



Chatham Lodging (CLDT)

Updated May 27th, 2019, 2019 by Aiden Best

Key Metrics

Current Price:	\$18	5 Year CAGR Estimate:	7.0%	Volatility Percentile:	47.8%
Fair Value Price:	\$19	5 Year Growth Estimate:	1.6%	Momentum Percentile:	45.2%
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	-1.2%	Growth Percentile:	5.2%
Dividend Yield:	6.6%	5 Year Price Target	\$20	Valuation Percentile:	43.6%
Dividend Risk Score:	D	Retirement Suitability Score:	B	Total Return Percentile:	36.8%

Overview & Current Events

Chatham Lodging Trust manages and invests in upscale extended stay and premium branded hotel services. The company owns 42 hotels with approximately 6300 rooms. Chatham also has two joint ventures with a minority interest in 95 other hotels. The company looks to buy properties at a discount in large city centers. Chatham has a market cap of \$924 million and with a debt to equity ratio of 72%. Chatham operates under brand names like Hyatt, Marriot, and Hilton.

In Q4 of 2019, Chatham's revenue per available room was down 1% from 2018. The adjusted earnings before interest tax depreciation and amortization (EBITDA) was 2.6% higher than in the previous year but the adjusted Funds from Operations (FFO) declined by \$0.3 million. The increase in EBITDA is largely due to decreased operating expenses whereas the decrease in adjusted FFO is a result of increased interest expense. During this quarter, Chatham renovated three hotels and started renovations at two other hotels. Chatham hopes that it will be able to restore the gross operating profit margin at those hotels to 48.7% from 43.7%. Chatham had \$588 million in net debt comprised of \$502 million of fixed rate mortgage debt averaging a 4.7% interest rate. Chatham declared a \$0.11 per share monthly dividend which represents an annual dividend of \$1.32 per share. The hotel business is seasonal and as a result first quarter results are historically not as strong as the second and third quarter.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFO/S	N/A	\$0.21	\$0.28	\$1.29	\$1.26	\$1.42	\$2.26	\$2.29	\$2.14	\$1.95	\$1.87	\$2.02
DPS	N/A	\$0.35	\$0.70	\$0.78	\$0.84	\$0.93	\$1.20	\$1.38	\$1.32	\$1.32	1.32	1.32
Shares	N/A	9.21	13.82	13.91	26.30	34.00	38.31	38.37	45.37	46.52	46.57	47.12

In the past eight years, Chatham has been able to grow their Fund from Operations/Shares (FFO/S) dramatically. But in recent years, the REIT's growth has slowed dramatically. FFO/S has declined by 13.7% since 2015 and this is largely due to decreased revenue and increased interest expense. The REIT has experienced difficulty due to increased competition from other hotels and home sharing services like AirBNB. While this is concerning for Chatham, they are dedicated to converting existing space into income producing assets. An example of this is the conversion of an underused meeting space into a sophisticated bar. The plan is to convert unused space into substantial revenue and profits. Chatham acquired two hotels to their portfolio in 2018 adding approximately \$70 million worth of assets. These are long term assets that will take some time to produce income and boost FFO. We expect meager FFO-per-unit growth of 1.6% annually from Chatham over the next 5 years.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
P/FFO	N/A	82.1	38.5	12.02	16.5	20.6	9.2	9.0	10.6	9.1	10.3	9.7
Avg. Yld.	N/A	N/A	N/A	5.4%	4.9%	3.6%	2.9%	3.6%	5.0%	6.5%	7.0%	10.2%

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Chatham has historically traded at a Price to Funds from Operations (P/FFO) multiple of 9.7 over the past 5 years but currently trading at 10.7 because of strong revenue growth. Chatham is not expected to make the same sort of growth this year and is being brought down by increased interest expense. Hence, we expect Chatham's multiple will reset itself to 9.7 but may even stoop to a multiple as low as 8.5 based on historical figures.

