Self-Storage Is the Most Boring Way to Get Rich

Description

"If investing is entertaining, if you're having fun, you're probably not making any money. Good investing is boring."

That's a quote from one of the most successful investors of our time, George Soros. If you've spent enough of years observing the capital markets, you probably agree with him. A company doesn't need to be exciting to create wealth for its shareholders over the long term.

In fact, boring businesses in yawn-worthy industries are often overlooked by most investors, which means that the smart money can dive in at attractive valuations. That might be the case for Canada's current leader in a decisively bland sector: self-storage.

Ontario-based **StorageVault Canada Inc.** (TSXV:SVI) owns and manages over 160 different storage locations across the country. These units are used by people who need either temporary or permanent storage for all their extra stuff. Usually, their need for storing extra stuff arises from a downsizing, death in the family, divorce, or costs of owning space in dense urban environments.

Companies like SVI have capitalized on this need for extra space with easily accessible storage units. The company's business model is straightforward: borrow money to buy units or storage management firms across the country and rent out storage units for extended periods of time to generate cash flow. SVI intends to apply this growth-by-acquisition model until it has a dominant position in Canada's growing market for self-storage.

In other words, it's a real estate venture with a twist. In fact, the company's reports highlight metrics like net income from operations (NOI) and adjusted funds from operations (AFFO), which investors might expect from a listed real estate investment trust (REIT).

Judging by these metrics, SVI has had a stellar run over the past few years. Since 2014, its asset base (number of units) has expanded 10-fold. Revenue, NOI, and AFFO are up 56%, 62%, and 45%, respectively, over the past year alone. Over the past four years, operating cash flow is also up ten-fold.

However, it’s important to note that this brisk pace of growth is fueled by debt. According to its latest report, the company has $2.7 in debt for every $1 in equity. The total debt burden is currently roughly seven times greater than the sales generated over the trailing 12-month period.

High levels of debt are not surprising in the real estate sector. Canada’s leading REIT, **Choice Properties,** has $3.3 in debt for every dollar in equity, and total debt nearly 10 times greater than annual sales.

SVI management has also noted that as its asset base has scaled up, the cost of its debt has been steadily declining. The company seems to be taking advantage of low interest rates to lock in debt for the long-term on attractive terms.

At its current price, SVI trades at a price-to-AFFO ratio of 31, which is double the average ratio across Canada’s REITs, but less than the company’s annual growth rate, which suggests the stock is undervalued.

Bottom line

All things considered, SVI is a well-managed company rapidly consolidating its position in a boring but expanding market. It probably deserves to graduate from the Venture exchange to the main board soon.

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