National Storage Affiliates Trust (NSA)

Updated November 5th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$63	**5 Year CAGR Estimate:**	5.3%	**Market Cap:**	$5.6 B
Fair Value Price:	$49	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	12/14/2021[1]
% Fair Value:	129%	**5 Year Valuation Multiple Estimate:**	-5.0%	**Dividend Payment Date:**	12/31/2021
Dividend Yield:	2.6%	**5 Year Price Target**	$71	**Years Of Dividend Growth:**	6
Dividend Risk Score:	F	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	7.9%

Overview & Current Events

National Storage Affiliates Trust is a self-administered and self-managed real estate investment trust specializing in the operation and acquisition of self-storage properties located within the top 100 metropolitan statistical areas throughout the United States and Puerto Rico. The trust owns 763 consolidated self-storage properties in 35 states and Puerto Rico with approximately 47.6 million rentable square feet. Through its property management platform, the trust also manages an additional portfolio of 177 properties owned by its unconsolidated real estate ventures. NSA owns a 25% equity interest in each of its unconsolidated real estate ventures. NSA generates around $535 million in annual revenues and is headquartered in Greenwood Village, Colorado.

On November 2nd, National Storage Affiliates reported its Q3 results for the period ending September 30th, 2021. Total revenues came in at $150.84 million, 37.8% higher year-over-year. The jump in revenues was attributable to higher rental revenues following accretive acquisitions and higher management fees. Specifically, during the quarter, NSA acquired 76 self-storage properties for $600 million. Core FFO landed at $67.5 million, 53.2% higher versus the prior-year period primarily driven by 24.3% higher NOI (Net Operating Income) and a proportionally weaker growth of just 4.6% in operating expenses. On a per-share basis, core FFO grew by 30.2% to $0.56 due to the additional shares issued to partially fund the trust's acquisitions. At the end of the quarter, occupancy stood at $96.2%, an increase of 450 basis points compared to Q3-2020. Considering Q3's results, management hiked its outlook for FY2021, now expecting core FFO/share of $2.19-$2.22 (previously $2.11-$2.14). We have utilized the midpoint of this range in our estimates.

During the quarter, National Storage Affiliates also hiked its DPS once again to a quarterly rate of $0.41%, which implies a 7.9% increase sequentially, or a 20.5% increase year-over-year. The current run rate stands at $1.64 as a result.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO/shr[2]	---	---	($0.08)	$0.75	$0.92	$1.12	$1.24	$1.38	$1.54	$1.71	***$2.21***	***$3.25***
DPS	---	---	---	---	$0.54	$0.88	$1.04	$1.16	$1.27	$1.35	***$1.64***	***$2.30***
Shares[3]	---	---	---	---	15.5	29.9	44.4	53.3	58.2	66.5	***86.2***	***150.0***

National Storage Affiliates is not a very old REIT as it was founded in 2013. During its relatively brief history of operations, however, it has swiftly grown its financials primarily through acquisitions. We expect future growth to continue to be driven by accretive acquisitions, with the trust claiming an acquisition pipeline of 330+ properties. These include 160 properties with an estimated value of $1.7 billion and the 177 properties included in its Joint Venture, from which the trust can buy out the remaining 75% stake. We forecast a core FFO/share growth of around 8% in the medium term. In terms of its dividend, the trust has raised it consistently since its IPO, with hikes taking place more than once throughout each year. The 5-year DPS CAGR currently stands at 13.3%. We also expect the dividend to keep growing at

[1] Estimated dates based on past dividend dates
[2] The trust believes that Core FFO (FFO excluding special items such as acquisition fees) better reflects its performance.
[3] Share count is in millions.

around 7%, lower than its current historical average, to account for any potential headwinds moving forward as the trust gradually matures.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/FFO	---	---	---	---	16.3	19.0	18.1	20.5	21.9	19.3	***28.5***	***22.0***
Avg. Yld.	---	---	---	---	3.6%	4.1%	4.6%	4.1%	3.8%	4.1%	***2.6%***	***3.2%***

Shares of National Storage Affiliates have historically traded with an average P/FFO of around 19.8. Recently, the valuation multiple has expanded considerably. It is currently standing at 28.5 despite the trust's raised guidance. While National Storage Affiliates is growing quite rapidly, we believe that a P/FFO of around 22 is a fairer valuation. The stock currently yields 2.6%, which could increase if its valuation corrects. The stock may retain its current premium due the low-rate environment, nonetheless. Still, we choose to remain rather prudent.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	59%	79%	84%	84%	82%	79%	***74%***	***71%***

Overall, we consider National Storage Affiliates' dividend safe due to its 74% payout ratio and sequential payout hikes. The trust features several qualities. These include high weighted average remaining leases, which stand at around 28 years and 6 years for the trust's real estate leasehold interests, and office leases, respectively. Further, being one of the largest self-storage operators, the trust seems to have unlocked significant profit-maximization competitive advantages. Specifically, since the trust's IPO, NSA has achieved same-store NOI growth of 7.5%. This compares to 5.4%, 6.1%, 4.7%, and 3.5% against CubeSmart (CUBE), Extra Space Storage (EXR), Life Storage (LSI), and Public Storage (PSA) respectively. Due to the trust's multi-year contracts, sky-high occupancy, and robust performance throughout the pandemic, we believe that NSA should perform well during a potential recession. Still, due to its relatively recent inception, the trust has not yet found itself in the midst of a prolonged recession.

