# FINANCIAL REVIEW

Stor-Age's continued strong results for the year reflect a resilient trading performance against the backdrop of challenging macro conditions in South Africa, and political and economic uncertainty for most of the year in the UK. The group delivered a 5.03% increase in its annual dividend per share.

## INTRODUCTION

Our operational performance in both markets was robust. Intense operational focus and discipline at a property level, supported by our specialised digital marketing platform, enabled the group to extract occupancy and revenue growth. Our hands-on management approach across both geographies remains critical to continuing to deliver superior performance. Strict cost control and our revenue management platform complement this strategy.

### PORTFOLIO REVIEW

| | 31 March 2020 | | | 31 March 2019 | | |
|---|---|---|---|---|---|---|
| | GLA m² | Occupied m² | % occupied | GLA m² | Occupied m² | % occupied |
| SA | **365 400** | **310 400** | **85.0** | 357 600 | 300 600 | 84.0 |
| UK | **82 800** | **65 300** | **78.8** | 66 100 | 53 000 | 80.3 |
| Total | **448 200** | **375 700** | **83.8** | 423 700 | 353 600 | 83.5 |

The SA portfolio closed at 365 400 m² GLA (2019: 357 600 m²), up by 7 800 m² year-on-year as a result of the opening of Craighall (4 200 m²) and expansion at existing properties (3 600 m²).

Closing occupancy increased by 1.0% to 85.0%, with occupied space increasing by 9 800 m² year-on-year, a pleasing result in the prevailing trading environment. Excluding Craighall, which was developed under the CPC structure and commenced trading in August 2019, occupancy grew by 7 400 m². The occupancy of Craighall at year end was 2 400 m² (57.8% occupied on its current fit-out and 37.5% occupied on its fully fitted-out GLA).

The national lockdown, which commenced on 27 March 2020, had a negative impact on the closing occupancy position with move-ins during the last two weeks of March lower than the corresponding period in the prior year. Consequently, our occupancy gains for the year, while still positive, were lower than the 12 000 m² we had anticipated to achieve.

The UK portfolio closed at 82 800 m² GLA (2019: 66 100 m²), up 16 700 m² year-on-year as a result of the acquisition of Flexi Store in December 2019. The Flexi Store portfolio had previously been trading under licence of the Storage King brand.

Closing occupancy was 78.8%. Excluding the acquisition of Flexi Store, closing occupancy increased by 800 m² to finish at 81.2%, 0.9% higher than the prior year.

In September 2019, prior to the acquisition of Flexi Store, the portfolio had reached record occupancy levels of 84.2% in line with expectations. The UK self storage industry experiences a more marked degree of seasonality than in South Africa, with occupancy peaking in the spring and summer months. Similar to South Africa, we usually see strong gains in occupancy in the last two weeks of March. The introduction of the lockdown in mid-March in the UK also impacted negatively on occupancy in that month, constraining our original expectations of a full-year occupancy gain of 2 500 m².


## TENANT PROFILE

Details of the group's tenant base is set out in the table below:

| | 31 March 2020 SA | UK | 31 March 2019 SA | UK |
|---|---|---|---|---|
| Number of tenants | **25 300** | **9 400** | 24 200 | 7 900 |
| Residential | **60%** | **69%** | 64% | 68% |
| Commercial | **40%** | **31%** | 36% | 32% |
| Average length of stay – months (existing tenants) | **23.1** | **26.2** | 23.0 | 25.0 |
| Average length of stay – months (tenants vacating during the period) | **13.8** | **9.6** | 13.4 | 9.9 |

