



Apple Hospitality REIT Inc. (APLE)

Updated November 3rd, 2020 by Samuel Smith

Key Metrics

Current Price:	\$10	5 Year CAGR Estimate:	10.1%	Market Cap:	\$2.3B
Fair Value Price:	\$11	5 Year Growth Estimate:	3.9%	Ex-Dividend Date:	NA
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.9%	Dividend Payment Date:	NA
Dividend Yield:	2.0%	5 Year Price Target	\$13	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	NA

Overview & Current Events

Apple Hospitality REIT is a \$2.3 billion hotel REIT that owns a portfolio of 241 hotels with more than 30,800 rooms located in 88 markets and 34 states. It franchises its properties out to leading brands, including 114 Marriott-branded hotels, 126 Hilton-branded hotels, and 1 Hyatt-branded hotel. It was formed in 2007 and had sustained or grown its dividend every year beginning in 2015, prior to 2020 when it had to suspend its dividend due to the COVID-19 impacts on its business.

Apple Hospitality reported Q2 results on 8/6/20. As expected, the trust suffered a modified FFO-per-share loss of \$0.11, down sharply from \$0.49 in MFFO per share in the year-ago period. The average daily rate also fell by 28.8% year-over-year and occupancy fell by 65.4% year-over-year. Revenue per available room saw the most stunning decline, with a 75.3% drop year-over-year.

Despite the dismal results, the balance sheet remained in solid shape. Cash and cash equivalents stood at a healthy level of over \$156 million and total net debt to capitalization stood at a fairly conservative 39.9%. As a result, APLE remains in good position to weather the current headwinds.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
FFO/S	---	\$0.66	\$0.70	\$0.75	\$0.77	\$1.53	\$1.56	\$1.74	\$1.72	\$1.70	\$0.12	\$1.50
NAV/S	---	---	---	---	---	\$15.18	\$15.78	\$15.53	\$15.22	\$14.70	\$10.75	\$13.00
DPS	---	---	---	---	---	\$0.80	\$1.20	\$1.20	\$1.20	\$1.20	\$0.20	\$0.96
Shares¹	68	91	91	91	187	180	191	224	230	230	230	220

Since it first began reporting FFO/share in its annual reports (2011), Apple has generated very impressive annualized FFO/share growth of nearly 15% thanks to its growing scale (due in large part to a merger in 2015), effective and efficient business model, and strong economic tailwinds in the United States during that period. However, this growth rate has slowed dramatically recently. This year should see this slowdown accelerate sharply, as margins further compress due to increasing competition, rising inflation, and a steep decline in demand from the Covid-19 outbreak and a likely accompanying recession. *The trust has also announced a suspension of its dividend for the remainder of the fiscal year.* The good news is that the trust's quality assets and strong balance sheet should enable it to survive the downturn as long as the Covid-19 lockdown does not extend too long. We do forecast a fairly sharp rebound over the next half decade from this year's lows, but still believe it will take a while for the company to reach its 2017-2018 heights.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/ NAV	---	---	---	---	---	1.1	1.1	1.1	1.1	1.1	0.91	1.0
Avg. Yld.	---	---	---	---	---	4.4%	6.6%	6.0%	6.1%	7.5%	2.0%	7.4%

¹ Shares in millions

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Apple's growth has collapsed and is not likely to pick up momentum until the cycle resets. That being said, the trust has a strong balance sheet and quality assets which should help it weather the crisis. However, given the massive headwinds and uncertainty facing the sector, we have cut our fair value estimate from the historic norm of 1.1 times NAV to 1.0 times NAV. The dividend has been suspended for the remainder of the year and we expect it will take a while for it to recover as the trust will likely have to pay down debt and shore up its financial standing first before returning to growing shareholder capital returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2024
Payout	---	---	---	---	---	52.3%	76.9%	69.0%	69.8%	70.6%	167%	64.0%

