

## CubeSmart (CUBE – \$28.16\*)

Malvern, PA  
September 6, 2016

## Breaking News

Outperform  
Price Target: \$35.00

### STOCK DATA

52-Week Range	\$33.52 – \$24.67
3-Month ADTV	2,417,027
Diluted Shares Out. (mil)	180.5
Float (%)	99.5
Market Cap (mil)	\$5,048.9
Dividend Yield	2.98%
Fiscal Year-End	December

### EARNINGS DATA

FFO	2015A	2016E	2017E
1Q	\$0.28	\$0.32A	\$0.37
<i>Prior 1Q</i>	--	--	<i>\$0.36</i>
2Q	\$0.31	\$0.36A	\$0.41
<i>Prior 2Q</i>	--	--	<i>\$0.40</i>
3Q	\$0.34	\$0.38	\$0.43
4Q	\$0.33	\$0.38	\$0.41
<i>Prior 4Q</i>	--	--	<i>\$0.42</i>
FY	\$1.25	\$1.43	\$1.61
<i>Prior FY</i>	--	<i>\$1.44</i>	--
P/FFO	22.5x	19.7x	17.5x
AFFO	2015A	2016E	2017E
1Q	\$0.25	\$0.30A	\$0.34
2Q	\$0.28	\$0.33A	\$0.37
3Q	\$0.30	\$0.34	\$0.39
<i>Prior 3Q</i>	--	<i>\$0.35</i>	--
4Q	\$0.31	\$0.35	\$0.40
<i>Prior 4Q</i>	--	<i>\$0.36</i>	--
FY	\$1.14	\$1.33	\$1.50
<i>Prior FY</i>	--	<i>\$1.34</i>	--
P/AFFO	24.7x	21.2x	18.8x

### BALANCE SHEET DATA

	2Q16
NAV/Share	\$27.00

## Preferred Share Redemption Should Round Out Capital Transactions for 2016




### Summary and Recommendation

In the past few weeks, CUBE has announced a few major capital transactions, including the pending redemption of \$77.5 million of preferred equity and the recently completed \$300 million bond offering. The preferred redemption should round out the company's capital transactions for 2016, exclusive of any ATM sales.

### Key Points

- Series A preferreds redemption.** On September 2, 2016, CubeSmart announced that it would be redeeming all 3,100,000 shares of outstanding 7.75% Series A Cumulative Redeemable Preferred Shares. The shares have a redemption price of \$25.00 per share, as well as an accumulated unpaid dividend of \$0.17374 per share. Aggregate payment received by shareholders will be \$25.17374 per share. The redemption will occur on November 2, 2016.
- \$300 million debt offering.** On August 8, 2016, CUBE raised \$300 million in an offering of 3.125% senior unsecured notes due September 1, 2026. The notes carry a Moody's rating of Baa2. CubeSmart will use proceeds from the offering to pay down the entire outstanding balance of the unsecured revolving credit facility.
- Adjusting estimates.** We are adjusting our 2016E FFO as adjusted to \$1.43 (from \$1.44) and maintaining our 2017E FFO as adjusted of \$1.61 and our 2018E FFO as adjusted of \$1.72. We note that our 3Q16 FFO estimate contains a \$0.015 per preferred redemption charge, but this is excluded from our FFO as adjusted estimates, as well as our FAD estimates (noncash charge).
- Strong balance sheet, low payout ratio.** We believe that CubeSmart has a relatively strong balance sheet, which provides us with comfort heading into the later stages of the cycle. The company has a net debt + preferreds to forward EBITDA multiple of 4.8x and net debt + preferreds to EV of 23.7%. CUBE maintains the lowest dividend payout ratio, at just 63.2% estimated for 2016. We are assuming a 19.0% dividend raise in 2017 (usually announced in mid December), which implies FAD coverage of 1.5x and a 66.6% payout ratio.