# FINANCIAL REVIEW (continued)

## FINANCIAL RESULTS

The table below sets out the group's underlying operating performance by South Africa and the UK:

| | 31 March 2020 | | | 31 March 2019 | | | % variance | | |
|---|---|---|---|---|---|---|---|---|---|
| | SA Rm | UK Rm | Total Rm | SA Rm | UK Rm | Total Rm | SA | UK | Total |
| Property revenue | **440.1** | **258.7** | **698.8** | 336.0 | 193.1 | 529.1 | 31.0 | 34.0 | 32.1 |
| Rental income | **382.2** | **233.3** | **615.5** | 301.5 | 173.2 | 474.7 | 26.7 | 34.7 | 29.7 |
| Rental underpin | **18.5** | **–** | **18.5** | 10.6 | – | 10.6 | 74.7 | – | 74.7 |
| Rental guarantee | **24.5** | **–** | **24.5** | 10.0 | – | 10.0 | 144.6 | – | 144.6 |
| Ancillary income | **13.4** | **22.0** | **35.4** | 11.8 | 16.1 | 27.9 | 14.2 | 36.4 | 27.0 |
| Sundry income | **1.5** | **3.4** | **4.9** | 2.1 | 3.8 | 5.9 | (28.0) | (9.8) | (16.3) |
| Bad debt | **(2.8)** | **(1.0)** | **(3.8)** | (2.1) | (1.1) | (3.2) | (33.6) | 12.4 | (17.9) |
| Direct operating costs | **(99.8)** | **(78.3)** | **(178.1)** | (80.4) | (60.2) | (140.6) | (24.2) | (30.2) | (26.8) |
| Net property operating income | **337.5** | **179.4** | **516.9** | 253.5 | 131.8 | 385.3 | 33.1 | 36.2 | 34.1 |
| Bad debt as a percentage of rental income | **0.74%** | **0.41%** | **0.62%** | 0.71% | 0.64% | 0.68% | | | |

*Bad debt is reflected under the description of Impairment losses recognised on tenant debtors in the consolidated statement of profit or loss and other comprehensive income.*

*The 2019 disclosures in the performance table have been amended to reflect the same treatment as 2020 to allow for meaningful comparison.*

*A reconciliation between the disclosures set out in the table above and the consolidated statement of profit or loss and other comprehensive income is set out on page 90.*

Total property revenue increased by 32.1% to R698.8 million (2019: R529.1 million) including the impact of acquisitions and organic growth.

Rental income for the year was R615.5 million (2019: R474.7 million), a 29.7% increase. On a like-for-like basis (excluding acquisitions and new store openings in the 2019 and 2020 financial years) South African rental income increased by 6.5%, driven by a 1.5% increase in average occupancy levels and a 5.0% increase in the average rental rate.

The Managed Portfolio, comprising 12 properties previously managed and operated by Stor-Age which were acquired in September 2018, delivered year-on-year rental income growth of over 17.0%. Average occupancy and rental rate increased 8.6% and 8.0% respectively.

The year was characterised by a strong focus on growing and retaining occupancy levels. Our revenue management model supported this through a balanced approach of increasing occupancy using promotional offers where necessary and carefully managed pricing levels.

The UK portfolio delivered a strong operational performance with like-for-like rental income (excluding acquisitions in the 2019 and 2020 financial years) increasing by 5.0%, driven predominantly by average occupancy growth of 4.5%.

The rental guarantee of R24.5 million relates to the acquisition of the Managed Portfolio and the rental underpin of R18.5 million relates to the CPC developments (Bryanston and Craighall). Both of these, provided by the sellers of the properties, effectively provide income protection to Stor-Age as the properties lease up to mature occupancy levels.

Ancillary income of R35.4 million (2019: R27.9 million) reflects the positive contribution of acquisitions and organic growth. Although ancillary income is a relatively small proportion of total revenue, each component makes a meaningful contribution to earnings with little capital investment. In South Africa, excluding the impact of acquisitions, merchandise sales and late fees charged to debtors (collectively R4.3 million) increased by 8.0% year-on-year with administration fees (R4.5 million) remaining flat. In the UK, excluding the impact of acquisitions, ancillary income was up 6.7% year-on-year.

