



# CubeSmart (CUBE)

Updated February 28<sup>th</sup>, 2023 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$47	<b>5 Year CAGR Estimate:</b>	11.0%	<b>Market Cap:</b>	\$10.7 B
<b>Fair Value Price:</b>	\$47	<b>5 Year Growth Estimate:</b>	7.5%	<b>Ex-Dividend Date<sup>1</sup>:</b>	03/31/2023
<b>% Fair Value:</b>	101%	<b>5 Year Valuation Multiple Estimate:</b>	-0.2%	<b>Dividend Payment Date:</b>	04/17/2023
<b>Dividend Yield:</b>	4.1%	<b>5 Year Price Target</b>	\$67	<b>Years Of Dividend Growth:</b>	13
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Rating</b>	Buy

## Overview & Current Events

CubeSmart is a self-managed REIT focused primarily on the ownership, operation, management, acquisition, and development of self-storage properties in the United States. The company owns 611 self-storage properties, totaling approximately 44.1 million rentable square feet in the District of Columbia and 24 other states. In addition, the company manages 663 stores for third parties bringing the total number of stores that it owns and/or manages to 1,279. CubeSmart has over 340,000 customers and generated around \$1 billion in revenues last year. The company is based in Malvern, Pennsylvania.

On December 7<sup>th</sup>, 2022, CubeSmart raised its dividend by 14% to a quarterly rate of \$0.49.

On February 23<sup>rd</sup>, 2023, CubeSmart reported its Q4-2022 and full-year results for the period ending December 31<sup>st</sup>, 2022. For the quarter, revenues grew by 9.5% to \$200.7 million year-over-year. Higher revenues were primarily attributable to increased rental rates on our same-store portfolio as well as revenues generated from property acquisitions and recently opened development properties. Specifically, same-store NOI rose 12.1% year-over-year, driven by 9.5% same-store revenue growth against just a 2.3% same-store increase in property operating expenses. Accordingly, FFO grew by a substantial 72.2% to \$152.6 million. However, due to an increased number of shares outstanding as a resource of funds for the company's acquisitions, FFO/share grew by a lesser, but still massive, 68% to \$0.67. It's worth mentioning that same-store occupancy at the end of Q4 was 92.1%, slightly lower from last year's 93.3%, nonetheless. For the year, FFO/share jumped by 19.9% to \$2.53.

Management introduced its fiscal 2023 guidance, expecting to achieve FFO/share between \$2.64 and \$2.71. We have utilized the midpoint of this range in our estimates, which implies year-over-year growth of about 6%.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>FFO/shr</b>	\$0.87	\$1.03	\$1.23	\$1.40	\$1.59	\$1.65	\$1.70	\$1.72	\$2.11	\$2.53	<b>\$2.68</b>	<b>\$3.85</b>
<b>DPS</b>	\$0.46	\$0.55	\$0.69	\$0.90	\$1.11	\$1.22	\$1.29	\$1.33	\$1.45	\$1.78	<b>\$1.96</b>	<b>\$2.88</b>
<b>Shares<sup>2</sup></b>	135.2	149.1	168.6	178.2	180.5	184.7	190.9	194.1	203.8	224.9	<b>224.9</b>	<b>280.0</b>

CubeSmart showcases an excellent track record of growing revenues and FFO/share, with management skillfully acquiring lucrative properties and maximizing their potential profitability through operational efficiencies and low-cost financing. Consequently, the company's FFO/share has grown by around 12.6% on average annually over the past decade. While growth slowed down in 2020 following the COVID-19 pandemic, recovery has been strong since. We remain cautiously optimistic about rising interest rates and expect FFO/share growth of around 7.5% through 2028. Growth is to be powered by the company's expanding portfolio, smart pricing, and occupancy maximization. CubeSmart was forced to slash its dividend during the Great Financial Crisis, though it has raised its dividend annually over the past 13 years at a rapid pace. The dividend features a 5-year and 10-year CAGR of 9.9% and 16.2%, respectively.

<sup>1</sup> Estimated dates based on past dividend dates.

<sup>2</sup> Share count is 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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We had previously forecasted that dividend growth should re-accelerate following the company's 3% hike in 2020. Indeed, the latest two increases of 25% and 14% have proved us right. We are more confident now in the trust's ability to continue to grow its dividend. Hence, we retain our dividend CAGR estimate at 8% through 2028.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/FFO	18.4	17.8	20.6	21.2	15.7	17.6	19.9	17.9	22.7	15.4	17.7	17.5
Avg. Yld.	2.9%	3.0%	2.7%	3.0%	4.4%	4.2%	3.8%	4.3%	3.0%	4.6%	4.1%	4.3%

CubeSmart's shares have historically traded with a quite consistent valuation multiple attached, at around 18.7 times their underlying FFO. At 17.7 times the company's own FFO outlook, we believe that shares are more or less fairly valued at their current levels, having converged to our fair P/FFO estimate of 17.5. The multiple reflects both the company's growth prospects and the ongoing rise in interest rates, which could suppress it relative to its past rates.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

