



Apple Hospitality REIT Inc. (APLE)

Updated March 5th, 2019 by Samuel Smith

Key Metrics

Current Price:	\$16	5 Year CAGR Estimate:	8.3%	Volatility Percentile:	17.7%
Fair Value Price:	\$17	5 Year Growth Estimate:	1.0%	Momentum Percentile:	50.0%
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	0.0%	Growth Percentile:	2.3%
Dividend Yield:	7.3%	5 Year Price Target	\$17	Valuation Percentile:	55.3%
Dividend Risk Score:	D	Retirement Suitability Score:	B	Total Return Percentile:	46.2%

Overview & Current Events

Apple Hospitality REIT (APLE) is a \$3.7 billion hotel REIT that owns a portfolio of 241 hotels with more than 30,800 rooms located in 88 markets and 34 states. It franchises its properties out to leading brands, including 114 Marriott-branded hotels, 126 Hilton-branded hotels, and 1 Hyatt-branded hotel. It was formed in 2007 and has sustained or grown its dividend every year beginning in 2015.

APLE reported solid Q4 results and FY18 results, but disappointing FY19 guidance on 2/25/19. Headwinds for the year-over-year performance included tough comps against hurricane-related outperformance in 2017 as well as increasing competitive supply and inflated costs in several markets. However, comparable hotel adjusted EBITDA margins remained very strong at 37.2%, only down 70 basis points year-over-year and down 50 basis points year-over-year for the fourth quarter. The company also opportunistically repurchased 6.6 million shares in 2018 (the vast majority of which were repurchased during Q4 while share prices were suppressed significantly due to the overall market sell-off) at a weighted average price of \$15.87 (\$104 million overall). This amounts to nearly 3% of outstanding shares and the weighted average purchase price is 3.7% below the current share price, thereby unlocking significant value for shareholders. The company also invested in new growth in 2018 as they were net buyers of hotels for the year. They also plan to be net buyers in 2019. However, comparable RevPAR is expected to be roughly flat year-over-year in 2019 and comparable hotels adjusted hotel EBITDA margin is forecast to continue compressing.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFO/sh	NA	NA	\$0.66	\$0.70	\$0.75	\$0.77	\$1.53	\$1.56	\$1.74	\$1.72	\$1.70	\$1.79
DPS	-	-	-	-	-	-	\$0.80	\$1.20	\$1.20	\$1.20	\$1.20	\$1.26
Shares	33	68	91	91	91	187	180	191	224	230	230	220

Since it first began reporting FFO/share in its annual reports (2011), APLE has generated very impressive annualized FFO/share growth of nearly 15% thanks to its growing scale (due in large part to a merger in 2015), effective and efficient business model, and the strong economic tailwind in the United States during that period. However, this growth rate has slowed dramatically over the past year, as FFO/share actually declined by over 1% in 2018. 2019 should see this slowdown continue, as margins further compress due to increasing competition and rising inflation.

Though the company continues to buy back shares at steep discounts to the price at which it issues them and act as a net buyer in the marketplace, shrinking margins are offsetting these tailwinds for now. We see this trend continuing for the foreseeable future since we are also late in the current economic cycle. However, strategic acquisitions and dispositions and opportunistic buybacks will sustain FFO/share. As a result, we forecast FFO/share to grow at a 1% clip over the next five years. We expect the dividend to grow with FFO/share during this time span despite the fairly low payout ratio because management has shown itself to favor share buybacks and increasing scale over growing the dividend.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Apple Hospitality REIT Inc. (APLE)

Updated March 5th, 2019 by Samuel Smith

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/FFO	NA	NA	NA	NA	NA	NA	11.9	12.8	11.3	8.2	9.6	9.6
Avg. Yld.	-	-	-	-	-	-	4.4%	6.6%	6.0%	6.1%	7.3%	7.4%

APLE's growth has plateaued and is not likely to pick up momentum until the cycle resets. That being said, the company has a strong balance sheet and an attractive, well-covered dividend at current prices. This, combined with management's consistent share repurchases, should provide a solid floor to the share price. Additionally, the current dividend plus growth provide a 5 year CAGR estimate of 8.3%, meaning that shares are right around fair value now. Therefore, we expect the valuation multiple to remain roughly flat over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	-	-	-	-	-	-	52.3%	76.9%	69.0%	69.8%	70.6%	70.4%

APLE does not have a recorded history as a public company during the last recession, therefore it is hard to judge its recession resilience other than to compare it to hotel REITs at large. Typically, during a recessionary period, hotel REITs experience significant losses of income. Therefore, APLE is likely not very recession resistant. However, its concentration in strong brand names, excellent locations, strong balance sheet, franchising model, and emphasis on value should enable it to outperform its peers in a recession.

It has by far the lowest debt-to-equity in the sector (~30%), a weighted-average interest rate of only ~3.7%, and undrawn capacity on its credit line of well over \$200 million. It's weighted average debt maturity term is well over 5 years, combining with its liquidity to provide the REIT with plenty of flexibility to respond opportunistically to economic and/or market conditions like it did this past December by repurchasing a large number of shares at a steep discount.