## The Debate™

Debatable Point	Our Thoughts	Time Frame	Impact
Is CubeSmart's outsized exposure to New York a positive or negative?	There is an above-average level of new development under construction or in preliminary phases in New York City that will likely affect storage operations. Yet, we believe that CubeSmart's portfolio will hold steady in NYC because (1) its 48-asset portfolio is geographically well insulated; (2) NYC has one of the lowest ratios of square feet per capita in the country at about 1.5x; (3) new development sites are becoming much harder to come by in NYC, so new development will only last so long; (4) CubeSmart's dominant market share and brand recognition in NYC should offset some of the potential impact of new supply; and (5) the company's assets are high quality (purpose built, with strong amenities like parking lots and security) and competing against many non-purpose-built assets with poor amenities. Furthermore, M1 sites are drying up quickly, and new potential regulations proposed by Mayor Bill de Blasio would limit "by-right" development of storage facilities in 21 industrial building zones in the city. Developers would need special permits, which would make development in NYC exponentially more difficult.	6 to 12 Months	
In the face of potentially decelerating fundamentals, how will CUBE be able to grow earnings in a material way?	We believe that CubeSmart has one of the strongest external growth profiles in the sector with its stabilized acquisitions, C/O deals, and development. Likewise, the company is able to move the needle more easily than its larger competitors and a declining cost of capital. It has the opportunity to expand margin on both the revenue and expense sides. CubeSmart also has lower occupancy than its larger peers, implying that there is plenty of opportunity to drive revenue with occupancy gains.	12 Months	
Heading into the latter parts of the cycle, is it prudent to have a large development pipeline?	Storage development will likely be dilutive to earnings in the near term but accretive to NAV and earnings long term. We believe development makes sense over the long term, but it can take up to seven years to fully stabilize a storage facility from when the site is first recognized. Mistiming the market can be disastrous. Although we believe the storage cycle still has plenty of growth ahead, we keep a close eye on the lease-up velocities. So far, CubeSmart's deals have met or exceeded (or are on track to do so) lease-up velocity expectations.	12 to 24 Months	

## Investment Thesis

We believe self-storage will outperform most (if not all) real estate sectors over cycles. Likewise, the sector is generally a late-cycle outperformer. We think CubeSmart's portfolio is well insulated against new supply, has plenty of occupancy upside to drive revenue growth, trades at a more reasonable valuation than its larger peers, and has the second-largest relative external profile in the sector. Overall, we expect valuation and the imposing threat of new supply to lead to increasing investor caution on the sector, but we look for CUBE to outperform its peers.

## Valuation

We estimate that CUBE's current NAV is \$27 per share based on forward-four-quarter net operating income at a 5.25% cap rate. Our value range of \$29.75–\$26.50 per share reflects cap rates of 5.0%–5.5%. The shares currently trade at \$194/square foot, a 3.8% premium to our NAV estimate, and a 4.8% implied cap rate. Our \$35 price target represents a 4.23% implied cap rate on 2017E NOI.

## Risks

**Valet storage.** Startups like MakeSpace, Redbin, Box Butler, and Clutter are moving-and-storage companies that offer home pickup and return delivery of stored items, usually in high-density metropolitan regions like Manhattan and San Francisco. The general idea is that a van comes and picks up one's belongings, stores them, and returns them. As such, customers never have to leave their homes or step foot in traditional brick-and-mortar storage facilities. While we recognize that valet storage is indeed a threat to traditional storage in urban areas due to the rising use of technology among millennials and even baby boomers, we think making the analogy of Uber to taxis or Airbnb to hotels is a bit of a stretch. The concept has been tested before (i.e., CubeSmart in 2004). People still like being close to their belongings, knowing where they are, and having the ability to go and get them. We believe valet storage poses a bigger threat to CubeSmart than to other storage operators because it has 21.9% exposure to New York City.

**Environmental regulation risk.** The presence of contamination or the failure to remediate contamination at its properties may expose CubeSmart to third-party liability for personal injury or property damage, or it could adversely affect the company's ability to sell, lease, or develop a property or to borrow using certain properties as collateral. The company does not carry environmental insurance on any properties in the portfolio.

**Liquidity risk.** Real estate investments are relatively illiquid and cannot always be sold quickly. Therefore, the company may not be able to change its portfolio promptly in response to changes in economic or other market conditions. This could have a materially adverse effect on its financial condition or operating results.

**Financing risk.** The company's business strategy depends on access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt and equity financing, including common and preferred equity. Should the market experience unusual volatility and uncertainty, proper financing may not be available in sufficient amounts, on favorable terms, or at all.

