This Venture Exchange Stock Promises Stable Double-Digit Growth

Description

The **TSX Venture Exchange** (TSX-V) is the wild west of the Canadian stock market. It's a minefield for the average investor, with shady companies and penny stocks aplenty. However, the higher risk of these ventures presents the opportunity of higher returns for the astute investor willing to put in the effort required to uncover investment gems.

One such gem could be the little-known self-storage firm **StorageVault Canada** (TSXV:SVI). The Toronto-based company is a prime example of the sort of high-growth, underappreciated companies the TSX-V was designed to host.

As the name suggests, StorageVault owns and manages self-storage vaults for people across the country. It currently manages over 160 storage locations in nearly every province in Canada. Services also include 4,600 portable storage units, which collectively represent over six million rentable square feet.

The company owns two out of every three of these locations and all of its portable storage units. In effect, it's a real estate firm focused on the self-storage market. In fact, the annual statement highlights the same metrics you would expect from a real estate investment trust (REIT), such as net operating income (NOI) and adjusted funds from operations (AFFO).

Fool contributor Will Ashworth calls StorageVault a "real estate company dressed up as a self-storage business." I agree with that analogy and think that makes valuing the business and estimating future growth a lot easier.

Things are simplified further by the fact that the storage unit business isn't exactly a revolutionary business. It's been around for decades and is already a mature market in the United States, where publicly listed companies like **Public Storage** dominate the market.

In Canada, the market is still nascent and relatively fragmented. With the ongoing boom in e-commerce and online shopping, the amount of stuff each Canadian family accumulates could multiply. Couple this with the rising cost of each square foot of housing in metropolitan regions, and you can see why separate storage is a great idea.

Meanwhile, the top 10 players in the storage market hold less than 15% market share. This fragmented market presents a growth opportunity for StorageVault. The company can simply gobble up smaller firms to add to its portfolio and boost growth. Growth has been driven primarily by acquisition over the past few years. In fact, the company spent $275 million to acquire 38 stores from the Real Storage Portfolio just this month.

The number of stores is up 60% over the past 12 months. Investors should expect more acquisitions in the near future. However, considering the fact that StorageVault only has $6 million in cash and cash equivalents on its book, future acquisitions may have to be fueled by either debt or stock dilution.

In terms of debt, the company already has $2.60 in long-term borrowings for every dollar in equity. That’s comparatively lower than mature REITs like **Choice Properties**.

In terms of valuation, SVI’s price per share is 20% higher than net book value per share and 35 times annual adjusted funds from operations. Those multiples may seem reasonable when you consider the double-digit percentage growth in NOI, AFFO, net value, and revenue every year.

Bottom line

StorageVault is a high-risk, high-reward stock that’s reasonably valued when you consider its runway for long-term growth, market dynamics, and business strategy.

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