Final Thoughts & Recommendation

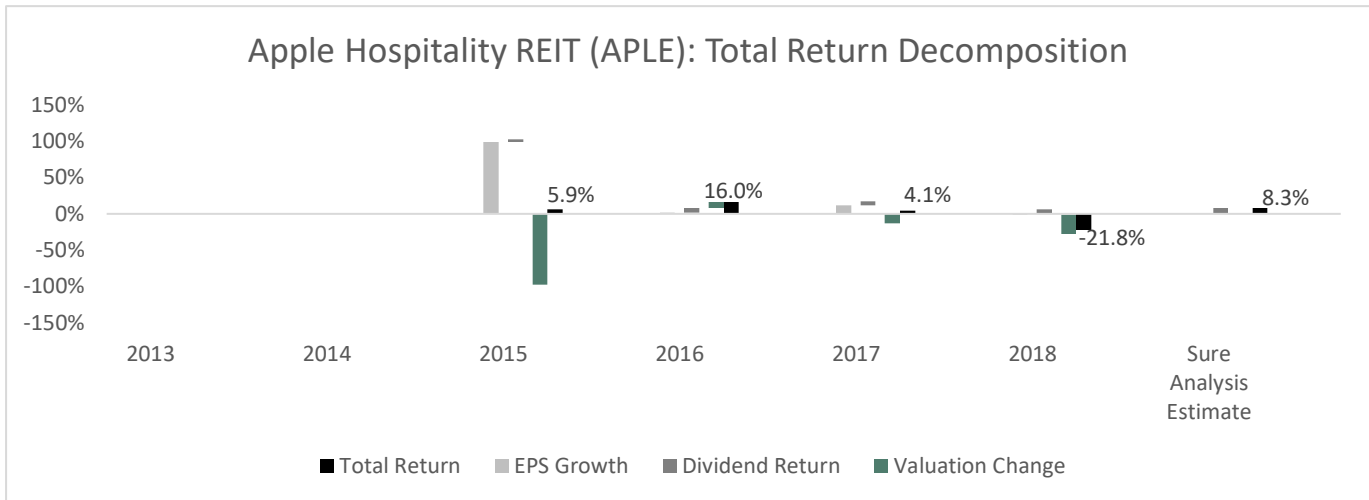
APLE is one of the most attractive plays in the hotel sector due to its strong brand power, very conservative balance sheet, and attractive, well-covered dividend. While the slowing outlook for the economy and hotel sector do not make it a buy, its 8.3% total return outlook (7.3% dividend yield and 1% projected annualized growth rate) makes it a solid hold for income investors. Those looking for value should look elsewhere, however.



Apple Hospitality REIT Inc. (APLE)

Updated March 5th, 2019 by Samuel Smith

Total Return Breakdown by Year



[Click](#)

[here to rate and review this research report. Your feedback is important to us.](#)



Apple Hospitality REIT Inc. (APLE)

Updated March 5th, 2019 by Samuel Smith

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	N/A	N/A	321	366	388	804	898	1041	1239	1271
Gross Profit	N/A	N/A	117	139	147	300	335	391	461	469
Gross Margin	N/A	N/A	36.7%	38.0%	37.9%	37.3%	37.3%	37.6%	37.2%	36.9%
SG&A Exp.	N/A	N/A	8	9	6	21	20	17	26	24
D&A Exp.	N/A	N/A	50	53	55	113	127	148	176	183
Operating Profit	N/A	N/A	61	78	86	166	188	226	258	261
Operating Margin	N/A	N/A	19.0%	21.3%	22.1%	20.6%	21.0%	21.7%	20.8%	20.5%
Net Profit	N/A	N/A	70	75	115	7	117	145	182	206
Net Margin	N/A	N/A	21.8%	20.6%	29.7%	0.8%	13.1%	13.9%	14.7%	16.2%
Free Cash Flow	N/A	N/A	100	106	115	184	219	266	321	331
Income Tax	N/A	N/A	1	1	1	2	1	0	1	1

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	N/A	N/A	1701	1526	1491	3777	3723	4980	4902	4929
Total Liabilities	N/A	N/A	137	180	179	762	1076	1463	1331	1520
Accounts Payable	N/A	N/A	13	13	17	56	78	125	109	107
Long-Term Debt	N/A	N/A	124	167	163	707	998	1338	1222	1412
Shareholder's Equity	N/A	N/A	1564	1346	1312	3015	2647	3517	3571	3409
D/E Ratio	N/A	N/A	0.08	0.12	0.12	0.23	0.38	0.38	0.34	0.41

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	N/A	N/A	4.1%	4.7%	7.6%	0.3%	3.1%	3.3%	3.7%	4.2%
Return on Equity	N/A	N/A	4.4%	5.2%	8.7%	0.3%	4.1%	4.7%	5.1%	5.9%
ROIC	N/A	N/A	4.1%	4.7%	7.7%	0.3%	3.2%	3.4%	3.8%	4.3%
Shares Out.	N/A	N/A	91	91	91	187	180	191	224	230
Revenue/Share	N/A	N/A	3.51	4.01	4.25	4.30	4.98	5.45	5.54	5.53
FCF/Share	N/A	N/A	1.10	1.17	1.26	0.99	1.21	1.39	1.44	1.44

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.