**Cash flow risk.** To meet the REIT minimum distribution requirements, the company may decide to borrow funds, even if management believes that the prevailing market conditions are not favorable for such borrowings. If CubeSmart borrows money to meet the REIT minimum distribution requirement or for other working capital needs, its expenses will increase, and its net income will be reduced.

**Insurance and reinsurance risk.** CubeSmart carries customary property, earthquake, general liability, employee medical insurance, and workers' compensation coverage through internationally recognized insurance carriers, subject to deductibles. If the company experiences a loss that is uninsured or exceeds policy limits, it could lose the capital invested, as well as anticipated future cash flows. CubeSmart also reinsures a program that provides insurance to its customers from an independent third-party insurer.

## Company Profile

CubeSmart is a Wayne, Pennsylvania-based internally managed REIT. The company is the fourth-largest owner of self-storage facilities in the world with a focus on acquiring, developing, and operating institutional-quality self-storage facilities. As of March 31, 2016, CubeSmart had interests in 456 self-storage facilities located in 22 states and Washington, D.C., with approximately 31.4 million net rentable square feet in the U.S.

<b>CubeSmart (CUBE)</b>				
<b>Net Asset Value Analysis \$27</b>				
<b>2Q16</b>				
				<i>Implied Cap Rate</i>
<b>Cap Rate Assumptions:</b>				
Nominal NOI Cap Rate	5.5%	5.7%	6.0%	5.3%
Adjusted GAAP NOI From Properties	\$345,945	\$345,945	\$345,945	\$345,945
Property Management Fee Adjustment to Market Rate	(23,339)	(23,339)	(23,339)	(23,339)
Recurring Capital Expenditures	(6,392)	(6,392)	(6,392)	(6,392)
Adjusted NOI From Properties	\$316,214	\$316,214	\$316,214	\$316,214
<b>Economic Cash NOI Cap Rate</b>	<b>5.0%</b>	<b>5.3%</b>	<b>5.5%</b>	<b>4.8%</b>
<b>Market Value of Owned Properties</b>	<b>\$6,330,195</b>	<b>\$6,021,673</b>	<b>\$5,760,951</b>	<b>\$6,520,813</b>
Management Income	11,201	11,201	11,201	11,201
Economic Cap Rate	10%	10%	10%	10%
<b>Implied Valuation of Management Income</b>	<b>112,011</b>	<b>112,011</b>	<b>112,011</b>	<b>112,011</b>
Cash, Cash Equivalents	3,423	3,423	3,423	3,423
Recent Acquisitions	32,800	32,800	32,800	32,800
Development Pipeline	134,870	134,870	134,870	134,870
Unstabilized C/O Properties	148,720	148,720	148,720	148,720
Joint Venture Interests	188,770	188,770	188,770	188,770
Other Assets	50,732	50,732	50,732	50,732
<b>Gross Market Value of Assets</b>	<b>\$7,001,521</b>	<b>\$6,692,999</b>	<b>\$6,432,278</b>	<b>\$7,080,128</b>
Preferred Stock	-	-	-	-
Joint Venture Debt	67,800	67,800	67,800	67,800
Noncontrolling Interests	68,581	68,581	68,581	68,581
Total Liabilities	1,669,598	1,669,598	1,669,598	1,669,598
<b>Net Market Value of Assets</b>	<b>\$5,195,542</b>	<b>\$4,887,020</b>	<b>\$4,626,299</b>	<b>\$5,274,149</b>
<b>Total Shares/OP Units (000)</b>	<b>180,471</b>	<b>180,471</b>	<b>180,471</b>	<b>180,471</b>
<b>Net Asset Value per Share</b>	<b>\$28.79</b>	<b>\$27.08</b>	<b>\$25.63</b>	<b>\$29.22</b>
Transaction Costs/Share (2% of Gross Market Value)	\$0.78	\$0.74	\$0.71	\$0.78
Net Asset Value Less Transaction Costs	\$28.01	\$26.34	\$24.92	\$28.44
<b>Valuation Measures:</b>				
Current Stock Price (8-26-16)	\$28.11	\$28.11	\$28.11	\$28.11
Stock Price/Net Asset Value	97.6%	103.8%	109.7%	96.2%
Rentable Sq Ft.				33,479
Enterprise Value/ Sq. Ft.				\$ 194.40

Financial information based on 2Q16 results.

