



Apple Hospitality REIT Inc. (APLE)

Updated March 9th, 2021 by Samuel Smith

Key Metrics

Current Price:	\$14.6	5 Year CAGR Estimate:	4.3%	Market Cap:	\$3.2B
Fair Value Price:	\$14.8	5 Year Growth Estimate:	0.9%	Ex-Dividend Date:	NA
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.0%	Dividend Payment Date:	NA
Dividend Yield:	0.9%	5 Year Price Target	\$16	Years Of Dividend Growth:	0
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Last Dividend Increase:	NA

Overview & Current Events

Apple Hospitality REIT is a \$3.2 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 Q4 results on 02/23/21. FFO-per-share came in at -\$0.01 corresponding to fall/winter resurgence of the COVID-19 and slower travel months at year-end. The average daily rate fell to \$97.87 from \$104.78 in Q3 and occupancy stood at 46.4%, down from 48.6% sequentially. Meanwhile, revenue per available room declined significantly to \$45.44 from \$96.12 in the year-ago period and total revenue for the quarter was \$134.0 million, missed the consensus estimate of \$144.4 million and down from \$290.0 million in the year-ago quarter. Moreover, due to the ongoing pandemic, APLE hasn't provided its 2021 earnings guidance and expects G&A expenses of \$28M- \$32M, interest expense of \$75M-\$80M, and capital expenditures of \$25M-\$30M.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO/S	\$0.66	\$0.70	\$0.75	\$0.77	\$1.53	\$1.56	\$1.74	\$1.72	\$1.70	\$0.09	\$0.55	\$1.55
NAV/S	---	---	---	---	\$15.18	\$15.78	\$15.53	\$15.22	\$14.70	\$9.03	\$14.84	\$15.50
DPS	---	---	---	---	\$0.80	\$1.20	\$1.20	\$1.20	\$1.20	\$0.00	\$0.13	\$0.96
Shares¹	91	91	91	187	180	191	224	230	224	223	220	220

Since it first began reporting FFO/share in its annual reports (2011), Apple initially generated very impressive annualized FFO/share growth 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. Last year saw slowdown accelerate sharply, as margins further compressed due to increasing competition, rising inflation, and a steep decline in demand from the Covid-19 outbreak and an accompanying recession. The trust also suspended its dividend in 2020.

The good news is that the trust's quality assets and strong balance sheet should enable it to survive the downturn provided that the Covid-19 pandemic 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/ NAV	---	---	---	---	1.1	1.1	1.1	1.1	1.1	1.5	1.0	1.0
Avg. Yld.	---	---	---	---	4.4%	6.6%	6.0%	6.1%	7.5%	0.0%	0.9%	6.2%

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 is still suspended and we expect it will be reinstated at a lower level later this year. We also think 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	52.3%	76.9%	69.0%	69.8%	70.6%	---	23.6%	64.0%

