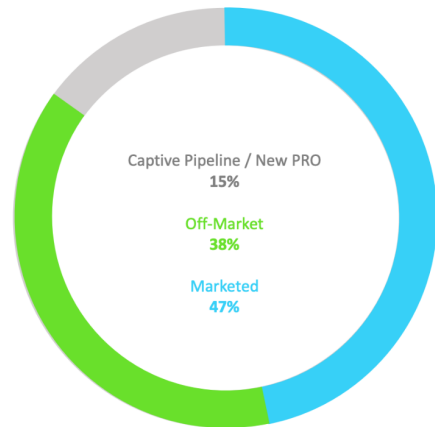


One of the core strategy of NSA has been growth through acquisitions.

RELATIONSHIP-DRIVEN TRANSACTIONS FUEL GROWTH



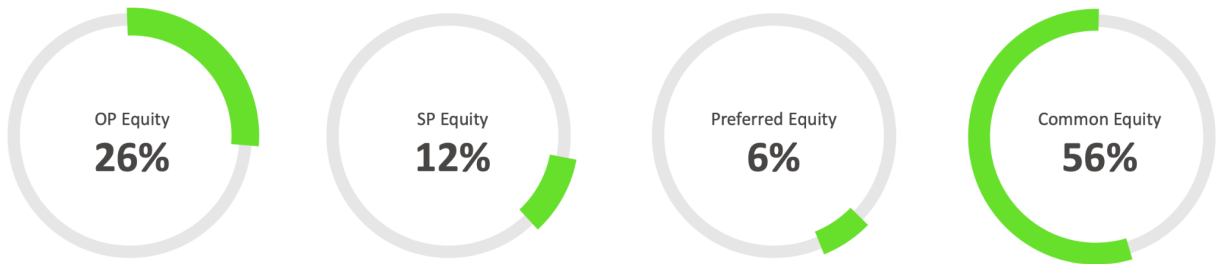
2020 – 2022 Acquisition Volume by Source



(1) \$ Millions

FLEXIBLE CAPITAL STRUCTURE

Equity Capitalization – Large Investment By Management and PROs

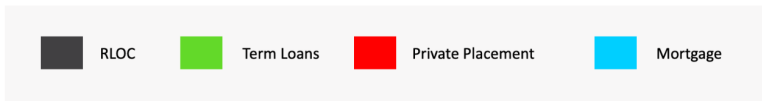
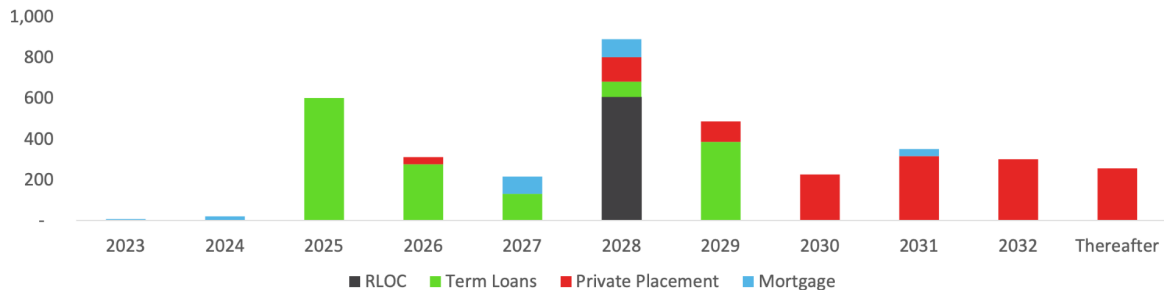


INVESTMENT GRADE BALANCE SHEET PROVIDES STRENGTH AND FLEXIBILITY TO FINANCE GROWTH



WELL-LADDERED DEBT MATURITY SCHEDULE

Debt Maturity Schedule (\$ in millions)⁽¹⁾



There is no need for us to look at the 10-K again.

We can do a crude calculation of the intrinsic value.

Intrinsic Value

Since they are using shares to grow, let's assume that the company is not going to grow at all. We will account for growth later.