Bad debt as a percentage of rental income was 0.62% for the group, reflecting an improvement from the prior year's 0.68%. There was a slight deterioration in South Africa during the year due to the more challenging local economic conditions. This was offset by an improvement in the UK. Cash collections remain a key priority, particularly in light of the challenges arising from the COVID-19 crisis.

Other revenue of R4.7 million (2019: R11.1 million) comprises property and other management fees in South African and licence fee income from franchisee properties in the UK. The decrease in these fees is a result of the acquisition of the Managed Portfolio in the prior year.

The increase in direct operating costs to R178.1 million (2019: R140.6 million) reflects the impact of acquisitions. Across both markets, property rates, staff costs, utilities, insurance and marketing costs account for approximately 85% of the operating cost base. In South Africa, we saw the offsetting benefit of increases in property rates and improved efficiencies in our marketing spend, staff costs and savings on electricity from the roll-out of solar power. The UK benefited from using our South African-based digital marketing expertise, which resulted in improved enquiries and savings in marketing spend.

Administrative expenses amounted to R55.5 million (2019: R43.8 million). Excluding the impact of foreign exchange movements and non-recurring items, administrative costs were broadly in line with the prior year.

The fair value adjustment to investment properties of R104.4 million reflects a decrease in the carrying value of investment properties arising from using more conservative cash flow assumptions in determining fair value. Other fair value adjustments to financial instruments (R175.6 million loss) relate to the mark-to-market adjustments of interest rate swaps, forward exchange contracts and cross currency interest rate swaps ("CCIRS").

Interest income of R58.3 million (2019: R48.9 million) comprises interest income on the share purchase scheme loans, CCIRS and call and money market accounts. The CCIRS accounted for R30.3 million (2019: R29.7 million) of this amount.

Interest expense of R116.6 million (2019: R81.8 million) comprises mainly interest on bank borrowings. The increase is due to higher levels of debt in South Africa and the UK relating to acquisitions in the current and prior year, expansion and capital expenditure incurred at existing properties, and the development pipeline in SA.

# FINANCIAL REVIEW (continued)

## CAPITAL STRUCTURE

Our financing policy is to fund our current needs to expand the portfolio and achieve our strategic growth objectives through a mix of debt, equity and cash flow. We may also from time-to-time offer a dividend reinvestment plan, which allows shareholders to reinvest their cash dividends into additional shares in the company, as a mechanism to conserve cash for future expansion.

Details of the group's borrowing facilities at 31 March 2020 are set out below:

| | ZAR facilities Rm | GBP facilities £m | GBP facilities Rm | Total facilities Rm |
|---|---|---|---|---|
| Total debt facilities | **1 705.0** | **60.0** | **1 328.5** | **3 033.5** |
| Undrawn debt facilities | **574.4** | **3.8** | **83.8** | **658.2** |
| Gross debt | **1 130.6** | **56.2** | **1 244.7** | **2 375.3** |
| Gross debt net of cash held in facilities | **961.0** | **56.2** | **1 244.7** | **2 205.7** |
| Net debt | **931.0** | **54.1** | **1 198.3** | **2 129.3** |
| Investment property | **4 132.0** | **132.9** | **2 942.3** | **7 074.3** |
| Subject to fixed rates | **700.0** | **44.5** | **984.1** | **1 684.1** |
| % hedged on: | | | | |
| – Gross debt | **61.9%** | **79.1%** | **79.1%** | **70.9%** |
| – Gross debt net of cash held in debt facilities | **72.8%** | **79.1%** | **79.1%** | **76.4%** |
| – Net debt | **75.2%** | **82.1%** | **82.1%** | **79.1%** |
| Effective interest rate | **8.25%** | **3.60%** | **3.60%** | **5.90%** |
| Gearing (LTV ratio)[1] | **22.5%** | **40.7%** | **40.7%** | **30.1%** |

[1] *LTV ratio is defined as the ratio of net debt as a percentage of gross investment property.*

Stor-Age is well capitalised with sufficient access to cash resources and funding options. In May 2020 we raised R250 million of new equity in an oversubscribed accelerated bookbuild. Total undrawn borrowing facilities amounted to R658.2 million at 31 March 2020. None of the facilities are due for renewal before November 2021 and the average cost of debt for the group is 5.90%.

