National Storage Affiliates Trust (NSA)

Updated August 11th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	$32	**5 Year CAGR Estimate:**	14.9%	**Market Cap:**	$4.56 B
Fair Value Price:	$40	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	09/14/2023
% Fair Value:	81%	**5 Year Valuation Multiple Estimate:**	4.0%	**Dividend Payment Date:**	09/29/2023
Dividend Yield:	7.0%	**5 Year Price Target**	$51	**Years Of Dividend Growth:**	8
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Buy

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 932 consolidated self-storage properties in 39 states and Puerto Rico with approximately 59.3 million rentable square feet. It also manages an additional portfolio of 185 properties owned by its unconsolidated real estate ventures. NSA owns a 25% equity interest in each of its unconsolidated real estate ventures. NSA generated roughly $802 million in revenues last year, and is based in Greenwood Village, Colorado.

On May 25th, National Storage Affiliates increased its dividend by 1.8% to a quarterly rate of $0.56.

On August 7th, 2023, the company reported its Q2 results for the period ending June 30th, 2023. For the quarter, total revenues came in almost at $215.5 million, 8.4% higher year-over-year. The increase in revenues was attributable to higher same-store revenues and growth from acquisitions. Specifically, year-over-year same-store total revenues increased 2.8% to almost $186.7 million, driven primarily by a 7.1% increase in average annualized rental revenue per occupied square foot, partially offset by a 4.1% decrease in average occupancy.

Core FFO landed at $88.2 million, 4.2% lower versus the prior-year period, as a 3.4% increase in NOI (Net Operating Income) was more than offset by a 63% increase in interest expenses. On a per-share basis, core FFO fell by three cents to $0.68 due to the additional shares issued to partially fund the trust's acquisitions. Management revised their fiscal 2023 guidance lower, expecting core FFO/share to land between $2.63 and $2.69 (down from $2.78 to $2.86 previously), the midpoint of which we have applied in our estimates.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO/shr[2]	($0.08)	$0.75	$0.92	$1.12	$1.24	$1.38	$1.54	$1.71	$2.26	$2.81	***$2.66***	***$3.39***
DPS	---	----	$0.54	$0.88	$1.04	$1.16	$1.27	$1.35	$1.59	$2.15	***$2.24***	***$3.00***
Shares[3]	---	---	15.5	29.9	44.4	53.3	58.2	66.6	81.2	91.2	***129.7***	***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 300+ properties. These include 130 properties with an estimated value of $1.4 billion and the 185 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 5% 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. We expect the dividend to keep growing at around 6% through 2028, despite the most recent decelerated dividend hike. We have softened our growth estimates to take into account higher interest rates which could suppress the company's bottom line.

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[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.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/FFO	---	---	16.3	19.0	18.1	20.5	21.9	19.3	24.3	18.5	***12.1***	***15.0***
Avg. Yld.	---	---	3.6%	4.1%	4.6%	4.1%	3.8%	4.1%	2.8%	4.1%	***7.0%***	***5.9%***

Shares of National Storage Affiliates have historically traded with an average P/FFO of around 20. Recently, the valuation multiple has compressed amid increased market uncertainty and a rising-rate environment. It is currently standing at 12.1, which we believe undervalues the stock. We are using a fair P/FFO of 15.0, reflecting both the ongoing rise in interest rates and the company's prospects to continue to grow. At 7.0%, the yield is the highest the stock has traded at since only briefly in the midst of the pandemic before shares rebounded swiftly.

Safety, Quality, Competitive Advantage, & Recession Resiliency

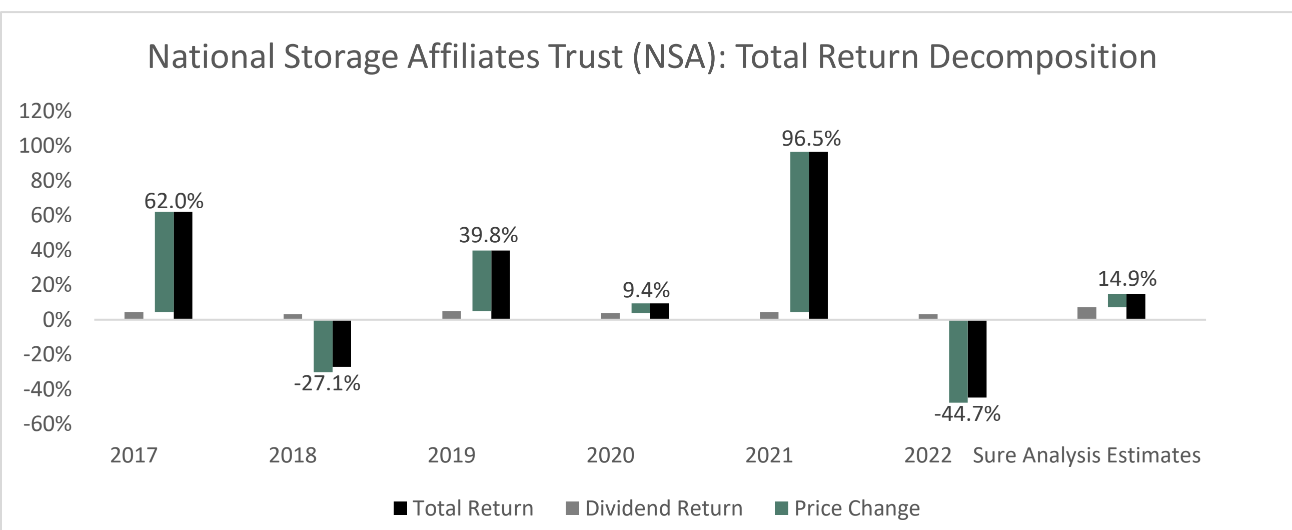
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	59%	79%	84%	84%	82%	79%	70%	77%	***84%***	***88%***

