



Hospitality Property Trust (HPT)

Updated November 17th, 2018 by Jonathan Weber

Key Metrics

Current Price:	\$27	5 Year CAGR Estimate:	11.4%	Volatility Percentile:	56.2%
Fair Value Price:	\$29	5 Year Growth Estimate:	1.9%	Momentum Percentile:	34.4%
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.6%	Growth Percentile:	4.1%
Dividend Yield:	7.9%	5 Year Price Target	\$32	Valuation Percentile:	66.6%
Dividend Risk Score:	C	Retirement Suitability Score:	A	Total Return Percentile:	68.2%

Overview & Current Events

Hospitality Properties Trust is a real estate investment trust that operates two business segments, Hotel Real Estate Investments and Travel Center Real Estate Investments. Hospitality Properties Trust owns properties in the US, in Canada and in Puerto Rico. The company was founded in 1995, is headquartered in Newton, MA, and is currently valued at \$4.4 billion. The REIT owns 323 hotels (67% of total rent) and 199 travel centers (33% of total rent).

Hospitality Property Trust announced its third quarter earnings results on November 6. The company recorded revenues of \$603 million, 4.4% more than during the prior year's quarter. Revenue growth was based on an increase in the REIT's asset base. Comparable hotel revenue per available room declined by 0.5% year over year, primarily due to lower occupancy rates, renovations, and the impact of hurricanes. Hospitality Property Trust's management states that comparable revenues per available room would have increased by 0.4% year over year adjusted for these items. The coverage of Hospitality Property Trust's minimum returns and rents for hotels was 1.08 during Q3, and 1.68 for travel centers. The coverage ratio declined year over year, from 1.18 and 1.73, respectively. Normalized funds from operations totaled \$1.06 per share during Q3, down marginally from \$1.07 during the prior year's quarter.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
FFOPS	\$4.22	\$3.32	\$3.24	\$3.30	\$3.03	\$2.98	\$3.29	\$3.34	\$3.60	\$3.57	\$3.75	\$4.12
DPS	\$3.08	\$0.77	\$1.80	\$1.80	\$1.82	\$1.89	\$1.95	\$1.99	\$2.03	\$2.07	\$2.11	\$2.31
Shares	94	123	123	124	124	150	150	152	164	164	165	170

Hospitality Properties Trust has seen its funds from operations decline through the last financial crisis. FFO-per-share bottomed in 2013. Between 2013 and 2017 FFO-per-share has been growing at a 4.6% annual rate, which is not bad, but not an overly strong growth rate either. Profitability and distributions remain well below the levels seen before the last financial crisis, which is a major negative.

A positive impact from renovations and tailwinds from a strong economy will have a positive impact on Hospitality Property Trust's results for fiscal 2018. The strong economy, which does not only benefit business travel, but which also allows consumers to increase their travel spending, will likely remain a positive over the next couple of years.

Hospitality Properties Trust does face headwinds as well, such as a weak coverage of minimum returns and rents. This coverage ratio improved from Q2 to Q3, but remains below the levels set in fiscal 2017. Wyndham has only paid 85% of the minimum returns due to Hospitality Properties Trust during Q2 and Q3, and there is some risk that payments will be even lower in future quarters. These negatives could pressure Hospitality Properties Trust's FFO growth going forward, which is why we calculate with a relatively low FFO growth rate over the coming five years.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
P/FFO	5.8	4.7	7.0	7.1	8.0	9.3	8.8	8.7	7.6	8.4	7.2	7.8
Avg. Yld.	12.5%	4.9%	8.0%	7.7%	7.5%	6.8%	6.8%	6.8%	7.4%	6.9%	7.9%	7.2%

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Hospitality Property Trust is, like other REITs, best valued by using funds from operations. Shares of the company trade at 7.2 times this year's expected FFO-per-share, which is a relatively low valuation. Historically Hospitality Property Trust's shares have traded at a slightly higher valuation, which is why we believe that there is some upside potential for Hospitality Property Trust's shares. Investors get a very high dividend of 7.9% right now, and the dividend payout ratio is not overly high. Hospitality Property Trust therefore looks like a viable choice for income-focused investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	11.3%	10.4%	11.7%	12.0%	10.6%	10.6%	11.7%	12.2%	12.7%	12.5%	12.5%	13.0%
Debt/A	52.8%	44.3%	44.9%	45.5%	51.5%	48.3%	50.0%	56.1%	52.8%	61.5%	62.0%	60.0%
Int. Cov.	1.8	2.4	1.3	2.4	2.1	1.9	2.4	2.2	2.4	2.2	2.1	2.2
Payout	73.0%	23.2%	55.6%	54.5%	60.1%	63.4%	59.3%	59.6%	56.4%	58.0%	56.3%	56.1%
Std. Dev.	69.4%	62.7%	28.7%	31.1%	20.3%	27.3%	18.8%	17.3%	27.6%	16.0%	21.0%	23.0%

