



Chatham Lodging (CLDT)

Updated February 26th, 2019 by Quinn Mohammed

Key Metrics

Current Price:	\$15	5 Year CAGR Estimate:	11.0%	Market Cap:	\$716M
Fair Value Price:	\$17	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	02/27/2020
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.4%	Dividend Payment Date:	03/27/2020
Dividend Yield:	8.4%	5 Year Price Target	\$19	Years of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	B	Last Dividend Increase:	0

Overview & Current Events

Chatham Lodging Trust manages and invests in upscale extended stay and premium branded hotel services. The company wholly owns 42 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 \$716 million. Chatham operates under brand names like Hyatt, Marriot, and Hilton.

On February 26th, Chatham Lodging Trust announced fourth quarter and full year results. Portfolio revenue per available room (RevPAR) declined by 4.9% to \$118 compared to last year. Average daily rate (ADR) decreased by 4.1% to \$157, and occupancy rate dropped 0.8% to 76%. RevPAR for the full year 2019 came in at \$133.50, down from \$135.60. ADR decreased from \$168.7 in 2018 to \$166.50 in 2019. Occupancy for the twelve months was down to 80.2% from 80.4%.

Adjusted EBITDA for 2019 decreased 0.4% year-over-year to \$131.0 million. Adjusted FFO decreased from \$90.7 million to \$87.8 million. Adjusted FFO per diluted share was \$1.85, down 5% from the prior year. The company maintained the \$1.32 distribution, which was well covered by AFFO with a 71% 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. To date, the company has spent \$20.5 million on this project.

Management provided 2020 forecast and expects RevPAR of \$131 to \$133 and adjusted EBITDA of \$123 to \$127 million. Adjusted FFO is expected to be between \$82 and \$86 million, and between \$1.72 to \$1.80 per diluted share.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
FFO/S	\$0.21	\$0.28	\$1.29	\$1.26	\$1.42	\$2.26	\$2.29	\$2.14	\$1.95	\$1.85	\$1.76	\$1.94
DPS	\$0.35	\$0.70	\$0.78	\$0.84	\$0.93	\$1.20	\$1.38	\$1.32	\$1.32	\$1.32	\$1.32	\$1.32
Shares¹	9.21	13.8	13.9	26.3	34.0	38.3	38.4	45.4	46.5	47.5	48.0	52.5

In the past nine 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 and even decreased. FFO per share has declined by 4.9% 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

¹ In millions

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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.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/FFO	82.1	38.5	12.02	16.5	20.6	9.2	9.0	10.6	9.1	9.9	8.5	9.6
Avg. Yld.	N/A	6.7%	5.4%	4.9%	3.6%	2.9%	3.6%	5.0%	6.5%	7.1%	8.8%	7.1%

Chatham has historically traded at a price-to-funds from operations (P/FFO) multiple of 9.6 over the past 5 years and is slightly undervalued at 8.5 times 2020 earnings today. Chatham is not expected to make the same sort of growth it has in the past and is being brought down by increased interest expense. Hence, we expect Chatham's multiple will reset itself to 9.7 but may even remain as low as 8.5 based on historical figures. This growth in the multiple will increase total returns by 2.4%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

