

# Chatham Lodging (CLDT)

Updated August 17<sup>th</sup>, 2020 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$6.6	<b>5 Year CAGR Estimate:</b>	-13.7%	<b>Market Cap:</b>	\$316M
<b>Fair Value Price:</b>	\$0.8	<b>5 Year Growth Estimate:</b>	20.0%	<b>Ex-Dividend Date:</b>	N/A
<b>% Fair Value:</b>	797%	<b>5 Year Valuation Multiple Estimate:</b>	-34.0%	<b>Dividend Payment Date:</b>	N/A
<b>Dividend Yield:</b>	3.0%	<b>5 Year Price Target</b>	\$2	<b>Years of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	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 \$316 million. Chatham operates under brand names like Hyatt, Marriot, and Hilton.

On August 5<sup>th</sup>, Chatham Lodging Trust announced second quarter results. Portfolio revenue per available room (RevPAR) declined by 77% to \$33, compared to last year. Average daily rate (ADR) decreased by 43% to \$98, and occupancy rate dropped 59% to 34%.

Adjusted EBITDA for the second quarter decreased \$42 million to a loss of \$3.3 million. Adjusted FFO declined \$40 million to a loss of \$12.4 million. Adjusted FFO per diluted share was -\$0.26, compared to a gain of \$0.58 in 2Q2019. No dividends were paid in the quarter, compared to a \$0.33 dividend last year. Year-to-date, the company has paid \$0.22 in dividends compared to \$0.66 last year. Despite paying a much smaller dividend, AFFO per share to-date of -\$0.13 does not cover the \$0.22 paid out to shareholders. While the dividend has been suspended, Chatham will pay any dividend necessary to maintain its REIT status in January 2021, by declaring it in December 2020.

Following a series of corporate actions to mitigate the impact of the COVID-19 pandemic, Chatham currently has estimated liquidity of \$114 million, including \$37 million in cash, and \$77 million remaining capacity on the credit facility. This liquidity could fuel the company for about 41 months, based on cash used before capex of \$2.8 million in June, and assuming there are no meaningful changes from June operating levels.

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 \$70 million. The surrounding area employs more than 50,000 people. To date, the company has spent \$31 million on this project. The company closed on a \$40 million construction loan and the project completion is expected in early 2020.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>FFO/S</b>	\$0.21	\$0.28	\$1.29	\$1.26	\$1.42	\$2.26	\$2.29	\$2.14	\$1.95	\$1.85	<b>\$0.09</b>	<b>\$0.22</b>
<b>DPS</b>	\$0.35	\$0.70	\$0.78	\$0.84	\$0.93	\$1.20	\$1.38	\$1.32	\$1.32	\$1.32	<b>\$0.22</b>	<b>\$0.22</b>
<b>Shares<sup>1</sup></b>	9.21	13.8	13.9	26.3	34.0	38.3	38.4	45.4	46.5	47.5	<b>48.0</b>	<b>52.5</b>

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, and then COVID-19 came and exacerbated CLDT's difficulties. While this is concerning for Chatham, they are dedicated to converting existing space into income producing assets and maintaining liquidity. The plan is to convert unused space into substantial revenue and

<sup>1</sup> In millions

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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. Considering the beating that Chatham has taken due to its exposure to business-related travel, and considering all travel has been significantly cut, expected earnings for 2020 are extremely low, and so we expect that the company can grow earnings by 20% from here.

## 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	<b>73.3</b>	<b>9.2</b>
Avg. Yld.	N/A	6.7%	5.4%	4.9%	3.6%	2.9%	3.6%	5.0%	6.5%	7.1%	<b>3.3%</b>	<b>10.7%</b>

Chatham has historically traded at a price-to-funds from operations (P/FFO) multiple of 9.6 over the past 5 years and is currently grossly overvalued at 73 times expected 2020 FFO today. Chatham is expected to face difficulties of unknown proportions due to COVID-19 and is being brought down by increased interest expense. Hence, we expect Chatham's multiple will reset itself to 9.2 but may even drop lower. This decline in the multiple will lead to losses of 34%.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

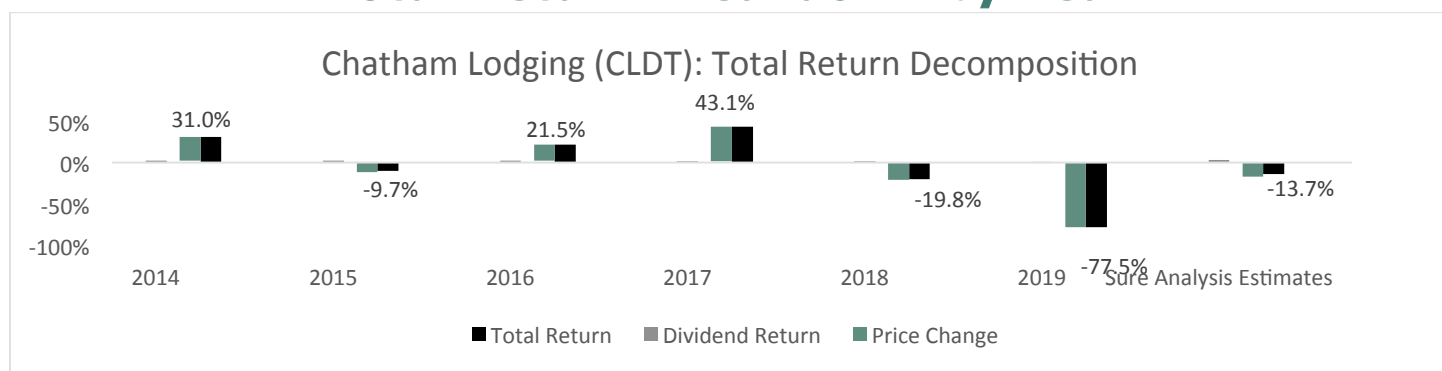
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	167%	250%	60%	67%	65%	53%	60%	62%	68%	71%	<b>244%</b>	<b>100%</b>

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. Considering the COVID-19 pandemic has caused an immense drop in travel, Chatham is very susceptible to the ongoing recession. Chatham operates in large metropolitans which generally attract a lot of consumers; however, they have \$629 million worth of net debt, the majority of which is at fixed interest rates with an average interest rate of 4.7%. As predicted, in light of the coronavirus pandemic, Chatham has slashed the distribution for 2020 and will only pay out what is necessary to hold its REIT status.

## 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 very heavily on the company. We expect Chatham to offer total returns of -13.7%, primarily focused on earnings growth from this low point, which is speculative. The company is overvalued on a PE basis, at 797% of fair value, so there is a negative margin of safety. We rate the stock a sell 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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