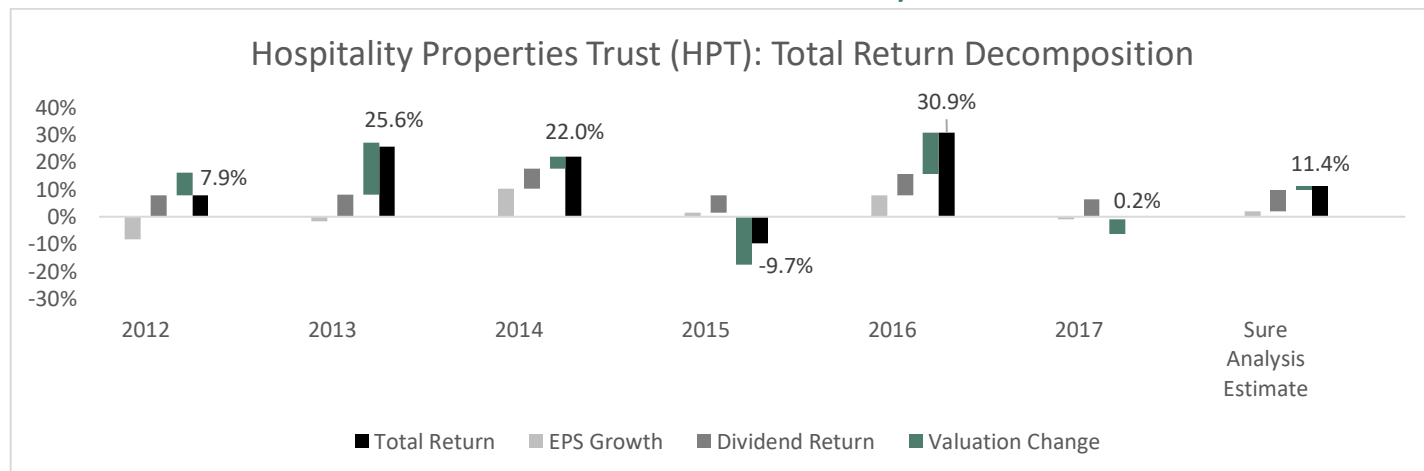
Hospitality Properties Trust has a sizeable amount of debt on its balance sheet. Liabilities total roughly 60% of the company's assets. Hospitality Properties Trust can access debt markets at relatively inexpensive rates, though --the REIT issued \$400 million in senior notes due 2030 at a rate of 4.4% during 2018. The interest coverage ratio looks relatively low, as it is just above 2, but for REITs like Hospitality Properties Trust, where earnings are depressed due to high non-cash depreciation expenses, other credit metrics are more meaningful. Hospitality Properties Trust produces about \$800 million in adjusted EBITDA annually, thus the debt to EBITDA ratio is ~5.5, which is not an overly high level for a REIT.

Hospitality Properties Trust is working with several major, renowned hotel companies, including Marriott, InterContinental, Hyatt and Radisson. Due to the negative impact of major recessions on business travel as well as on personal travel Hospitality Properties Trust is not immune to recessions. The REIT's FFO-per-share declined by roughly 25% during the last financial crisis. During smaller downturns the impact will likely be more benign.

Final Thoughts & Recommendation

Hospitality Property Trust is a focused REIT that holds a sizeable presence in the tourism REIT industry. Minimum rent coverage in its hotel portfolio is not strong, and the Wyndham situation is a headwind, but Hospitality Property Trust should nevertheless produce compelling total returns going forward. We rate shares a hold for income investors at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	1253	1037	1085	1210	1297	1564	1736	1922	2047	2172
Gross Profit	633	576	608	614	596	634	701	778	845	892
Gross Margin	50.5%	55.6%	56.0%	50.7%	46.0%	40.6%	40.4%	40.5%	41.3%	41.1%
SG&A Exp.	38	40	39	41	44	50	46	110	99	125
D&A Exp.	239	246	238	228	261	299	316	330	357	387
Operating Profit	336	291	331	344	291	285	339	338	388	380
Operating Margin	26.8%	28.0%	30.5%	28.5%	22.5%	18.2%	19.5%	17.6%	19.0%	17.5%
Net Profit	124	193	21	190	152	133	197	166	223	215
Net Margin	9.9%	18.6%	2.0%	15.7%	11.7%	8.5%	11.4%	8.7%	10.9%	9.9%
Free Cash Flow	248	310	341	355	364	391	462	531	533	554
Income Tax	2	5	1	2	2	-5	2	2	4	-3

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	5573	5548	5192	5134	5635	5968	5983	6395	6634	7150
Cash & Equivalents	22	130	5	8	20	23	12	14	11	24
Total Liabilities	2944	2456	2332	2334	2902	2881	2992	3583	3505	4395
Accounts Payable	128	104	107	104	132	130	107	180	188	185
Long-Term Debt	2639	2194	2111	2116	2722	2704	2839	3275	3164	4001
Shareholder's Equity	2238	2702	2470	2409	2292	2807	2710	2532	2849	2755
D/E Ratio	1.00	0.71	0.74	0.76	1.00	0.88	0.95	1.16	1.01	1.45

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	2.2%	3.5%	0.4%	3.7%	2.8%	2.3%	3.3%	2.7%	3.4%	3.1%
Return on Equity	5.4%	7.8%	0.8%	7.8%	6.5%	5.2%	7.1%	6.3%	8.3%	7.7%
ROIC	2.3%	3.7%	0.4%	3.9%	2.9%	2.4%	3.4%	2.8%	3.6%	3.3%
Shares Out.	94	123	123	124	124	150	150	152	164	164
Revenue/Share	13.33	9.60	8.80	9.80	10.50	11.37	11.59	12.73	13.12	13.23
FCF/Share	2.64	2.87	2.77	2.88	2.95	2.84	3.08	3.52	3.41	3.38

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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