<b>CubeSmart</b>												
Quarterly Earnings Model												
(\$ in thousands except per share amounts)												
	2015A	1Q16A	2Q16A	3Q16E	4Q16E	2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E	2018E
<b>Assumptions:</b>												
Acquisitions	\$276,600	\$135,900	\$65,600	\$99,900	\$50,000	\$351,400	\$50,000	\$50,000	\$50,000	\$50,000	\$200,000	\$200,000
Cap Rate on Acquisitions	5.2%	5.0%	5.0%	5.0%	5.0%	5.0%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%
Ending Stock Price	\$ 28.72	\$ 29.72	\$ 32.65	\$ 28.11	\$ 32.65	\$ 32.65	\$ 32.65	\$ 32.65	\$ 32.65	\$ 32.65	\$ 32.65	\$ 32.65
<b>Revenues:</b>												
Net rental income	\$392,476	\$104,997	\$111,538	\$115,330	\$113,254	\$445,120	\$113,481	\$118,134	\$121,914	\$119,476	\$473,004	\$493,927
Other income	\$45,189	11,763	12,643	13,149	12,741	\$50,296	12,486	13,610	14,018	13,458	\$53,572	\$56,585
<b>Effective Gross Income</b>	<b>\$437,665</b>	<b>\$116,760</b>	<b>\$124,181</b>	<b>\$128,479</b>	<b>\$125,995</b>	<b>\$495,415</b>	<b>\$125,967</b>	<b>\$131,744</b>	<b>\$135,932</b>	<b>\$132,933</b>	<b>\$526,576</b>	<b>\$550,512</b>
<b>Operating Expenses:</b>												
Total Property Operating Expenses	(\$153,172)	(\$40,219)	(\$41,607)	(\$43,242)	(\$41,624)	(\$166,692)	(\$43,516)	(\$43,482)	(\$45,071)	(\$43,251)	(\$175,321)	(\$182,481)
<b>Core Portfolio NOI</b>	<b>\$284,493</b>	<b>\$76,541</b>	<b>\$82,574</b>	<b>\$85,237</b>	<b>\$84,372</b>	<b>\$328,724</b>	<b>\$82,451</b>	<b>\$88,261</b>	<b>\$90,861</b>	<b>\$89,682</b>	<b>\$351,256</b>	<b>\$368,030</b>
NOI from acquisitions and dispositions, net	\$0	0	0	1,034	1,971	\$3,006	2,607	3,251	3,897	4,544	\$14,300	\$24,682
NOI from Development and C/O Deals	\$0	0	0	531	980	\$1,511	1,423	2,057	2,813	2,947	\$9,239	\$12,993
<b>Total Net Operating Income</b>	<b>\$284,493</b>	<b>\$76,541</b>	<b>\$82,574</b>	<b>\$86,802</b>	<b>\$87,323</b>	<b>\$333,240</b>	<b>\$86,481</b>	<b>\$93,570</b>	<b>\$97,571</b>	<b>\$97,173</b>	<b>\$374,795</b>	<b>\$405,706</b>
General and administrative expense	(\$28,371)	(8,228)	(7,891)	(7,541)	(7,552)	(\$31,212)	(8,616)	(8,170)	(7,766)	(7,759)	(\$32,310)	(\$32,759)
<b>EBITDA</b>	<b>\$256,122</b>	<b>\$68,313</b>	<b>\$74,683</b>	<b>\$79,262</b>	<b>\$79,771</b>	<b>\$302,028</b>	<b>\$77,865</b>	<b>\$85,400</b>	<b>\$89,805</b>	<b>\$89,415</b>	<b>\$342,485</b>	<b>\$372,947</b>
<b>Other Income (Expense):</b>												
Depreciation	(\$151,789)	(39,356)	(41,448)	(43,570)	(43,832)	(\$168,206)	(43,409)	(46,967)	(48,976)	(48,776)	(\$188,128)	(\$203,644)
Property Management	\$6,856	2,111	2,345	2,462	2,585	\$9,504	2,779	2,918	3,064	3,217	\$11,979	\$14,907
Amortization of loan costs	(\$2,234)	(605)	(611)	(617)	(617)	(\$2,450)	(625)	(625)	(625)	(625)	(\$2,500)	(\$2,000)
Interest Expense	(43,736)	(12,084)	(12,200)	(13,841)	(15,330)	(53,456)	(15,550)	(16,056)	(16,372)	(18,420)	(66,397)	(78,938)
Preferred Dividend	(6,008)	(1,502)	(1,502)	(1,502)	(551)	(5,057)	(551)	(551)	(551)	(551)	(2,203)	(2,203)
Other revenues, expenses & adjustments	6,717	2,412	3,338	3,505	3,680	12,935	3,956	4,055	4,156	4,260	16,428	18,576
<b>Total Other Income (Expense) - Net</b>	<b>(\$190,194)</b>	<b>(\$49,024)</b>	<b>(\$50,078)</b>	<b>(\$53,564)</b>	<b>(\$54,064)</b>	<b>(\$206,730)</b>	<b>(\$53,399)</b>	<b>(\$57,226)</b>	<b>(\$59,303)</b>	<b>(\$60,894)</b>	<b>(\$230,822)</b>	<b>(\$253,302)</b>
