



Apple Hospitality REIT Inc. (APLE)

Updated March 7th, 2022 by Samuel Smith

Key Metrics

Current Price:	\$17.5	5 Year CAGR Estimate:	6.5%	Market Cap:	\$4 B
Fair Value Price:	\$18.5	5 Year Growth Estimate:	1.6%	Ex-Dividend Date:	06/03/22 ¹
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.1%	Dividend Payment Date:	06/15/22 ²
Dividend Yield:	3.4%	5 Year Price Target	\$20	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	D	Last Dividend Increase:	NA

Overview & Current Events

Apple Hospitality REIT is a \$4 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 02/22/22. Adjusted EBITDA stood at \$73.38 million, up outstandingly from \$16.19 million in the year-ago period. The average daily rate grew to \$131.04 from \$97.87 year-over-year and occupancy stood at 67.5%, up from 46.5% in the year-ago period. That said, revenue per available room surged significantly to \$88.43 from \$45.46 in the year-ago period and total revenue for the quarter stood at \$250.59 million, up by 87.05% year-over-year. Hotel operating expense grew to \$149.07 million from \$91.43 million year-over-year. Meanwhile, APLE hasn't issued 2022 operational guidance due to the continued economic uncertainty brought by the pandemic, however, it expects G&A expenses of \$32M- \$38M, interest expenses of \$58M-\$63M, and capital expenditures of \$55M-\$65M.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO/S	\$0.70	\$0.75	\$0.77	\$1.53	\$1.56	\$1.74	\$1.72	\$1.70	\$0.09	\$0.93	\$1.38	\$1.55
NAV/S	---	---	---	\$15.18	\$15.78	\$15.53	\$15.22	\$14.70	\$9.03	\$17.40	\$18.48	\$20.00
DPS	---	---	---	\$0.80	\$1.20	\$1.20	\$1.20	\$1.20	\$0.30	\$0.04	\$0.60	\$0.96
Shares³	91.2	187.0	186.3	174.3	222.9	230.2	223.7	223.9	223.2	228.3	228.3	230.0

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 the 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 temporarily suspended its dividend in 2020 and has only reinstated a token dividend in 2021.

The good news is that the trust's quality assets and strong balance sheet should enable it to survive the downturn provided that the recovery from the Covid-19 pandemic continues. We do forecast a fairly sharp rebound over the next half decade from 2020-2021 lows, but still believe it will take a while for the company to reach its 2017-2018 heights.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/ NAV	---	---	---	1.1	1.1	1.1	1.1	1.1	1.5	0.9	0.9	1.0
Avg. Yld.	---	---	---	4.8%	6.9%	7.0%	7.2%	7.4%	2.2%	0.2%	3.4%	4.8%

Apple Hospitality'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 very weak and we expect it will gradually recover in the years to come as the trust will likely have to pay down debt and shore up its financial standing, before returning to growing shareholder capital returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	52.3%	76.9%	69.0%	69.8%	70.6%	---	4.6%	43.5%	61.9%