Final Thoughts & Recommendation

National Storage Affiliates is a rapidly growing self-storage REIT with a diversified portfolio of hundreds of properties across the U.S. and Puerto Rico. The trust features a robust acquisition pipeline, extended multi-year leases, and an exceptional track record of growing its core FFO/share and DPS over the past few years, despite its relatively short trading history. We forecast annualized returns of 5.3% in the medium term, powered by the stock's 2.6% yield, our estimated per-share growth rates, offset by the possibility for the stock to undergo a valuation compression towards a fairer multiple. As a result, shares earn a hold rating.

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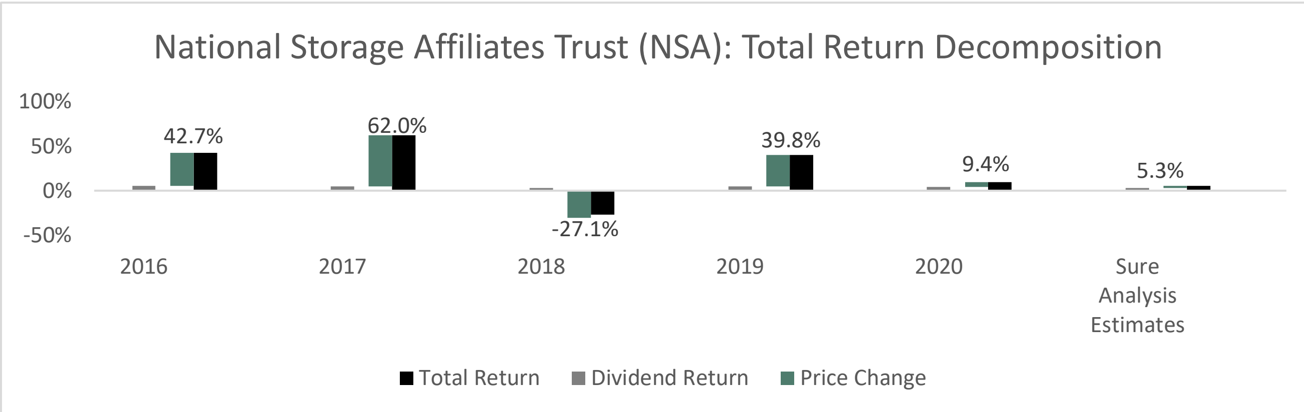
Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue		29		77	134	199	268	331	388	432
Gross Profit		18		49	89	134	184	227	278	309
Gross Margin		59.9%		63.7%	66.1%	67.4%	68.5%	68.6%	71.6%	71.4%
SG&A Exp.		2		8	16	22	30	36	44	44
D&A Exp.		4		24	41	55	75	89	105	117
Operating Profit		12		17	32	58	79	102	127	147
Operating Margin		40.4%		22.2%	23.6%	29.0%	29.3%	30.7%	32.7%	34.0%
Net Profit		(3)		-	12	18	3	14	4	49
Net Margin		-11.8%		0.0%	9.3%	9.0%	1.1%	4.3%	1.0%	11.2%
Free Cash Flow		4		12	46	83	109	142	175	204
Income Tax					0	0	1	1	1	2

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets		179	368	833	1,099	1,892	2,267	2,729	3,084	3,514
Cash & Equivalents		3	11	9	7	13	13	13	21	19
Accounts Receivable		0	1	1	1	2	2	3	3	3
Inventories										
Goodwill & Int. Ass.			3	8	4	29	25	22	35	47
Total Liabilities		192	313	619	583	913	995	1,327	1,632	2,083
Accounts Payable				10						
Long-Term Debt		165	299	598	568	879	958	1,278	1,534	1,917
Shareholder's Equity		(12)	-	-	237	577	669	744	701	751
D/E Ratio		(13.6)			2.40	1.52	1.14	1.39	1.67	1.98

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets				0.0%	1.3%	1.2%	0.1%	0.6%	0.1%	1.5%
Return on Equity					10.5%	4.4%	0.5%	2.0%	0.6%	6.7%
ROIC				0.0%	1.3%	1.2%	0.1%	0.6%	0.1%	1.5%
Shares Out.					15.5	29.9	44.4	53.3	58.2	66.5
Revenue/Share		1.46		3.85	2.95	2.53	6.04	6.21	6.66	6.49
FCF/Share		0.20		0.62	1.01	1.05	2.45	2.67	3.01	3.06

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