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Cubesmart (CUBE)

Formed in 2004, Cube is a self storage REIT. $12.50/share for 102MM shares, or $1.5 BB in equity. $760MM in debt, so EV is $2.26 BB for a $70 MM op. cash flow business, or a 32x EV/FCF business. Seems rather pricey, until one realizes the underlying net facility value is $1.7BB, so the unsecured EV amount is roughly $600 MM, which is 9x unsecured EV/op. cash flow. Distributed about $35MM to investors in 2011, for 102MM shares, is $0.33/share, for a 3% dividend yield.

Owns 370 self storage facilities in 26 states. 24.4MM rentable sq. ft. and 78.4% leased to 173,000 tenants, or 467 tenants/facility. Managed 103 facilities for third party. Offers month-to-month leases. 69% of facilities have a manager living inside the facility. 72% are climate controlled, vs. 36% national average. Florida, California, Texas, Illinois are 18%, 15%, 10% and 7% of portfolio. About $12/sq. ft, or $300 MM, or 15% of the $2 BB portfolio. Only received $3.8MM or $30,000/facility managing the facilities.

Recently purchased 22 facility portfolio in NY, North East, from Storage Deluxe for $560 MM, $460 in cash and assuming $88 MM in existing debt. 1.6MM rentable sq. ft. About $25.5 MM/facility, $350/sq. ft. Based off these figures, the estimated value of the entire portfolio is roughly $9 BB, but the book value is $1.7 BB since the historic cost for properties were much cheaper in TX, CA, AZ, NM, GA.

$65-$85 MM in operating cash flow annually. Finance the acquisitions with loans, mortgages. Pays no tax since the co. is reporting continued losses. Issues a lot of common shares to raise funds, especially the past year to finance the Storage Deluxe deal. 6% interest on mortgage loans ($358MM), but 15% return off the properties, so a 9% spread. The co. can continue to accumulate more properties. About a 50% operating margin.

Co. had $200 MM in term loan financing (~2%+Libor) and $200 MM in unsecured term loan (1.75%+Libor), or $12 MM in interest expense + $21 MM mortgage expense (~6% x $358 MM in mortgage), or $33 MM in annual interest expense.

Considering the net value of the facilities is $1.7BB, and the total mortgage and debt outstanding are ~$760 MM, then over time the co. may have paid down the purchase cost from the equity investors through new share issuance, or from operating cash flow. Seeing how additional paid in capital was $1.3BB and debt was $760MM, or a combined $2.1BB compared to $2.1BB for the gross storage facility value, it doesn't look like the co. paid down principal with op. cash flow.