Summit Hotel Properties Inc. (INN)

Updated May 27th, 2020 by Samuel Smith

Key Metrics

Current Price:	$6	**5 Year CAGR Estimate:**	9.0%	**Market Cap:**	$644.2M
Fair Value Price:	$6	**5 Year Growth Estimate:**	4.6%	**Ex-Dividend Date:**	8/13/20[1]
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Dividend Payment Date:**	8/28/20[2]
Dividend Yield:	3.0%	**5 Year Price Target**	$7.50	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	NA

Overview & Current Events

Summit Hotel Properties, Inc. is a real estate investment trust, otherwise known as a REIT. It owns properties in the hospitality industry. Summit focuses on acquiring and owning premium-branded, select-service hotels in the upscale and upper-midscale segments of the U.S. lodging industry. Its brand partners include Marriott, Hilton, and Hyatt, which collectively represent more than 90% of Summit's hotel portfolio. Its top regions are Atlanta, New Orleans, San Francisco, Miami, and Minneapolis. As of last quarter, the $0.64 billion market capitalization trust's portfolio consisted of 75 hotels (down from 77 in August of 2018) with a total of 11,529 guestrooms located in 25 states.

On May 11th, 2020 Summit released Q1 2020 results. Pro forma revenue per available room (RevPAR) decreased by 25.3% to $95.99 year-over-year. Pro forma average daily rate (ADR) fell by 6.5% to $156.44 year-over-year. Pro forma occupancy fell 20.1% to 61.4%. Same-store RevPAR fell by 24.6% year-over-year. Same-store ADR fell by 5.9% year-over-year. Same-store occupancy fell by 19.9% year-over-year. AFFO fell by 58.9% to $13.3 million ($0.13 per diluted share), down from $32.3 million ($0.31 per diluted share) in the year-ago period.

For this year's AFFO-per-share, we estimate just $0.05. However, for the purposes of fair value and valuation calculations, we use an earnings power estimate of $1 per share.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
AFFO	---	$0.72	$0.82	$0.81	$0.97	$1.25	$1.41	$1.34	$1.35	$1.23	***$0.05***	***$1.25***
DPS	---	$0.28	$0.45	$0.45	$0.46	$0.47	$0.545	$0.673	$0.72	$0.72	***$0.18***	***$0.50***
Shares[3]	---	27.3	33.9	70.7	85.6	87.1	87.3	99.8	103.6	106	***106***	***115***

Acquisitions will be a primary growth driver over the long-term for Summit. For instance, in September of 2018 the trust completed the acquisition of the 150-guestroom Residence Inn by Marriott Boston Watertown, for $71 million, at an 8.1% capitalization rate. Similar deals like these will help the trust to continue revenue and FFO growth. However, Summit is selling off non-critical properties to raise cash, which it can allocate towards continued acquisitions of more attractive properties. In that vein, the trust sold eight hotels containing 910 guestrooms for an aggregate sales price of $106.8 million, at a 7.7% cap rate. Business conditions are becoming more difficult for hotel REITs in the wake of the coronavirus outbreak. As a result, we expect INN to not pay out any more common dividends for the remainder of the year and to do everything it can to maximize liquidity to tide over the REIT until the current headwinds dissipate. That being said, we do not expect the current aversion to traveling and sitting in close proximity to others to last over the long-term, and therefore expect the business model to bounce back fairly well from current challenges.

[1] Estimate
[2] Estimate
[3] Shares in millions

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/AFFO	---	13.2	10.4	11.8	10.6	10.4	9.0	12.1	7.2	9.8	***6.0***	***6.0***
Avg. Yld.	---	2.9%	5.3%	4.7%	4.5%	3.6%	4.3%	4.1%	7.4%	6.0%	***3.0%***	***6.7%***

Since we used AFFO-per-share instead of earnings-per-share, we are using the price-to-AFFO ratio instead of the price-to-earnings ratio for valuation analysis. In the past eight years, Summit shares traded with an average price-to-AFFO ratio of 10 to 11. This is a mark we were comfortable with until the coronavirus outbreak caused us to rethink this assumption. As a result, given the risks from the current headwinds, as well as potentially longer-term implications for capital allocation in the business model (i.e., lower leverage on balance sheets, resulting in lower FFO-per-share growth and lower dividend payout ratios), we are reducing our fair value estimate to 6 times FFO.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	39%	55%	56%	47%	38%	39%	50%	53%	59%	***360%***	***40%***