Overall, we consider National Storage Affiliates' dividend safe due to its payout ratio and sequential payout hikes. Further, being one of the largest self-storage operators, the trust seems to have unlocked significant profit-maximization competitive advantages. Specifically, over the past five years, NSA has achieved an above-average same-store NOI growth of 9.4%. This compares to 7.7%, 9.4%, 9.7%, and 6.2% for CubeSmart (CUBE), Extra Space Storage (EXR), Life Storage (LSI), and Public Storage (PSA), respectively. Due to the trust's multi-year contracts, high occupancy rate, and robust performance throughout the pandemic, we believe that NSA should perform well during a potential recession. Still, we note that elevated interest rates will be a headwind to the company's performance over the medium-term.

Final Thoughts & Recommendation

National Storage Affiliates is a rapidly growing self-storage trust with a diversified portfolio of hundreds of properties across the U.S. and Puerto Rico. It features an exceptional track record of growing its core FFO/share and DPS over the past few years as well. While growth is likely to slow down moving forward, we believe that the market undervalues the stock, which could translate to valuation tailwinds in the years ahead. Combined with our growth estimates and the 7.0% yield, we forecast annualized returns of 14.9% through 2028. As a result, shares earn a buy rating.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	---	77	134	199	268	331	388	432	586	802
Gross Profit	---	49	89	134	184	227	278	309	430	591
Gross Margin	---	63.7%	66.1%	67.4%	68.5%	68.6%	71.6%	71.4%	73.4%	73.7%
SG&A Exp.	---	8	16	22	30	36	44	44	51	59
D&A Exp.	---	24	41	55	75	89	105	117	158	233
Operating Profit	---	17	32	58	79	102	127	147	218	290
Operating Margin	---	22.2%	23.6%	29.0%	29.3%	30.7%	32.7%	34.0%	37.2%	36.2%
Net Profit	---	-	12	18	3	14	4	49	105	104
Net Margin	---	0.0%	9.3%	9.0%	1.1%	4.3%	1.0%	11.2%	17.9%	13.0%
Free Cash Flow	---	12	46	83	109	142	175	204	303	400
Income Tax	---	---	0	0	1	1	1	2	2	4.7

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	368	833	1,099	1,892	2,267	2,729	3,084	3,514	5,563	6,070
Cash & Equivalents	11	9	7	13	13	13	21	19	25	35
Accounts Receivable	1	1	1	2	2	3	3	3	6	13
Inventories	---	---	---	---	---	---	---	---	---	---
Goodwill & Int. Ass.	3	8	4	29	25	22	35	47	7	54
Total Liabilities	313	619	583	913	995	1,327	1,632	2,083	3,080	3,681
Accounts Payable	---	10	---	---	---	---	---	---	59	---
Long-Term Debt	299	598	568	879	958	1,278	1,534	1,917	2,941	3,551
Shareholder's Equity	---	---	237	577	669	744	701	751	1,557	1,423
LTD/E Ratio	---	---	2.40	1.52	1.14	1.39	1.67	1.98	1.66	2.16

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	---	0.0%	1.3%	1.2%	0.1%	0.6%	0.1%	1.5%	2.3%	1.8%
Return on Equity	---	---	10.5%	4.4%	0.5%	2.0%	0.6%	6.7%	9.1%	7.0%
ROIC	---	0.0%	1.3%	1.2%	0.1%	0.6%	0.1%	1.5%	2.4%	1.8%
Shares Out.	---	---	15.5	29.9	44.4	53.3	58.2	66.5	134.5	91.24
Revenue/Share	---	3.85	2.95	2.53	6.04	6.21	6.66	6.49	4.35	8.79
FCF/Share	0.20	---	0.62	1.01	1.05	2.45	2.67	3.01	2.26	4.39

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