<b>Net Income</b>	<b>\$65,928</b>	<b>\$19,289</b>	<b>\$24,605</b>	<b>\$25,698</b>	<b>\$25,706</b>	<b>\$95,298</b>	<b>\$24,466</b>	<b>\$28,174</b>	<b>\$30,503</b>	<b>\$28,521</b>	<b>\$111,664</b>	<b>\$119,645</b>
Depreciation	\$150,030	38,899	40,831	43,170	43,432	\$166,332	43,009	46,567	48,576	48,376	\$186,528	\$202,044
<b>Funds From Operations as Adjusted (FFO)</b>	<b>\$215,958</b>	<b>\$58,188</b>	<b>\$65,436</b>	<b>\$68,869</b>	<b>\$69,138</b>	<b>\$261,631</b>	<b>\$67,475</b>	<b>\$74,741</b>	<b>\$79,078</b>	<b>\$76,897</b>	<b>\$298,192</b>	<b>\$321,689</b>
Weighted Average Shares Outstanding	172,482	179,421	181,430	182,430	183,430	183,430	183,930	184,430	184,930	185,430	185,430	187,430
<b>FFO as Adjusted / Share</b>	<b>\$1.25</b>	<b>\$0.32</b>	<b>\$0.36</b>	<b>\$0.38</b>	<b>\$0.38</b>	<b>\$1.43</b>	<b>\$0.37</b>	<b>\$0.41</b>	<b>\$0.43</b>	<b>\$0.41</b>	<b>\$1.61</b>	<b>\$1.72</b>
<b>FFO / Share</b>	<b>\$1.23</b>	<b>\$0.31</b>	<b>\$0.35</b>	<b>\$0.35</b>	<b>\$0.37</b>	<b>\$1.38</b>	<b>\$0.36</b>	<b>\$0.40</b>	<b>\$0.42</b>	<b>\$0.41</b>	<b>\$1.58</b>	<b>\$1.68</b>
Recurring capex	(\$15,173)	(3,449)	(4,474)	(5,518)	(3,271)	(\$16,712)	(3,625)	(4,649)	(5,688)	(3,371)	(\$17,333)	(\$17,853)
Recurring capex per square foot	\$0.51	\$0.110	\$0.140	\$0.170	\$0.100	\$0.52	\$0.110	\$0.140	\$0.170	\$0.100	\$0.52	\$0.52
Amortization of loan costs	\$1,468	367	367	367	367	\$1,468	367	367	367	367	\$1,468	\$1,468
Mortgage principal repayment	(\$4,800)	(1,000)	(1,004)	(1,352)	(1,338)	(\$4,695)	(1,325)	(1,312)	(1,299)	(1,286)	(\$5,221)	(\$5,015)
<b>Funds Available for Distribution (FAD)</b>	<b>\$197,453</b>	<b>54,107</b>	<b>60,324</b>	<b>62,366</b>	<b>64,896</b>	<b>\$241,692</b>	<b>62,892</b>	<b>69,148</b>	<b>72,459</b>	<b>72,607</b>	<b>\$277,105</b>	<b>\$300,289</b>
<b>FAD / Share</b>	<b>\$1.14</b>	<b>\$0.30</b>	<b>\$0.33</b>	<b>\$0.34</b>	<b>\$0.35</b>	<b>\$1.33</b>	<b>\$0.34</b>	<b>\$0.37</b>	<b>\$0.39</b>	<b>\$0.39</b>	<b>\$1.50</b>	<b>\$1.61</b>
<b>Dividend / Share</b>	<b>\$0.64</b>	<b>\$0.21</b>	<b>\$0.21</b>	<b>\$0.21</b>	<b>\$0.21</b>	<b>\$0.84</b>	<b>\$0.25</b>	<b>\$0.25</b>	<b>\$0.25</b>	<b>\$0.25</b>	<b>\$1.00</b>	<b>\$1.10</b>
Ending Shares Outstanding	176,828	179,287	180,471	181,471	182,471	182,471	182,971	183,471	183,971	184,471	184,471	186,471
Equity Market Capitalization	\$5,078,500	\$5,328,410	\$5,892,378	\$5,101,150	\$5,957,678	\$5,957,678	\$5,974,003	\$5,990,328	\$6,006,653	\$6,022,978	\$6,022,978	\$6,088,278
Cash	\$62,869	\$2,754	\$3,423	\$3,423	\$3,423	\$3,423	\$3,423	\$3,423	\$3,423	\$3,423	\$3,423	\$3,423
Debt	\$ 1,262,212	\$1,304,737	\$1,435,186	\$1,583,834	\$1,630,240	\$ 1,630,240	\$1,725,428	\$1,777,315	\$1,829,202	\$1,881,089	\$ 1,881,089	\$ 2,131,938
Preferred	\$ 77,500	77,500	77,500	-	-	\$ 77,500	-	-	-	-	\$ 77,500	-
Total Enterprise Value	\$6,481,081	\$6,713,401	\$7,408,487	\$6,688,407	\$7,591,342	\$7,591,342	\$7,702,854	\$7,771,066	\$7,839,278	\$7,907,490	\$7,907,490	\$8,223,639
Debt-plus-preferreds-to-Enterprise Value	20.7%	20.6%	20.4%	23.7%	21.5%	21.5%	22.4%	22.9%	23.3%	23.8%	23.8%	25.9%
Debt-plus-preferreds-to-Forward EBITDA	4.4	4.4	4.7	4.8	4.8	4.8	4.9	5.0	5.0	5.0	5.0	NA
FFO Growth (year-over-year)	19.4%	13.7%	14.0%	7.1%	14.2%	12.2%	15.5%	14.7%	18.4%	10.3%	14.5%	6.3%
FAD Growth (year-over-year)	18.6%	18.7%	19.2%	12.6%	15.3%	16.3%	13.4%	12.8%	14.6%	10.7%	12.8%	7.2%
FAD Coverage	1.79	1.44	1.58	1.63	1.68	1.58	1.37	1.50	1.57	1.57	1.50	1.46
Dividend / FAD	56.0%	69.6%	63.2%	61.4%	59.4%	63.2%	73.1%	66.7%	63.8%	63.8%	66.6%	68.4%