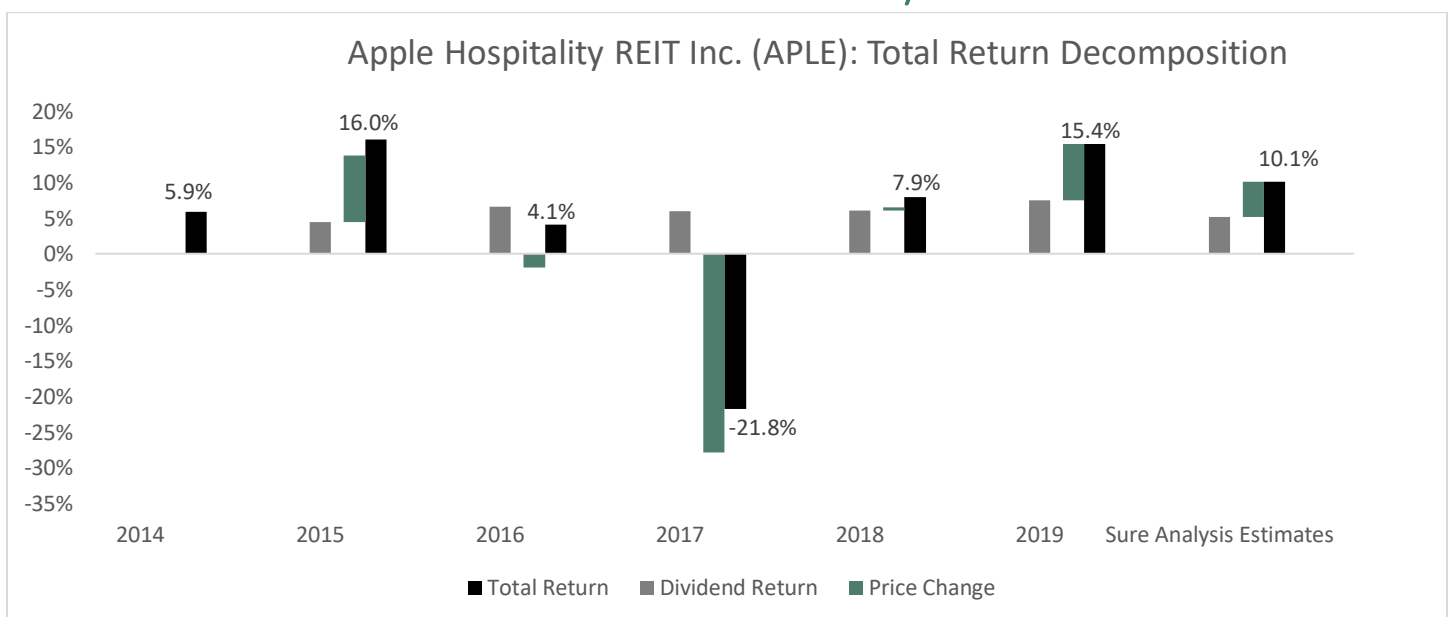
Apple does not have a recorded history as a public trust during a recession, therefore it is hard to judge its recession resilience, other than to compare it to hotel REITs. Typically, during a recessionary period, hotel REITs experience significant losses of income. Therefore, Apple is likely not very recession resistant. However, its concentration in strong brand names, excellent locations, strong balance sheet, franchising model, and emphasis on value should enable it to outperform its peers in a recession.

It has some of the lowest debt-to-equity in the sector, a weighted-average interest rate of only ~3.7%, and plenty of liquidity. It's weighted average debt maturity term is well over 5 years, combining with its liquidity to provide the REIT with plenty of flexibility to respond opportunistically to economic and/or market conditions, as it has in the past by repurchasing a large number of shares at a steep discount. That being said, it has already suspended its dividend for the remainder of 2020 due to the collapse in demand from the Covid-19 outbreak and a likely recession to follow.

Final Thoughts & Recommendation

Apple Hospitality is one of the most attractive plays in the hotel sector due to its strong brand power, very conservative balance sheet, and high-quality assets. The collapsing outlook for hotel sector and threat of potential bankruptcy makes it a sell for conservative dividend growth investors. However, if it survives the current storm, its 10.1% total return potential makes it worth buying for more speculative investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	N/A	321	366	388	804	898	1041	1239	1271	1,267
Gross Profit	N/A	117	139	147	300	335	391	461	469	465
Gross Margin	N/A	36.7%	38.0%	37.9%	37.3%	37.3%	37.6%	37.2%	36.9%	36.7%
SG&A Exp.	N/A	8	9	6	21	20	17	26	24	36
D&A Exp.	N/A	50	53	55	113	127	148	176	183	193
Operating Profit	N/A	61	78	86	166	188	226	258	261	235
Operating Margin	N/A	19.0%	21.3%	22.1%	20.6%	21.0%	21.7%	20.8%	20.5%	18.6%
Net Profit	N/A	70	75	115	7	117	145	182	206	172
Net Margin	N/A	21.8%	20.6%	29.7%	0.8%	13.1%	13.9%	14.7%	16.2%	13.6%
Free Cash Flow	N/A	100	106	115	184	219	266	321	331	307
Income Tax	N/A	1	1	1	2	1	0	1	1	1

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	N/A	1701	1526	1491	3777	3723	4980	4902	4929	4942
Total Liabilities	N/A	137	180	179	762	1076	1463	1331	1520	1,651
Accounts Payable	N/A	13	13	17	56	78	125	109	107	114
Long-Term Debt	N/A	124	167	163	707	998	1338	1222	1412	1,320
Shareholder's Equity	N/A	1564	1346	1312	3015	2647	3517	3571	3409	3,291
D/E Ratio	N/A	0.08	0.12	0.12	0.23	0.38	0.38	0.34	0.41	0.40

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	N/A	4.1%	4.7%	7.6%	0.3%	3.1%	3.3%	3.7%	4.2%	3.5%
Return on Equity	N/A	4.4%	5.2%	8.7%	0.3%	4.1%	4.7%	5.1%	5.9%	5.1%
ROIC	N/A	4.1%	4.7%	7.7%	0.3%	3.2%	3.4%	3.8%	4.3%	3.6%
Shares Out.	N/A	91	91	91	187	180	191	224	230	230
Revenue/Share	N/A	3.51	4.01	4.25	4.30	4.98	5.45	5.54	5.53	5.66
FCF/Share	N/A	1.10	1.17	1.26	0.99	1.21	1.39	1.44	1.44	1.37

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

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