At 31 March 2020 the group had ZAR loan facilities of R1.705 billion available. The respective maturities of the various facilities range from October 2021 to November 2023, with a weighted average maturity of 2.5 years (excluding a three month rolling note of R160 million which is refinanced quarterly).

The GBP loan facilities comprise a £52.0 million facility (expiry date November 2024) and an £8.0 million facility (expiry date September 2021) with a weighted average maturity of 4.2 years.

On a net debt basis, 79.1% of borrowings was subject to fixed rates (31 March 2019: over 100.0%).

Net debt stood at R2.129 billion at year end (31 March 2019: R1.483 billion) with a gearing ratio (LTV) of 30.1% (31 March 2019: 23.8%).

In light of the recent reductions in interest rates, the board considers this level of interest rate hedging to be appropriate in the current circumstances. The board will continue to review the hedging position on an ongoing basis.


The table below summarises the expiry profile of our debt facilities:

SA

| Expiry period | Facility Rm | Drawn Rm | Undrawn Rm | % of facility drawn |
|---|---|---|---|---|
| FY21 | **160.0** | **160.0** | **–** | **100.0%** |
| FY22 | **745.0** | **672.3** | **72.7** | **90.2%** |
| FY23 | **150.0** | **–** | **150.0** | **–%** |
| FY24 | **650.0** | **298.3** | **351.7** | **45.9%** |
| Total | **1 705.0** | **1 130.6** | **574.4** | **66.3%** |

FY21 is a three-month rolling note which is refinanced quarterly.

UK

| Expiry period | Facility £m | Drawn £m | Undrawn £m | % of facility drawn |
|---|---|---|---|---|
| FY22 | **8.0** | **5.7** | **2.3** | **71.3%** |
| FY25 | **52.0** | **50.5** | **1.5** | **97.2%** |
| Total | **60.0** | **56.2** | **3.8** | **93.7%** |

At 31 March 2020, R600 million of our investment property portfolio was unencumbered.

# FINANCIAL REVIEW (continued)

## NET ASSET VALUE PER SHARE

| | 31 March 2020 Rm | 31 March 2019 Rm |
|---|---|---|
| Total equity – statement of financial position | **4 605.4** | 4 624.8 |
| *Less:* Non-controlling interest | **(33.1)** | (28.2) |
| Net assets | **4 572.3** | 4 596.6 |
| *Less:* Goodwill and intangible assets | **(152.3)** | (140.8) |
| Net tangible assets | **4 420.0** | 4 455.8 |
| Number of shares in issue (million) | **397.8** | 392.9 |
| Net asset value per share (R) | **11.58** | 11.77 |
| Net tangible asset value per share (R) | **11.19** | 11.41 |

## CCIRS AND HEDGING OF GBP EARNINGS

The group makes use of CCIRS as part of its treasury management policy to create a synthetic matching of GBP funding to GBP-denominated assets at optimal levels. The CCIRS create an effective hedge of the net investment in our offshore operations against foreign currency fluctuations.