\*Closing price of last trading day immediately prior to the date of this publication unless otherwise indicated.

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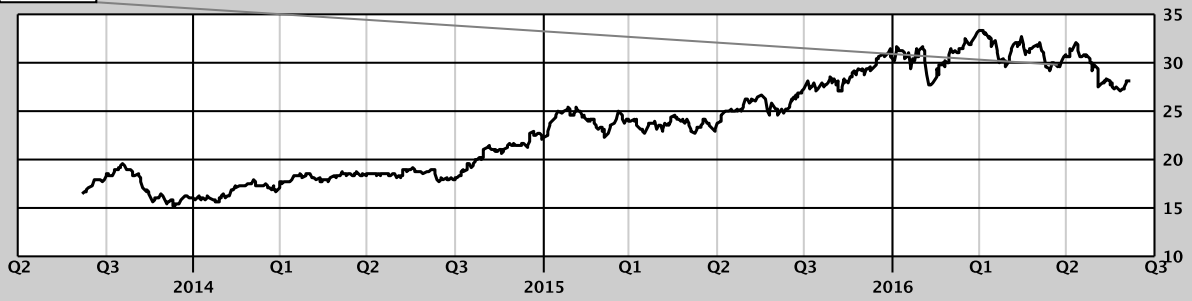
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### Rating and Price Target History for: CubeSmart (CUBE) as of 09-05-2016

06/22/16  
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