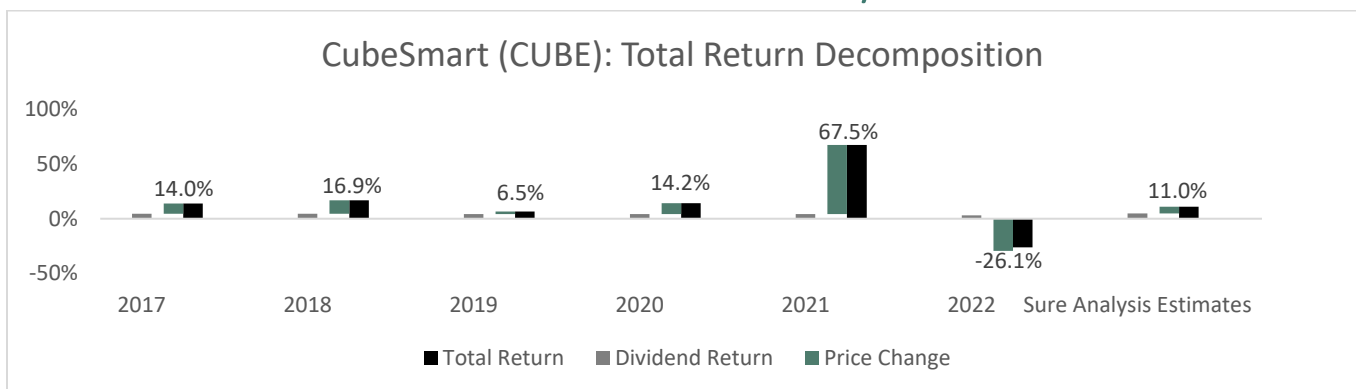
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	53%	53%	56%	64%	70%	74%	76%	77%	69%	70%	73%	75%

We consider CubeSmart's dividend relatively safe, comfortable covered by the underlying FFO. The company's expansionary strategy and resilient performance, even during 2020, do not point to any coverage issues whatsoever. The latest notable hike of 14% should further reassure investors of its coverage strength. The company showcases several qualities. These include its properties being located at prime markets with good visibility and ease of access that maximizes cash flows, as well as robust growth potential due to great demand for storage combined with ultra-cheap financing. Also, unlike other types of REITs, a massive customer base provides cash flow diversification. The self-storage market remains quite competitive, nonetheless. The 10 operators collectively own approximately 25% market share, which means there is plenty of space for consolidation in the medium-term. Overall, despite the dividend cut in 2007 due to its unsustainable levels, revenues remained robust both during the Great Financial Crisis and during the COVID-19 pandemic. Hence, we expect the company's performance to remain resilient during a potential recession.

## Final Thoughts & Recommendation

We believe that CubeSmart is a quality operator with solid growth prospects and a proven track record of shareholder value creation. Driven by our growth estimates, the current 4.1% dividend yield, and relatively stable valuation assumptions, we forecast annualized returns of 11% through 2028. Accordingly, we still rate CubeSmart a buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	266	318	377	445	510	559	598	644	679	823
<b>Gross Profit</b>	163	200	244	291	344	377	401	434	456	570
<b>Gross Margin</b>	61.1%	62.9%	64.8%	65.5%	67.5%	67.5%	67.1%	67.4%	67.1%	69.5%
<b>SG&amp;A Exp.</b>	26	30	28	28	33	35	38	39	41	48
<b>D&amp;A Exp.</b>	119	117	129	154	164	148	146	166	159	240
<b>Operating Profit</b>	27	58	89	111	150	197	220	232	258	291
<b>Operating Margin</b>	10.1%	18.3%	23.6%	25.0%	29.3%	35.2%	36.8%	36.0%	37.9%	35.4%
<b>Net Profit</b>	2	41	26	78	88	134	164	169	166	223
<b>Net Margin</b>	0.7%	13.0%	7.0%	17.5%	17.2%	24.0%	27.4%	26.3%	24.4%	27.1%
<b>Free Cash Flow</b>	118	143	166	217	263	292	304	332	351	449

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	2,150	2,359	2,786	3,104	3,475	3,545	3,753	4,030	4,778	6,548
<b>Cash &amp; Equivalents</b>	4	3	3	63	3	5	4	55	4	11
<b>Accounts Receivable</b>	10	5	4	5	4	5	6	6	6	8
<b>Goodwill &amp; Int. Ass.</b>	22	9	22	13	8	2	8	10	58	109
<b>Total Liabilities</b>	1,160	1,265	1,337	1,459	1,814	1,910	2,037	2,222	2,937	3,550
<b>Accounts Payable</b>	61	58	69	85	94	143	150	138	159	200
<b>Long-Term Debt</b>	1,024	1,139	1,174	1,252	1,596	1,635	1,747	1,932	2,365	3,146
<b>Shareholder's Equity</b>	990	1,092	1,448	1,643	1,655	1,629	1,710	1,799	1,832	2,872
<b>LTD/E Ratio</b>	1.03	1.04	0.81	0.76	0.96	1.00	1.02	1.07	1.29	1.10

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	0.1%	1.8%	1.0%	2.6%	2.7%	3.8%	4.5%	4.3%	3.8%	4.0%
<b>Return on Equity</b>	0.2%	4.0%	2.1%	5.0%	5.3%	8.2%	9.8%	9.6%	9.1%	9.5%
<b>ROIC</b>	0.1%	2.0%	1.1%	2.8%	2.9%	4.1%	4.9%	4.7%	4.2%	4.2%
<b>Shares Out.</b>	124.5	135.2	149.1	168.6	178.2	180.5	184.7	190.9	194.1	205.1
<b>Revenue/Share</b>	2.14	2.31	2.50	2.61	2.84	3.08	3.22	3.36	3.48	4.01
<b>FCF/Share</b>	0.95	1.04	1.10	1.28	1.47	1.61	1.64	1.73	1.80	2.19

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

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