

Arealink (8914, Corporate)

Historic high utilisation

17th May 2023

Share price: ¥2,240

Market cap: ¥29.0bn

1Q earnings included historic high utilisation as the advantages of Arealink's directly owned storage model become increasingly evident.

Company sector

Real Estate Management (GICS Industry)

Stock data

Price (¥)	2,240
Mkt cap (¥bn)/(\$m)	29.0 / 211.7
52-week range (¥)	1,350 - 2,531
Shares O/S (m)	12.9
Average daily value (\$m)	0.4
Free float (%)	60.9
Foreign shareholding (%)	17.0
Ticker	8914
Exchange	Tokyo
	Standard
Net Debt/Equity (x)	Net cash



Source: Bloomberg

- **Having shifted from an investor owned to a directly owned storage model shortly before COVID, the fruits of Arealink's new strategy are starting to become visible, with historic high utilisation & improved GPM leaving core 1Q storage business sales & OP above plan despite the delay of 2 large land rights consolidation business sales into the 2Q.**
- **To put the utilisation data into perspective, Hello Storage's level of 90.4% was the highest achieved since Arealink listed in Aug 2003, with both new & existing unit utilisation above plan & breakeven of new facilities taking 4 months versus the previously expected 6.**
- **While the SG&A to sales ratio increased, driven by higher salary related personnel costs & transaction commission payments, we expect economies of scale to result in lower SG&A to sales in the long-term given new openings are no longer manpower dependent.**
- **With storage unit openings set to accelerate from the 2H, & approx. 90% of units already secured, we anticipate an acceleration in 2H sales & OP growth leaving the company's FY 12/23 estimates looking conservative.**
- **We expect the combination of strong COVID & WFH related demand for storage, improved brand recognition & more efficient, database-targeted unit openings, allied to a new President, to deliver a compelling long-term earnings growth profile.**
- **On 11x FY 12/23 company estimates, trading -75% below its 2006 peak & with strong & improving fundamentals, we suggest investors book a meeting CEO Yoshika Suzuki in May/June to build a deeper understanding of the long-term investment case: [here](#).**

BUSINESS OVERVIEW

Arealink is Japan's leading domestic self-storage operator & deals in land with leasehold rights.

Next event:

Virtual 1-on-1 meetings with CEO Yoshika Suzuki, May 23rd, 24th, 25th, 31st; June 1st, 6th, 7th, 8th, 14th, 15th: [here](#).