Details of the group's CCIRS are set out in the table below:

| | 31 March 2020 GBP m | 31 March 2019 GBP m |
|---|---|---|
| Investment property | **132.9** | 117.5 |
| Bank debt | **(56.2)** | (43.8) |
| Other assets | **8.6** | 7.5 |
| Other liabilities | **(20.4)** | (15.9) |
| Net investment | **64.9** | 65.3 |
| Notional value of CCIRS | **25.0** | 25.0 |
| CCIRS as a percentage of investment property | **18.8%** | 21.3% |
| CCIRS as a percentage of net investment | **38.5%** | 38.3% |
| Effective hedge (CCIRS and bank debt as a percentage of total assets) | **57.4%** | 55.1% |

At 31 March 2020 the group had entered into CCIRS with a notional value of £25.0 million (31 March 2019: £25.0 million). This represents an effective hedge of 38.5% (31 March 2019: 38.3%) of the net investment in Storage King.

The group's GBP-denominated debt of £56.2 million (31 March 2019: £43.8 million), together with the notional value of the CCIRS, equates to an effective hedge of 57.4% (31 March 2019: 55.1%) of GBP-denominated assets.

Distributable earnings from the UK are repatriated to South Africa for distribution purposes. To manage the impact of currency volatility, the group has adopted a rolling hedging policy using forward exchange contracts ("FECs") as follows:

- 12 month forecast – at least 80%
- 13 – 24 month forecast – at least 75%
- 25 – 36 month forecast – at least 50%

FECs entered into by the group as at the date of this announcement are summarised below:

| Six-month period ending | Hedging level % | Forward rate R/£ |
|---|---|---|
| Mar-20 | **100** | **22.85** |
| Sep-20 | **100** | **23.02** |
| Mar-21 | **100** | **23.03** |
| Sep-21 | **85** | **23.23** |
| Mar-22 | **85** | **23.48** |
| Sep-22 | **80** | **24.56** |
| Mar-23 | **60** | **24.65** |

## INVESTMENT PROPERTY

The fair value of our investment properties increased by 13.3% to R7.074 billion (2019: R6.242 billion).

Investment properties are valued by the board using the discounted cash flow ("DCF") method to arrive at a fair value. The valuation of freehold and long leasehold properties is based on a DCF of the net operating income over a 10-year period and a notional sale of the asset at the end of the 10th year. The same methodology is used for short leasehold properties, except that no sale of the property in the 10th year is assumed and the DCF is extended to the expiry of the lease.

The group's policy is to have at least one-third of the properties externally valued by an independent valuer each year and the remaining properties valued internally by the board, using the same methodology applied by the external valuers. In line with this policy, 20 of the 50 properties in the South African portfolio were valued independently by Mills Fitchet Magnus Penny (Member of the South African Institute of Valuers) at 31 March 2020. For the UK portfolio, 16 of the 21 properties were valued independently by Cushman and Wakefield (Registered Valuers of The Royal Institution of Chartered Surveyors in the UK) at 31 March 2020. The remaining five properties comprising the acquisition of Flexi Store in December 2019 were independently valued by Cushman and Wakefield at 30 November 2019. The board is satisfied that the internal valuation of the five-property portfolio at 31 March 2020 is not materially different from the independent valuation performed at 30 November 2019.

In determining the valuations, we have adopted a conservative view on the forecasted cash flows arising from the properties in FY21 due to the uncertainty as a result of COVID-19. In addition, we have not yet taken account of any potential cost savings arising from our response to managing the financial impact of the pandemic. As a result, the value of our investment properties in SA and the UK decreased by R48.8 million and £2.5 million (R55.6 million) respectively.

# FINANCIAL REVIEW (continued)

The table below summarises the breakdown of investment properties as at 31 March 2020:

| | % of portfolio | Valuation (R million) |
|---|---|---|
| SA – Trading properties | 95.7% | 3 952.0 |
| SA – Developments | 4.3% | 179.6 |
| SA – Total | 100.0% | 4 132.0 |

| | % of portfolio | Valuation (£ million) |
|---|---|---|
| UK – Leasehold | 21.1% | 28.0 |
| UK – Freehold | 78.9% | 104.9 |
| UK – Total | 100.0% | 132.9 |
| R/£ exchange rate | | 22.14 |
| UK – Total (R million) | | 2 942.3 |

## ACQUISITIONS AND DEVELOPMENTS

### ACQUISITIONS

During the year the group completed the acquisitions of Craighall and Flexi Store.

