This Hidden Gem Has Multiplied 41 Times Over 9 Years!

Description

If you bought **StorageVault Canada** (TSXV:SVI) stock in June 2010, you'd now be sitting on a gigantic 4,000% return. The humble startup has managed to deploy a simple growth strategy to expand its presence across the country, just as the demand for self-storage units kicks off. And it's still got plenty of room left to grow!

Renting out storage units for extra stuff isn't a new concept. It's been around and remained unchanged for decades but hasn't gone mainstream in Canada yet. The trend is a lot more popular south of the border. According to property experts, the average American demands five to nine square feet of storage space per person.

By comparison, the Greater Toronto Area (GTA) has only two to three square feet of self-storage space, while the demand has crossed four square feet in recent years. Demand is also expanding across other major cities such as Edmonton, Calgary, and Vancouver.

Meanwhile, the self-storage industry remains highly fragmented with small local players offering variable prices and lacklustre customer service. StorageVault has taken advantage of the market structure to acquire and consolidate smaller regional sites and offer customers a cost-effective solution.

The company currently manages 7.9 million square feet of rentable space in 199 storage locations spread across the country. Rent from the storage units is used to acquire new locations, maintain existing locations, and even offer a dividend to shareholders.

Over the past year, the company has spent $373 million in acquisitions. Meanwhile, it is on track to generate over $100 million in revenue and $29 million in adjusted funds from operations (AFFO) this year. Management has even decided to boost the dividend starting this quarter.

Each new location added to the portfolio improves accessibility and convenience for customers, which could prove to be the company's competitive advantage over the long term. As StorageVault continues to accumulate new store locations and bolster quarterly cash flows, investors could be in for a lucrative ride.

However, there are two glaring concerns with the stock: valuation and debt. The company has nearly $2.92 in debt for every dollar in equity and the total debt burden is nearly 30 times greater than annual operating cash flow. The stock trades at 10 times annual sales and 36 times AFFO.

By comparison, America's largest self-storage company **Public Storage** generates $2 in annual cash flow for every dollar in debt and trades at 27 times earnings.

Investors should also consider the limited size of Canada's self-storage market. According to research firm IBISWorld, Canada's self-storage market was worth $840 million in 2017. Even if the market doubles in 10 years and StorageVault manages to capture a third of it by then, the company's annual revenue will be half its current market capitalization.

Bottom line

StorageVault may have created more wealth for investors than any other venture stock in recent memory, but its price seems to have been driven more by expectations than fundamentals.

Considering the size of Canada's self-storage market and the company's debt burden, I would say the stock is priced to perfection. It's difficult to recommend it to anyone but the most risk-immune investors.

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