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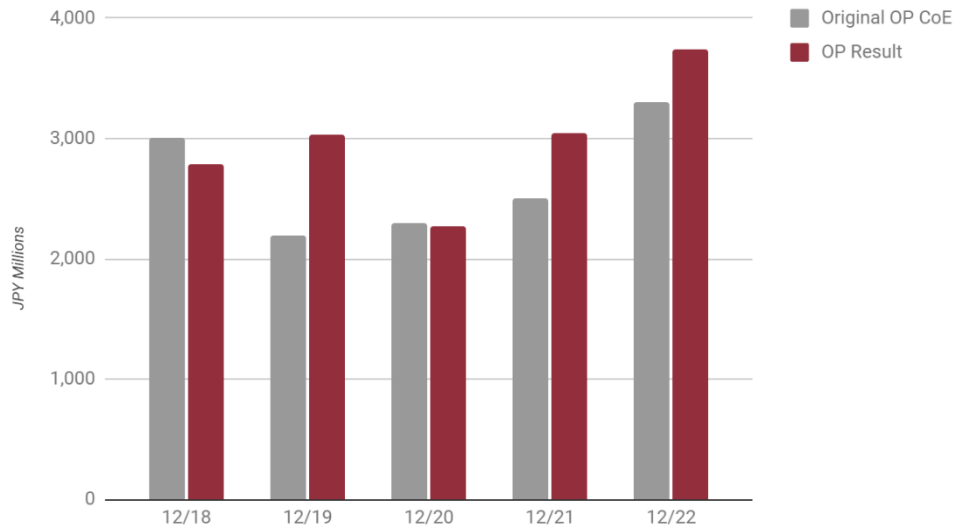
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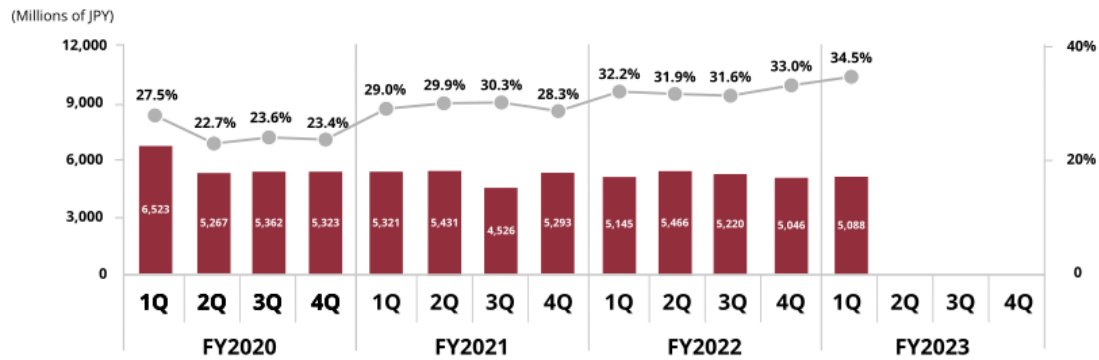
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Year end	12/2021	12/2022	1Q 12/2023	12/2023E
Sales (¥bn)	20.6	20.9	5.1	21.8
OP (¥bn)	3.0	3.7	1.0	4.1
NP (¥bn)	3.2	2.9	0.7	2.6
EPS (¥)	250.7	227.5	54.9	205.1
DPS (¥)	47.0	69.0	n/a	62.0
Sales growth YoY (%)	-8.5	1.5	-1.1	4.4
OP growth YoY (%)	33.8	22.9	7.4	8.2
NP growth YoY (%)	42.5	-9.1	6.9	-9.8
EPS growth YoY (%)	42.3	-9.3	6.8	-9.9
PER (x)	6.1	7.8	10.9	10.9
EV/EBITDA (x)	4.6	4.7	6.1	6.1
EV/Sales (x)	0.9	1.1	1.4	1.4
PBR (x)	0.9	1.0	1.2	1.2
ROE (%)	16.2	13.1	13.4	n/a
ROIC (%)	7.3	8.3	8.6	n/a
FCF yield (%)	12.8	n/a	n/a	n/a
Dividend Yield (%)	2.1	2.9	n/a	2.8

RESULTS VS FORECAST HISTORY

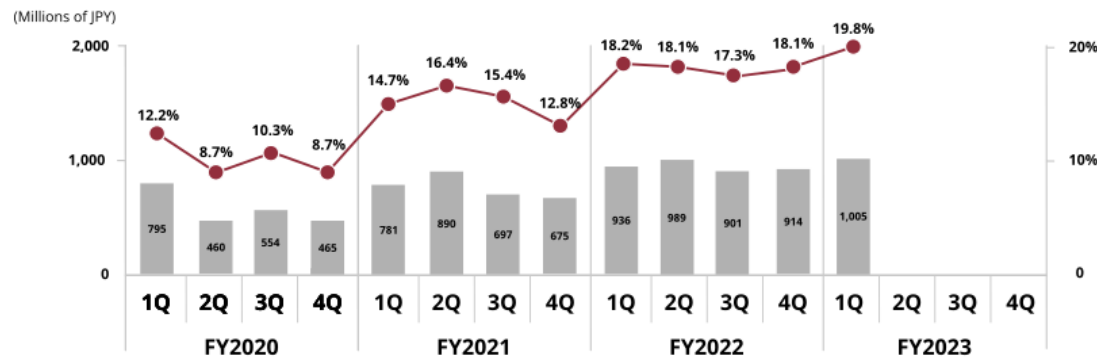


- Sales & GPM:



Source: Company.