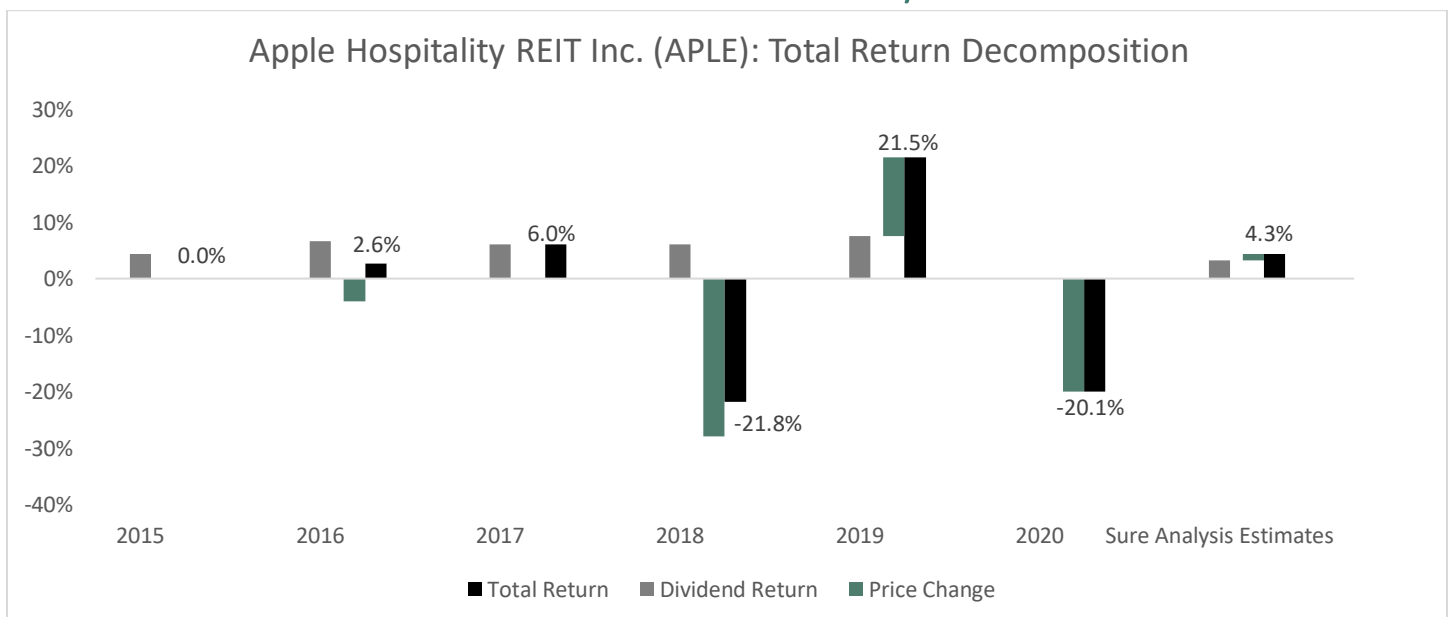
Apple does not have a recorded history as a public trust during a recession, therefore it is hard to judge its recession resilience, other than to compare it to hotel REITs. Typically, during a recessionary period, hotel REITs experience significant losses of income. Therefore, Apple is likely not very 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 suspended its dividend due to the collapse in demand from the Covid-19 outbreak.

Final Thoughts & Recommendation

Apple Hospitality is one of the strongest players in the hotel sector due to its strong brand power, conservative balance sheet, and high-quality assets. The bleak near-term outlook for hotel sector, the threat of potential bankruptcy, the suspended dividend, and the weak 4.3% expected annualized total returns over the next half decade make it a sell for dividend growth investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	321	366	388	804	898	1,041	1,239	1,271	1,267	602
Gross Profit	117	139	147	300	335	391	461	469	465	121
Gross Margin	36.7%	38.0%	37.9%	37.3%	37.3%	37.6%	37.2%	36.9%	36.7%	20.2%
SG&A Exp.	8	9	6	21	20	17	26	24	36	29
D&A Exp.	50	53	55	113	127	148	176	183	193	200
Operating Profit	61	78	86	166	188	226	258	261	235	(108)
Operating Margin	19.0%	21.3%	22.1%	20.6%	21.0%	21.7%	20.8%	20.5%	18.6%	-17.9%
Net Profit	70	75	115	7	117	145	182	206	172	(173)
Net Margin	21.8%	20.6%	29.7%	0.8%	13.1%	13.9%	14.7%	16.2%	13.6%	-28.8%
Free Cash Flow	100	106	115	184	219	266	321	331	307	(22)
Income Tax	1	1	1	2	1	0	1	1	1	0

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1,701	1,526	1,491	3,777	3,723	4,980	4,902	4,929	4,942	4,830
Total Liabilities	137	180	179	762	1,076	1,463	1,331	1,520	1,651	1,800
Accounts Payable	13	13	17	56	78	125	109	107	114	98
Long-Term Debt	124	167	163	707	998	1,338	1,222	1,412	1,320	1,483
Shareholder's Equity	1,564	1,346	1,312	3,015	2,647	3,517	3,571	3,409	3,291	3,029
D/E Ratio	0.08	0.12	0.12	0.23	0.38	0.38	0.34	0.41	0.40	0.49

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.1%	4.7%	7.6%	0.3%	3.1%	3.3%	3.7%	4.2%	3.5%	-3.5%
Return on Equity	4.4%	5.2%	8.7%	0.3%	4.1%	4.7%	5.1%	5.9%	5.1%	-5.5%
ROIC	4.1%	4.7%	7.7%	0.3%	3.2%	3.4%	3.8%	4.3%	3.6%	-3.8%
Shares Out.	91	91	91	187	180	191	224	230	224	223
Revenue/Share	3.51	4.00	4.25	4.30	4.98	5.45	5.54	5.53	5.66	2.69
FCF/Share	1.10	1.17	1.26	0.99	1.21	1.39	1.44	1.44	1.37	(0.10)

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

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