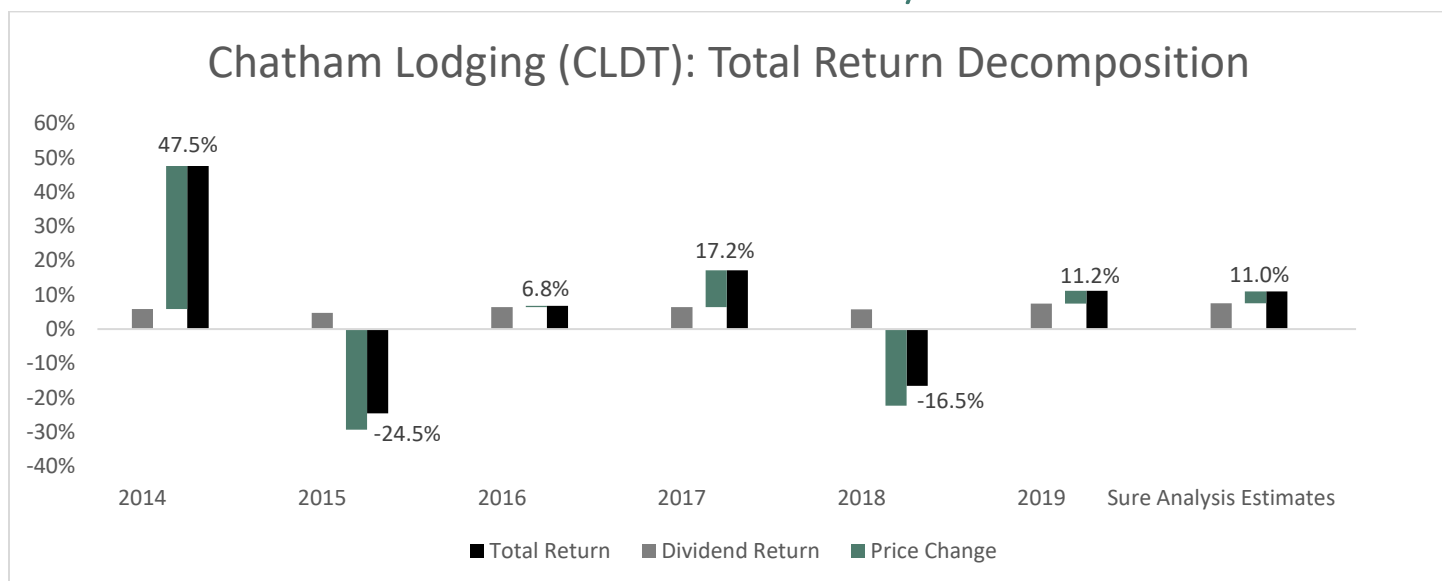
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	167%	250%	60%	67%	65%	53%	60%	62%	68%	71%	75%	68%

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. Including its interest in the two joint venture portfolios, Chatham has a total net debt to trailing EBITDA of 5.7 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 11.0%, primarily due to the high yield of 8.4%. The company is near fair value at 89%, so there is a small margin of safety. We rate the stock a hold at this time.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	73	99	125	195	273	290	296	318	25	328
Gross Profit	31	44	56	94	136	141	140	148	10	148
Gross Margin	42%	44.3%	44.9%	48.3%	49.9%	48.6%	47.4%	46.4%	41.0%	45.2%
SG&A Exp.	6	8	8	10	12	11	13	14	4	14
D&A Exp.	12	14	18	35	49	49	46	48	3	51
Operating Profit	0	15	17	27	56	59	60	58	0	58
Operating Margin	0.2%	14.8%	13.9%	13.7%	20.3%	20.3%	20.2%	18.3%	-1.8%	17.7%
Net Profit	-9	-1	3	67	33	31	29	31	-1	19
Net Margin	-13%	-1.5%	2.4%	34.3%	12.1%	10.9%	10.0%	9.6%	-4.8%	5.7%
Free Cash Flow	9	15	32	49	82	88	87	86	5	86
Income Tax	0	0	0	0	0	0	0	0	0	0

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	459	457	674	1165	1337	1303	1392	1440	1440	1439
Cash & Equivalents	5	4	4	15	21	12	9	7	7	7
Accounts Receivable	2	2	2	4	4	4	4	4	4	5
Total Liabilities	242	251	288	573	640	621	582	632	632	664
Accounts Payable	10	8	13	20	25	28	32	34	34	33
Long-Term Debt	229	239	272	550	605	583	538	583	583	585
Shareholder's Equity	216	205	383	589	693	677	803	797	797	762
D/E Ratio	1.06	1.17	0.71	0.93	0.87	0.86	0.67	0.73	0.73	0.77

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	-2.7%	-0.3%	0.5%	7.3%	2.6%	2.4%	2.2%	2.2%	-1.0%	1.3%
Return on Equity	-4.8%	-0.7%	1.0%	13.8%	5.1%	4.6%	4.0%	3.8%	-1.4%	2.4%
ROIC	-2.8%	-0.3%	0.5%	7.4%	2.7%	2.5%	2.3%	2.2%	-1.1%	1.4%
Shares Out.	9.21	13.82	13.91	26.30	34.00	38.31	38.37	45.37	46.52	47.5
Revenue/Share	5.50	7.16	5.85	6.77	7.13	7.53	7.38	6.89	3.99	6.98
FCF/Share	0.67	1.08	1.48	1.71	2.14	2.28	2.16	1.86	0.83	1.83

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

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