- OP & OPM:



Source: Company.

EARNINGS

A 1Q sales decline of -1.1%YoY contrasted with a +7.4%YoY OP increase as core storage business **sales & OP were above plan, driven by historic high utilisation & improved GPM.**

Despite the delay in timing of 2 large land rights consolidation business sales into the 2Q, total sales & OP represented 23.3% & 24.8% of the respective FY 12/23 forecasts. We anticipate

strong core storage business sales continuing into the 2Q &, with the addition of land rights consolidation sales, we foresee 1H sales & OP finishing above plan.

Storage unit openings are progressing in line with plan. The company opened 585 of the 4,700 planned for FY 12/22 but **expects an acceleration of openings in the 2H.**

- *SG&A:sales*: The SG&A to sales ratio increased +0.7ppt to 14.7% due to higher salary related personnel costs & transaction commission payments. Longer term, we expect economies of scale to result in a lower SG&A to sales ratio.

In aggregate, we anticipate the 2Q contribution of consolidation rights sales & OP, allied to accelerating 2H storage unit openings, to render the company's FY 12/23 estimates conservative.

- *Longer term profitability*: **As the proportion of higher GPM directly owned units increases** (as opposed to investor owned), **Arealink anticipates the average GPM improving** with a storage unit medium term GPM forecast of >40%.

In addition, new openings are not reliant on manpower &, as the business expands, operations are likely to benefit from economies of scale, in turn generating a higher OPM. Arealink's MTP assumes a FY 12/25 consolidated OPM of 19.6%, with a target of >20% as soon as possible.

SELF-STORAGE BUSINESS

(JPY millions)	12/22 Results	YoY	1Q 12/23 Results	YoY	12/23 CoE	YoY
Sales	16,366	5.8%	4,307	7.9%	17,200	5.1%
GP	5,564	14.8%	1,548	16.2%	n/a	n/a
GPM	34.0%	2.7%	35.9%	2.6%	n/a	n/a
OP	4,085	19.6%	1,166	19.2%	4,440	8.7%
OPM	25.0%	2.9%	27.1%	2.6%	25.8%	0.9%

Significantly above plan 1Q Self-Storage sales & OP reflected higher than forecast storage unit utilisation. Whilst brokerage earnings were weak, they were in line with plan & remain a small proportion of the total.

The Self-Storage division is split into Management & Brokerage.

- *Self-Storage Management*:

(JPY millions)	12/22 Results	YoY	1Q 12/23 Results	YoY
Sales	15,725	112.9%	4,094	6.3%
GP	5,509	138.4%	1,536	16.5%
GPM	35.0%	3.7%	37.5%	3.3%

In addition to a continued focus on highly profitable in-house store openings (as opposed to investor-led), the impact of controlling discounts through campaigns & efficient advertising activities resulted in a significant increase in OP from storage operations, achieving a 1Q OPM of 27.1% +2.6ppt YoY.

- *In house investment*: Until approx. 2018, Arealink's main business was selling storage units to investors & managing them. A change in the depreciation rules dictated storage containers

were no longer attractive as investment vehicles, **prompting Arealink to change its business model shortly before COVID.**

The structural change has since been completed, with the core model switching to managing higher GPM directly owned units & **allowing the company to focus on a stock business.**

The proportion of investor-owned units remains approx. 50% but, as that percentage declines over time, Arealink **expects the increase in higher GPM directly owned units to result in a higher total GPM**, with >40% expected in the medium term.

- *Utilisation:* 1Q self-storage management sales & GP were above plan due to strong utilisation. **Hello Storage trunk room occupancy increased +1.1ppt FYTD to 90.4%, the highest level since listing**, versus expected 1Q utilisation of approx. 89%. Utilisation averaged 89.4% in FY 12/22, a figure which has gradually improved from 76.8% in FY 12/19. As a result of the improved operating rate, the GPM also improved +3.3ppt YoY to 37.5%.