	Dec 2013	Dec 2014	Dec 2015	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020	Dec 2021	Dec 2022	TTM
Net Income											
Net Income	(1.3)	(16.4)	12.4	18.0	3.0	14.1	4.0	48.6	105.3	103.7	111.9
Cash Flow From Operating Activities											
Depreciation & Amortization	6.8	15.5	28.7	43.0	60.9	76.8	92.8	106.6	136.0	196.6	207.0
Amort. of Goodwill and Intangibles	2.6	8.3	12.0	12.1	14.2	12.3	12.3	10.6	22.3	36.6	22.4
Total Depreciation & Amortization	9.4	23.8	40.7	55.1	75.1	89.1	105.1	117.2	158.3	233.2	229.4
(Gain) Loss On Sale of Asset	-	(1.4)	-	-	(5.7)	(0.4)	(2.8)	-	-	(5.5)	(3.3)
(Gain) Loss on Sale of Investments	-	-	-	-	-	-	(0.6)	0.1	-	-	-
Stock-Based Compensation	1.1	1.5	3.0	2.6	3.8	3.8	4.5	4.3	5.5	6.3	6.5
Change in Accounts Payable	2.4	(0.1)	0.3	8.4	1.2	6.6	5.6	7.4	8.4	16.5	15.4
Change in Other Net Operating Assets	0.1	0.8	(0.7)	(2.0)	(2.4)	(5.7)	0.1	(3.4)	(3.2)	(10.2)	(12.7)
Other Operating Activities	(7.6)	5.6	(7.9)	5.0	41.5	40.7	60.6	29.8	41.0	80.3	65.9
Cash from Operations	7.1	16.4	50.3	94.6	124.3	161.8	196.7	220.7	331.3	443.8	435.0

With the current business, let's say they can generate safely owner's earnings of \$380 million a year.

Let's discount it at 5.5%

Remove the net debt of \$3.571 billion

We have an intrinsic value of \$3.338 billion.

We are not going to divide by the current shares outstanding but instead by all possible shares, including those for the PROs, that is, 129 million.

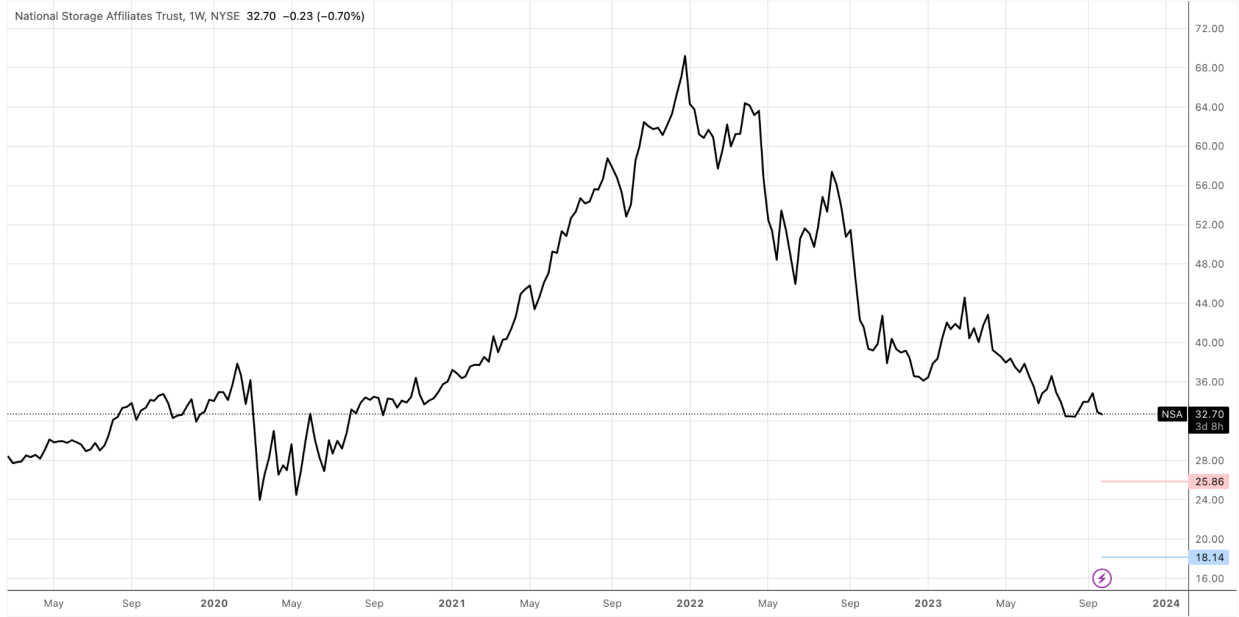
The intrinsic value per share is \$25.87.

We take a margin of safety of 30% to account for all future dilutions and economic risks.

The buy price is \$18.11/share.

IshfaqPeerally published on TradingView.com, Sep 26, 2023 12:50 UTC

National Storage Affiliates Trust, 1W, NYSE 32.70 -0.23 (-0.70%)



TradingView