Is Storage Vault Canada Inc. a Short Sell?

Description

Last week, I wrote an article about **Storage Vault Canada Inc** (TSXV:SVI) explaining the operations of the company. While Storage Vault operates in an industry I think is terrific, the valuation of the company is something I find much less attractive.

Before we go into why this company could be considered a candidate for short selling, I'll explain the difference between buying a stock and shorting a stock.

As most investors are aware, when you buy a stock (go long), you own the security and are entitled to any dividends paid by the company. If shares rise in value, you make a profit.

With short selling, however, once you sell a stock you do not own, you are responsible for paying the dividends declared by the company, and you will only make money when the stock declines in value. In the case of Storage Vault, there may be an opportunity to sell shares at the current price of approximately $2.50 per share and make a profit by seeing the shares decline in value.

Currently, the company has self-storage operations across the country. Revenue is derived by renting lockers to individuals needing to store their belongings. Additionally, the company offers the delivery and pickup of the self-storage unit straight to the customer's house. Again, this is a great business that could be a fantastic investment at the right price.

In fiscal 2016, the company had total revenues of $27.82 million and $9.28 million in cash flow from operations (CFO). Although the company experienced a net loss, it is understandable for a growing real estate company. In order to expand, the company raised money in the form of both debt and equity. During fiscal 2016, the company raised almost $60 million in equity and over $72 million in debt. Clearly, there are plans for expansion.

In an industry with fair returns on equity and limited pricing power, investors need to ask themselves what side of the coin they want to stand. The cost to short this security would be no more than 0.004% as the dividend is currently 0.25 of a cent in each quarter. Although this dividend cost the company no more than $1 million during the past fiscal year, the total cost is expected to be closer to $3 million in 2017.

There could be trouble

Given the company is currently trading at 75 times CFO, the valuation of the stock may be a little stretched. While we have to be fair and allow for CFO to catch up to the share price over the next year, the challenge comes when we assume CFO will double over the next year; the multiple is still no less than 37.5 times.

If we take a company called **Public Storage** (NYSE:PSA) as a basis for comparison, the company with a market capitalization close to $40 billion trades at close to 11.5 times CFO. Clearly, there is a gap somewhere.

While investors with a higher tolerance for risk may be able to make a profit by short selling, those taking this action must be willing to do so while being aware of the additional risks. Short selling is not for the faint of heart, especially with a growing company!

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