Existing unit utilisation topped 91.5% & new units 61.3%, both exceeding company expectations. The new unit utilisation figure compares to 50.7% in FY 12/19 & is testament to improved location choice for new openings using its nationwide database & smaller facilities, with 20-30 units as opposed to >50. As a result, **new facilities are averaging breakeven in 4 months as opposed to the forecast 6 months.**

The main factors behind the operating rate increase have been: i. ongoing strong demand for storage prompted by COVID & WFH, with people aiming to organise their homes utilising smaller storage unit size; ii. increased product recognition; & iii. more precise & efficient openings. We expect these factors to continue to drive strong demand & high operating rates in the medium term, with the expanding nationwide database set to boost location openings.

- Self-storage openings:

	1Q 12/23 Openings	1Q 12/23 Units	12/23 CoE openings
Containers	585	74,179	4,000
Indoor Storage Unit Type	0	15,115	200
Self-Storage Mini (Building Type)	0	9,618	500
Total	585	98,912	4,700

Arealink opened 585 units (net +331) for a total of 98,912 in 1Q23. We note it represents only 12.4% of the FY 12/23 opening target total but that it was in line with plan, with openings set to be focused in the 2H.

There is typically a 4 month lead time for openings but 4,200 of the FY 12/23 planned 4,700 openings are already under contract. Closures typically occur due to landowners needing to sell for inheritance tax reasons & there is a 6 month notice period.

- Self-Storage Brokerage:

(JPY millions)	12/22 Results	YoY	1Q 12/23 Results	YoY
Sales	641	33.0%	213	53.2%
GP	54	3.8%	11	-8.3%
GPM	8.4%	-2.4%	5.2%	-3.5%

Arealink posted 2 large sales of storage with land in 1Q 12/23. Typically, it does not target a significant OPM & averages at approx. 2-3%. The brokerage business is not expected to be a medium term growth driver of sales or profits.

**LAND RIGHTS
CONSOLIDATION
BUSINESS**

(JPY millions)	12/22 Results	YoY	1Q 12/23 Results	YoY	12/23 CoE	YoY
Sales	3,110	-16.3%	441	-45.6%	3,250	4.5%
GP	704	-5.2%	110	-48.6%	n/a	n/a
GPM	22.6%	2.6%	24.9%	-1.4%	n/a	n/a
OP	464	5.0%	56	-67.4%	520	12.1%
OPM	14.9%	3.0%	12.7%	-8.5%	16.0%	1.1%

Arealink switched to a policy of emphasising quality over quantity but, due to settlement timing, sales were delayed into the 2Q. As a result, 1Q sales declined -45.5%YoY to Y441m & OP -67.0%YoY to Y441m. Arealink continues to focus on purchasing high-quality properties & 1Q FYTD inventory increased +Y500m to Y4.4bn.

The company estimates FY 12/23 OP growth of +12.1%YoY, with +10%YoY regarded as a normalised level in the medium term. Arealink believes it is a relatively niche market & has synergies with its main storage business. It targets steady growth & an OPM of 15% over the medium term.

**OTHER
OPERATIONAL
SERVICES BUSINESS**

(JPY millions)	12/22 Results	YoY	1Q 12/23 Results	YoY	12/23 CoE	YoY
Sales	1,400	1.1%	339	-0.9%	1,350	-3.6%
GP	448	0.7%	96	-10.3%	n/a	n/a
GPM	32.0%	-0.1%	28.3%	-3.0%	n/a	n/a
OP	373	-2.4%	73	-23.2%	305	-18.2%
OPM	26.6%	-0.9%	21.5%	-6.2%	22.6%	-4.1%

Other Operational Services includes stock type revenue from the Asset Business & Office Business. 1Q earnings were broadly in line with plan.

The asset business had a number of leased property cancellations, as expected, but maintained high occupancy rates, resulting in lower sales & higher OP.