Craighall, developed by Stor-Age Property Holdings Proprietary Limited under the CPC structure, was completed at a development cost of R109 million. On full fit-out the property will comprise over 6 500 m² GLA.

In December 2019, the acquisition was completed of the five-property Flexi Store portfolio (16 700 m² GLA) at a purchase consideration of £13.4 million and an estimated forward yield of 7.29%. Completion of the transaction was delayed from the originally anticipated August 2019 date. Given that the acquisition was accretive to earnings, the delay in completion had a negative impact on earnings for the second half of the year. The performance of the acquired properties since acquisition has been broadly in line with expectations. The acquisition was in line with our stated UK growth strategy of acquiring properties trading into dense catchment areas which complement the existing portfolio.

## PIPELINE

Total committed pipeline subject to town planning consent c.53 000 m²+.

| Site | Location | City | Status | Anticipated GLA (m²) |
|---|---|---|---|---|
| Tygervalley | Highly visible location on Durban Road just off the N1 highway | Cape Town | Under construction | 7 100 |
| Sunningdale | Highly visible location on the corner of Berkshire Boulevard and Whitehall Way | Cape Town | Under construction | 6 350 |
| Cresta | Prominent location on the corner of Weltevreden Road and Valley Lane – opposite Cresta Shopping Mall | Johannesburg | Under construction | 7 400 |
| De Waterkant | Prominent location on corner of Rose and Waterkant Streets | Cape Town | Town planning approved, development planning underway | 6 600 |
| Bryanston | Highly visible location alongside the Virgin Active Gym at the Grosvenor Crossing | Johannesburg | Town planning approved, development planning underway | 4 800 |
| Hillcrest | Prominent location on the corner of Main and Kassier Roads | Durban | DBN Town planning approved, development planning underway | 7 400 |
| Johannesburg 1 | To be announced | Johannesburg | JHB Town planning approved, development planning underway | 7 500 |
| Johannesburg 2 | To be announced | Johannesburg | Secured and town planning under negotiation | 6 000 |

## DEVELOPMENT PIPELINE

Construction at Tygervalley commenced in late October 2019 and we had expected to open in the early part of 2021. In line with the lockdown regulations implemented on 27 March 2020, construction activity ceased and only recommenced on 1 June 2020 with the easing of restrictions. The costs to complete the development are estimated to be R46 million.

At Cresta, the existing building was demolished. The site was cleared and piling for the foundations was underway prior to the national lockdown. Construction activity recommenced on 1 June 2020. The costs to complete the development are estimated to be R62 million.

The design of Tygervalley and Cresta has been planned to cater for separate receiving and dispatch areas to accommodate a growing demand from our commercial user segment. Our expected opening dates for trading are March 2021 and August 2021 for Tygervalley and Cresta respectively, assuming no further delays are experienced or lockdown restrictions imposed.

Sunningdale is to be developed in a joint venture with Garden Cities. The development will complement our existing Table View property, providing Stor-Age with a presence in two excellent locations in the fast-developing west coast region. Stor-Age will have a 50% equity interest in the development and will earn development fees prior to opening, and property management fees once trading commences. At year end, no construction costs had yet been incurred. The costs to complete Phase I of the development are estimated to be R20 million (being Stor-Age's 50% share).

De Waterkant is well-located to service the residents and businesses on the western side of Cape Town CBD, the V&A Waterfront, and the surrounding areas of Bo Kaap, Tamboerskloof and the Atlantic Seaboard suburbs. The development will complement our existing Gardens and Sea Point properties, providing Stor-Age with an extended presence in the heart of some of South Africa's most densely populated and sought-after areas. The design and value engineering process is underway. However, we do not anticipate any development activity to take place in the next 12 months.