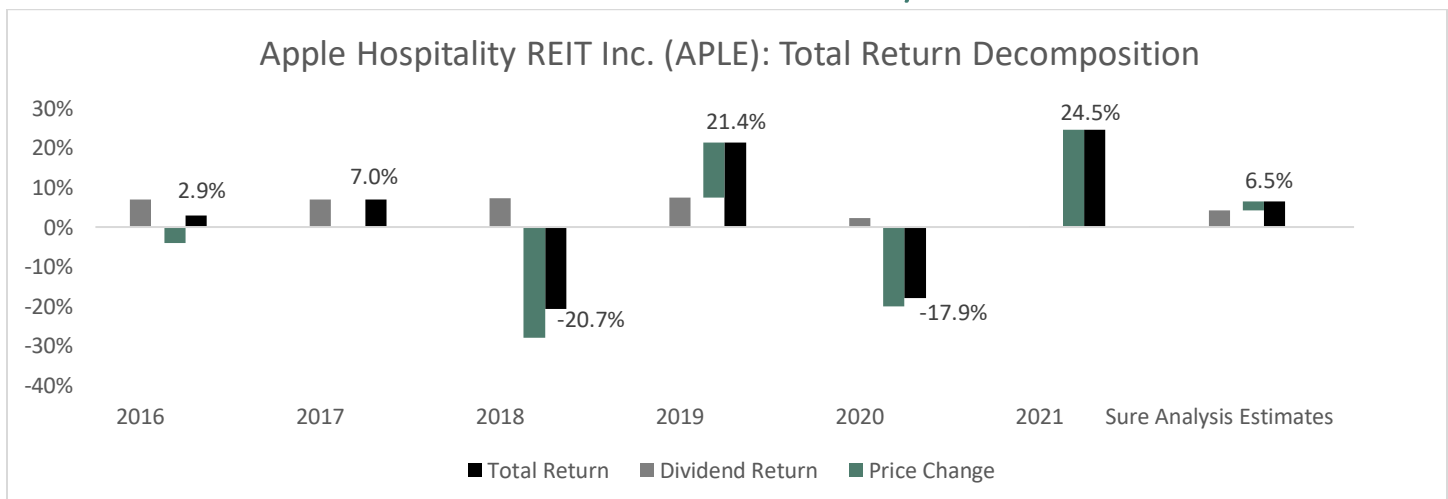
Apple does not have a recorded history as a public trust during a typical recession, therefore it is hard to judge its recession resilience, other than to compare it to hotel REITs. Typically, during a recessionary period, hotel REITs experience significant losses of income. Therefore, Apple is likely 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. Its 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 shares at a steep discount.

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. That said, the mediocre 6.5% expected annualized total returns over the next half decade makes it a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	366	388	804	898	1,041	1,239	1,271	1,267	602	934
Gross Profit	139	147	300	335	391	461	469	465	121	320
Gross Margin	38.0%	37.9%	37.3%	37.3%	37.6%	37.2%	36.9%	36.7%	20.2%	34.2%
SG&A Exp.	9	6	21	20	17	26	24	36	29	41
D&A Exp.	53	55	113	127	148	176	183	193	200	184
Operating Profit	78	86	166	188	226	258	261	235	(108)	94
Operating Margin	21.3%	22.1%	20.6%	21.0%	21.7%	20.8%	20.5%	18.6%	-17.9%	10.1%
Net Profit	75	115	7	117	145	182	206	172	(173)	19
Net Margin	20.6%	29.7%	0.8%	13.1%	13.9%	14.7%	16.2%	13.6%	-28.8%	2.0%
Free Cash Flow	106	115	184	219	266	321	331	307	(22)	199
Income Tax	1	1	2	1	0	1	1	1	0	0

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,526	1,491	3,777	3,723	4,980	4,902	4,929	4,942	4,830	4,791
Total Liabilities	180	179	762	1,076	1,463	1,331	1,520	1,651	1,800	1,643
Accounts Payable	13	17	56	78	125	109	107	114	98	93
Long-Term Debt	167	163	707	998	1,338	1,222	1,412	1,320	1,483	1,439
Shareholder's Equity	1,346	1,312	3,015	2,647	3,517	3,571	3,409	3,291	3,029	3,147
LTD/E Ratio	0.12	0.12	0.23	0.38	0.38	0.34	0.41	0.40	0.49	0.46

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.7%	7.6%	0.3%	3.1%	3.3%	3.7%	4.2%	3.5%	-3.5%	0.4%
Return on Equity	5.2%	8.7%	0.3%	4.1%	4.7%	5.1%	5.9%	5.1%	-5.5%	0.6%
ROIC	4.7%	7.7%	0.3%	3.2%	3.4%	3.8%	4.3%	3.6%	-3.8%	0.4%
Shares Out.	91.2	187.0	186.3	174.3	222.9	230.2	223.7	223.9	223.2	228.3
Revenue/Share	4.00	4.25	4.30	4.98	5.45	5.54	5.53	5.66	2.69	4.13
FCF/Share	1.17	1.26	0.99	1.21	1.39	1.44	1.44	1.37	(0.10)	0.88

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

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