Office business sales & OP decreased due to property closures & the cost of 5 new properties.

PREVIOUS REPORTS

- [26th April 2023: 'Initiating coverage: #1 storage status'](#)

J GAAP Financial statements

Income statement (¥bn)	FY 12/20	FY 12/21	FY 12/22
Sales	22.48	20.57	20.88
COGS	17.0	14.5	14.2
Gross profit	5.5	6.0	6.7
Gross profit margin (%)	24.5	29.3	32.2
Operating expense	3.2	3.0	3.0
Total OP	2.28	3.04	3.74
OP margin (%)	10.1	14.8	17.9
Non-Op Income (Loss)	-1.0	-1.5	-0.1
Pretax Income	3.3	4.5	3.9
Tax	1.1	1.3	1.0
Effective tax rate (%)	32.3	29.8	25.3
Net income	2.23	3.17	2.88

Cash flow statement (¥bn)	FY 12/20	FY 12/21	FY 12/22
Net income/pre-tax profit	2.2	3.2	2.9
Depreciation/amortization	0.8	0.9	1.0
Other non-cash items	0.2	0.3	(0.2)
Changes in working capital	-0.7	0.3	-2.0
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Operating Activities	2.5	5.7	1.6
Change in fixed * intangible assets	-2.2	-1.6	-2.2
Net change in long-term investments	0.0	0.2	0.2
Net cash from acquisitions * divestitures	0.0	0.2	0.0
Other investing activities	0.0	0.0	-0.2
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Investing Activities	-2.2	-1.3	-2.3
Dividends paid	-0.5	-0.4	-0.6
Cash from (repayment) debt	-1.7	-0.4	2.1
Cash from (repurchase) of equity	0.0	0.0	0.0
Other financing activities	0.0	0.0	0.0
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Financing Activities	-2.2	-0.8	1.5
FX impact	0.0	0.0	0.0
Net cash flow	-1.9	3.7	0.9
Free cash flow	0.3	3.9	-0.6
EBITDA	3.1	3.9	4.7

Balance sheet (¥bn)	FY 12/20	FY 12/21	FY 12/22
Cash * equivalents	9.8	13.4	14.3
Accounts * notes receivable	0.1	0.1	0.1
Inventories	4.8	3.4	5.2
Other short-term assets	1.2	0.4	0.5
Current assets	15.9	17.3	20.0
Property, plant * equipment (net of depreciation)	20.4	21.2	21.9
Long term investments * receivables	0.2	0.1	0.1
Other long-term assets	4.2	3.5	3.6
Total non-current assets	24.8	24.9	25.6
Total assets	40.7	42.2	45.6
Payables * accruals	1.1	2.3	2.3
Short-term debt	2.1	2.3	2.4
Other short-term liabilities	3.6	1.4	1.5
Total current liabilities	6.8	5.9	6.2
Long term debt	10.3	9.7	11.6
Other long-term liabilities	5.5	5.7	4.8
Total non-current liabilities	15.8	15.4	16.4
Total liabilities	22.6	21.2	22.6
Share capital * APIC	12.3	12.3	12.3
Treasury stock	0.3	0.2	0.2
Retained earnings	6.1	8.9	11.0
Other equity	0.0	0.0	0.0
Equity before minority interest	18.1	21.0	23.1
Total equity	18.1	21.0	23.1
Total liabilities * equity	40.7	42.2	45.6

Key metrics	FY 12/20	FY 12/21	FY 12/22
Profitability			
Gross margin (%)	24.5	29.3	32.2
Operating margin (%)	10.1	14.8	17.9
Net margin (%)	9.9	15.4	13.8
ROIC (%)	5.5	7.3	8.3
Liquidity			
Current ratio (x)	2.4	3.0	3.2
Quick ratio (x)	1.5	2.3	2.3
Leverage			
Debt/Equity ratio	68.2	57.0	60.9
Net Debt/Equity ratio	14.3	-7.1	-1.1

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