Safety, Quality, Competitive Advantage, & Recession Resiliency

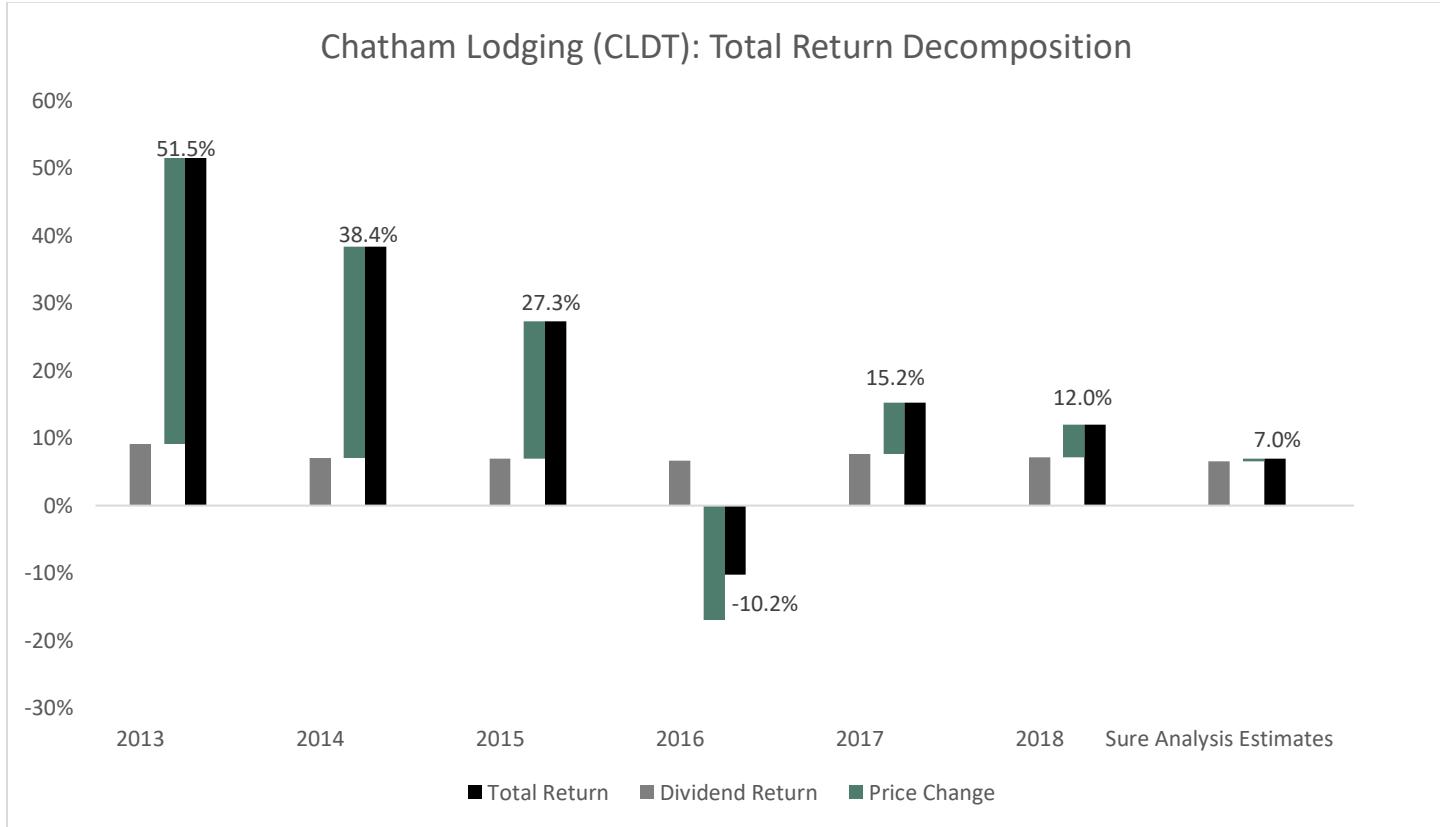
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	N/A	169%	251%	60%	67%	65%	53%	60%	61%	71%	71%	68%

Chatham does not have any public information from the last recession. During recessionary periods, hotel REIT's experience difficulty because their revenue is linked to consumers discretionary income. This means that Chatham would not be very resistant to recessions. The company has a debt to equity ratio of 0.72; compared to some of their competitors this positions them well. Chatham also operates in large metropolitan's which generally attract a lot of consumers. Also, Chatham Lodging has over \$500 million worth of debt at fixed interest rates. But overall we expect the company to reduce its distributions if a severe recession were to occur.

Final Thoughts & Recommendation

Overall, Chatham Lodging does have a good reputation as a REIT but with a declining hotel sector this stock is not a buy. Chatham offers total returns of 7.0% due to the 6.6% dividend yield, 1.6% expected growth rate and -1.2% push from the valuation decreasing. This does not fit our investment criteria and therefore we do not recommend it.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	25	73	99	125	195	273	290	296	318	25
Gross Profit	10	31	44	56	94	136	141	140	148	10
Gross Margin	41.0%	42%	44.3%	44.9%	48.3%	49.9%	48.6%	47.4%	46.4%	41.0%
SG&A Exp.	4	6	8	8	10	12	11	13	14	4
D&A Exp.	3	12	14	18	35	49	49	46	48	3
Operating Profit	0	0	15	17	27	56	59	60	58	0
Operating Margin	-1.8%	0.2%	14.8%	13.9%	13.7%	20.3%	20.3%	20.2%	18.3%	-1.8%
Net Profit	-1	-9	-1	3	67	33	31	29	31	-1
Net Margin	-4.8%	-13%	-1.5%	2.4%	34.3%	12.1%	10.9%	10.0%	9.6%	-4.8%
Free Cash Flow	5	9	15	32	49	82	88	87	86	5
Income Tax	0	0	0	0	0	0	0	0	0	0

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	222	459	457	674	1165	1337	1303	1392	1440	222
Cash & Equivalents	5	5	4	4	15	21	12	9	7	5
Accounts Receivable	1	2	2	2	4	4	4	4	4	1
Total Liabilities	57	242	251	288	573	640	621	582	632	57
Accounts Payable	5	10	8	13	20	25	28	32	34	5
Long-Term Debt	50	229	239	272	550	605	583	538	583	50
Shareholder's Equity	165	216	205	383	589	693	677	803	797	165
D/E Ratio	0.30	1.06	1.17	0.71	0.93	0.87	0.86	0.67	0.73	0.30

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-1.0%	-2.7%	-0.3%	0.5%	7.3%	2.6%	2.4%	2.2%	2.2%	-1.0%
Return on Equity	-1.4%	-4.8%	-0.7%	1.0%	13.8%	5.1%	4.6%	4.0%	3.8%	-1.4%
ROIC	-1.1%	-2.8%	-0.3%	0.5%	7.4%	2.7%	2.5%	2.3%	2.2%	-1.1%
Shares Out.	N/A	9.21	13.82	13.91	26.30	34.00	38.31	38.37	45.37	46.52
Revenue/Share	3.99	5.50	7.16	5.85	6.77	7.13	7.53	7.38	6.89	3.99
FCF/Share	0.83	0.67	1.08	1.48	1.71	2.14	2.28	2.16	1.86	0.83

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

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