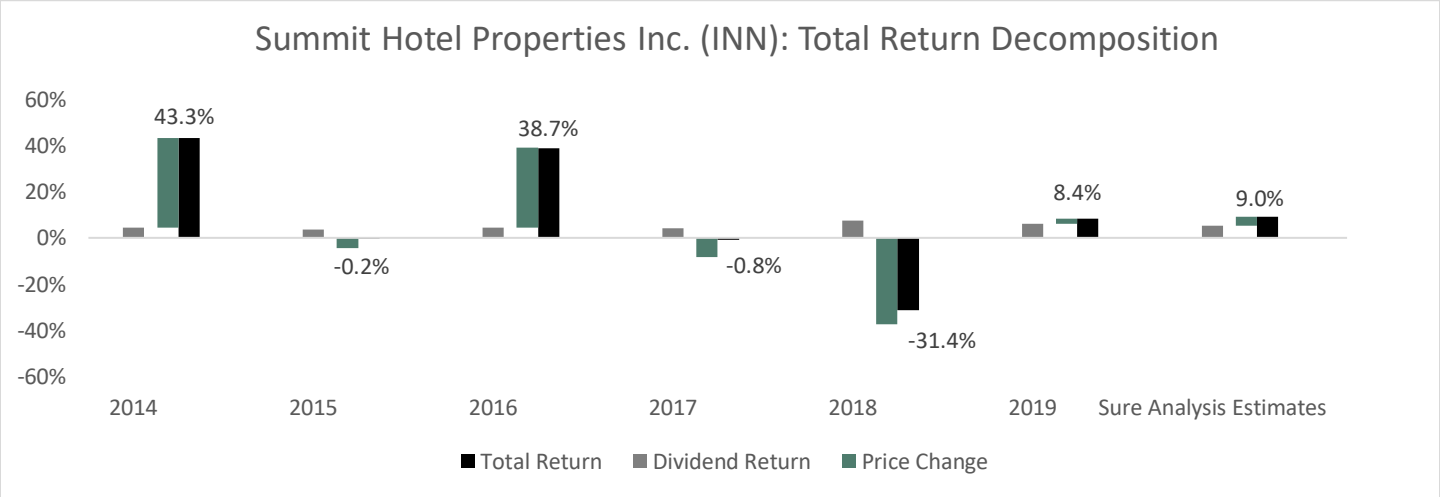
Summit's main competitive advantage is its strong property portfolio and its focus on the upscale niche, which gives the trust some pricing power. That said, Summit would not perform well during a recession. Consumers typically cut spending on traveling and vacations during a recession, which would be highly negative for the lodging industry.

The trust's balance sheet and dividend safety were strong prior to the coronavirus outbreak. With a payout ratio that is lower than a typical REIT, over $400 million of current liquidity, no debt maturities until the end of 2022, and an average remaining term of nearly five years, the trust would have been able to withstand considerable disruption before its dividend is threatened. However, the coronavirus outbreak has reduced travel and hotel visits to a slow crawl, resulting in massive losses of cash flow and leading to a dividend suspension.

Final Thoughts & Recommendation

Summit is trading at a steep discount to its net asset value and offers an attractive expected annualized total return of 9%. However, the near-term outlook is uncertain given the massive headwinds facing the hotel sector. We therefore view it as a hold on the assumption that it weathers the current challenges with minimal permanent capital destruction due to its quality assets and strong balance sheet. Conservative investors should steer clear, however.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	129	134	162	299	403	463	474	515	567	549
Gross Profit	37	40	51	101	142	168	197	208	226	216
Gross Margin	28.8%	29.7%	31.7%	33.7%	35.2%	36.2%	41.6%	40.4%	39.8%	39.3%
SG&A Exp.	-	7	10	13	20	21	38	38	40	40
D&A Exp.	27	30	35	51	64	64	72	86	101	99
Operating Profit	11	7	11	38	58	82	87	84	85	77
Op. Margin	8.5%	5.2%	6.8%	12.8%	14.5%	17.8%	18.3%	16.3%	14.9%	13.9%
Net Profit	(21)	(3)	(1)	6	21	124	108	99	91	83
Net Margin	-16.3%	-2.2%	-0.7%	2.0%	5.2%	26.8%	22.7%	19.3%	16.0%	15.0%
Free Cash Flow	10	24	35	70	102	132	137	148	162	148
Income Tax	0	(2)	(1)	5	1	1	(1)	2	(1)	2

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	493	554	811	1,294	1,459	1,575	1,719	2,210	2,222	2,356
Cash & Equivalents	8	11	14	47	39	29	35	37	44	42
Accounts Receivable	3	3	5	7	8	9	12	17	14	13
Total Liabilities	433	235	337	472	674	718	705	932	1,030	1,112
Accounts Payable	1	2	5	8	7	3	5	8	5	5
Long-Term Debt	420	217	313	436	627	672	652	868	959	1,016
Shareholder's Equity	61	278	437	810	780	853	1,010	1,274	1,190	1,174
D/E Ratio	6.84	0.78	0.72	0.54	0.80	0.79	0.65	0.68	0.81	0.87

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	-4.1%	-0.6%	-0.2%	0.6%	1.5%	8.2%	6.5%	5.1%	4.1%	3.6%
Return on Equity	-29.0%	-1.7%	-0.3%	0.9%	2.6%	15.2%	11.6%	8.7%	7.4%	7.0%
ROIC	-4.2%	-0.6%	-0.2%	0.6%	1.6%	8.5%	6.7%	5.2%	4.2%	3.7%
Shares Out.	---	27.3	33.9	70.7	85.6	87.1	87.3	99.8	103.6	106
Revenue/Share	4.71	4.92	4.80	4.25	4.72	5.32	5.43	5.17	5.46	5.29
FCF/Share	0.38	0.89	1.03	0.99	1.19	1.52	1.57	1.48	1.56	1.43

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

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