



Chatham Lodging (CLDT)

Updated August 21st, 2019 by Quinn Mohammed

Key Metrics

Current Price:	\$17	5 Year CAGR Estimate:	10.6%	Volatility Percentile:	38.6%
Fair Value Price:	\$18	5 Year Growth Estimate:	2.0%	Momentum Percentile:	23.2%
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.6%	Growth Percentile:	8.2%
Dividend Yield:	8.0%	5 Year Price Target	\$19	Valuation Percentile:	62.9%
Dividend Risk Score:	D	Retirement Suitability Score:	B	Total Return Percentile:	64.3%

Overview & Current Events

Chatham Lodging Trust manages and invests in upscale extended stay and premium branded hotel services. The company wholly owns 40 hotels with over 6,000 rooms across 15 states and the District of Columbia.

Chatham also has a roughly 10% noncontrolling interest in two joint ventures who own a combined 95 other hotels. The company looks to buy properties at a discount in large city centers. Chatham was formed as an REIT in October 2009 and has a market cap of \$779 million. Chatham operates under brand names like Hyatt, Marriot, and Hilton.

On July 31st, Chatham Lodging Trust announced second quarter results and updated full-year guidance. Portfolio revenue per available room (RevPAR) declined by 0.3% to \$145 compared to last year. This bodes unfavorably to management's expectation of RevPAR growth for the quarter of 0.5% to 1.5%. Average daily rate (ADR) declined by 0.7% to \$173 while occupancy rose 0.4% to 83.7%.

Adjusted EBITDA rose 2.8% year-over-year, to \$38.7 million, on the low end of the company's provided guidance. Adjusted FFO improved \$0.3 million to \$27.7 million. Adjusted FFO per diluted share was \$0.58, down \$0.01 YoY, caused by the sale of the two western Pennsylvania hotels. Total distributions for the quarter amount to \$0.33, which is healthily covered by the company's funds from operations with a 57% payout ratio.

The company is developing and has begun construction on a hotel in the Warner Center in Los Angeles, CA. This is the first ground-up development since the company's inception. Total development costs are expected to be about \$65 million. The surrounding area employs more than 50,000 people.

Management is guiding for adjusted EBITDA of \$127 to \$131 million for full year 2019, and adjusted FFO per share of \$1.77 to \$1.84.

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	\$1.80	\$1.99
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	13.8	13.9	26.3	34.0	38.3	38.4	45.4	46.5	46.7	52.5

In the past eight years, Chatham has been able to grow their funds from operations per share (FFO/S) dramatically, but in recent years this growth has slowed significantly. FFO per share 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. Once completed, the Warner Center hotel should also provide a boost to EBITDA, however this is a long way out. These are long term assets that will take some time to produce income and boost FFO. We expect small but positive FFO-per-unit growth of 2% annually from Chatham over the next 5 years.

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.



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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	9.4	9.7
Avg. Yld.	N/A	N/A	N/A	5.4%	4.9%	3.6%	2.9%	3.6%	5.0%	6.5%	8.0%	6.9%

Chatham has historically traded at a price-to-funds from operations (P/FFO) multiple of 9.7 over the past 5 years but is currently trading at 9.4 due to recent stock price decline. 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. This growth in the multiple will add 0.6% to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

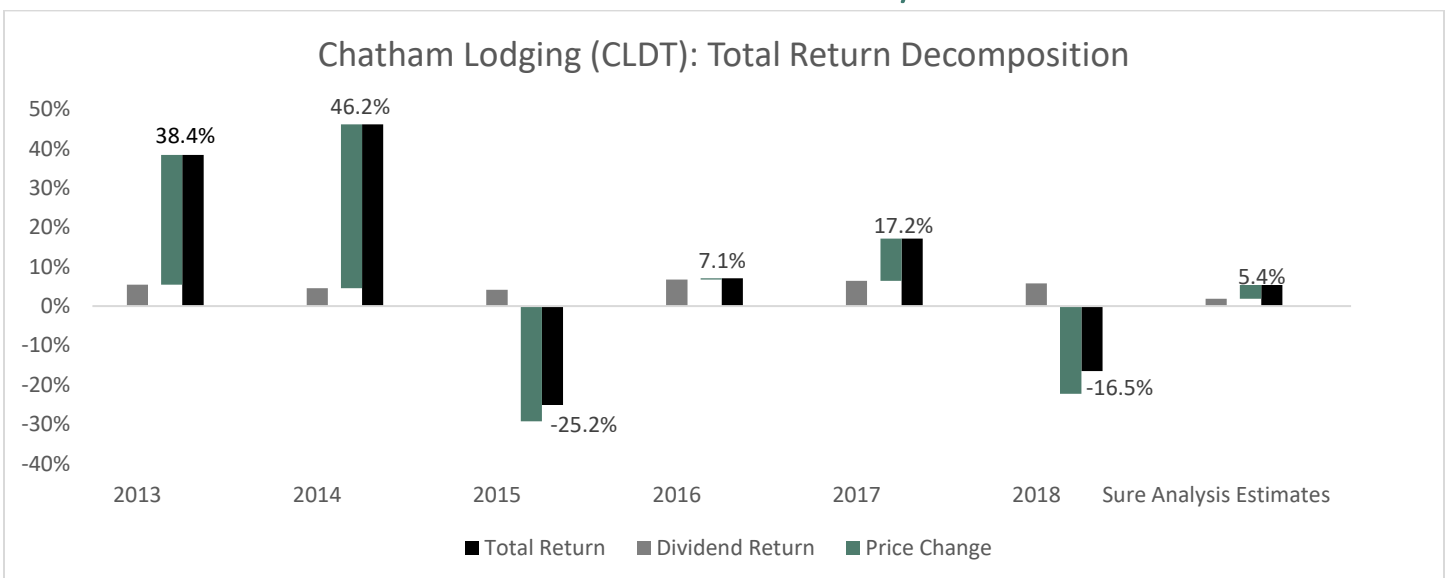
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	N/A	169%	251%	60%	67%	65%	53%	60%	61%	71%	73%	66%

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. Including its interest in the two joint venture portfolios, Chatham has a total net debt to trailing EBITDA of 5.5 times. Chatham also operates in large metropolitans which generally attract a lot of consumers. Also, Chatham Lodging has \$580 million worth of debt, the majority of which is at fixed interest rates with an average interest rate of 4.6%. In the event of a severe recession, a reduction of the distribution would be likely.

Final Thoughts & Recommendation

Overall, Chatham Lodging has a good reputation as an REIT with popular name brands, but the issues facing the hotel sector weighs on the company. We expect Chatham to offer total returns of 10.6% due to the 8.0% dividend yield, 2.0% expected growth rate and 0.6% gain from the multiple expansion. While the company is almost fully valued, total returns of 10.6% are attractive, although they consist almost entirely of the dividend yield. We rate the stock a hold at this time.

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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