



Preferred Apartment Communities (APTS)

Updated March 2nd, 2022, by Aristofanis Papadatos

Key Metrics

Current Price:	\$25	5 Year CAGR Estimate:	3.1%	Market Cap:	\$1.4 B
Fair Value Price:	\$23	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	3/14/2022
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.9%	Dividend Payment Date:	4/14/2022
Dividend Yield:	2.8%	5 Year Price Target	\$25	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	F	Last Dividend Increase:	N/A

Overview & Current Events

Preferred Apartment Communities (APTS) is a real estate investment trust (REIT) engaged primarily in the ownership and operation of Class A multifamily properties, grocery-anchored shopping centers, office buildings and student housing properties. It was founded in 2011 and has a market capitalization of \$1.4 billion. It currently has 97 properties in 13 states, primarily in the Southeast region of the U.S. Preferred Apartment Communities has very young properties, with an average age around 6 years old, in high-quality suburban markets in the Sun Belt area.

In late February, Preferred Apartment Communities reported (2/28/22) financial results for the fourth quarter of fiscal 2021. Same-store revenue grew 9.6% over the prior year's quarter but core FFO per unit decreased -23%, from \$0.31 to \$0.24, due to the divestment of some properties of student housing and offices. Due to the pandemic, Preferred Apartment Communities cut its dividend by -33% in the second quarter of 2020, from \$0.2625 to \$0.175. Moreover, its net debt stands at \$2.5 billion, which is nearly double the market cap of the stock and nearly 50 times its annual funds from operations. Due to its debt pile, the REIT sold many properties last year.

On February 16th, 2022, Preferred Apartment Communities agreed to be acquired by Blackstone's REIT for \$25 per unit in cash. The deal is expected to close in the second quarter of 2022. The deal price is 39% higher than the stock price of Preferred Apartment Communities before the announcement. When the deal materializes, the stock of Preferred Apartment Communities will not be public anymore. We view the deal price as too high relative to the fundamentals of Preferred Apartment Communities and hence we believe that the shareholders of the REIT should be satisfied.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO	\$0.66	\$0.82	\$0.85	\$0.98	\$1.11	\$1.20	\$1.36	\$1.37	\$1.07	\$1.10	\$1.10	\$1.21
DPS	\$0.55	\$0.61	\$0.66	\$0.73	\$0.82	\$0.94	\$1.02	\$1.05	\$0.79	\$0.70	\$0.70	\$0.90
Shares¹	5.2	9.5	17.4	22.2	24.0	31.9	40.0	44.3	49.9	52.9	52.9	100.0

Preferred Apartment Communities has consistently grown its revenues and its earnings by adding high-quality assets in areas with promising economic prospects. During the last decade, the REIT has grown its FFO per unit at a 5.9% average annual rate. However, the REIT has stumbled in the last three years. In 2019, it incurred hefty expenses due to a restructuring of its asset portfolio, which resulted from a somewhat aggressive growth strategy in the preceding years. Moreover, the REIT has been hurt by the pandemic, which has greatly increased selling & administrative expenses. Nevertheless, we expect the REIT to partially recover from the pandemic in the upcoming quarters and grow its FFO per unit at a 2.0% average annual rate over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/FFO	11.7	10.4	10.0	11.0	12.0	13.9	11.6	14.3	7.4	10.0	22.7	20.6
Avg. Yld.	7.1%	7.0%	7.7%	6.7%	6.2%	5.6%	6.4%	7.1%	10.0%	6.4%	2.8%	3.6%

¹ 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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Preferred Apartment Communities is currently trading at a price-to-FFO ratio of 22.7, which is much higher than the historical average FFO multiple of 11.2. The extremely rich valuation has resulted from the aforementioned pending acquisition of the REIT. We have assigned a fair price-to-FFO ratio of 20.6 in order to match the deal price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

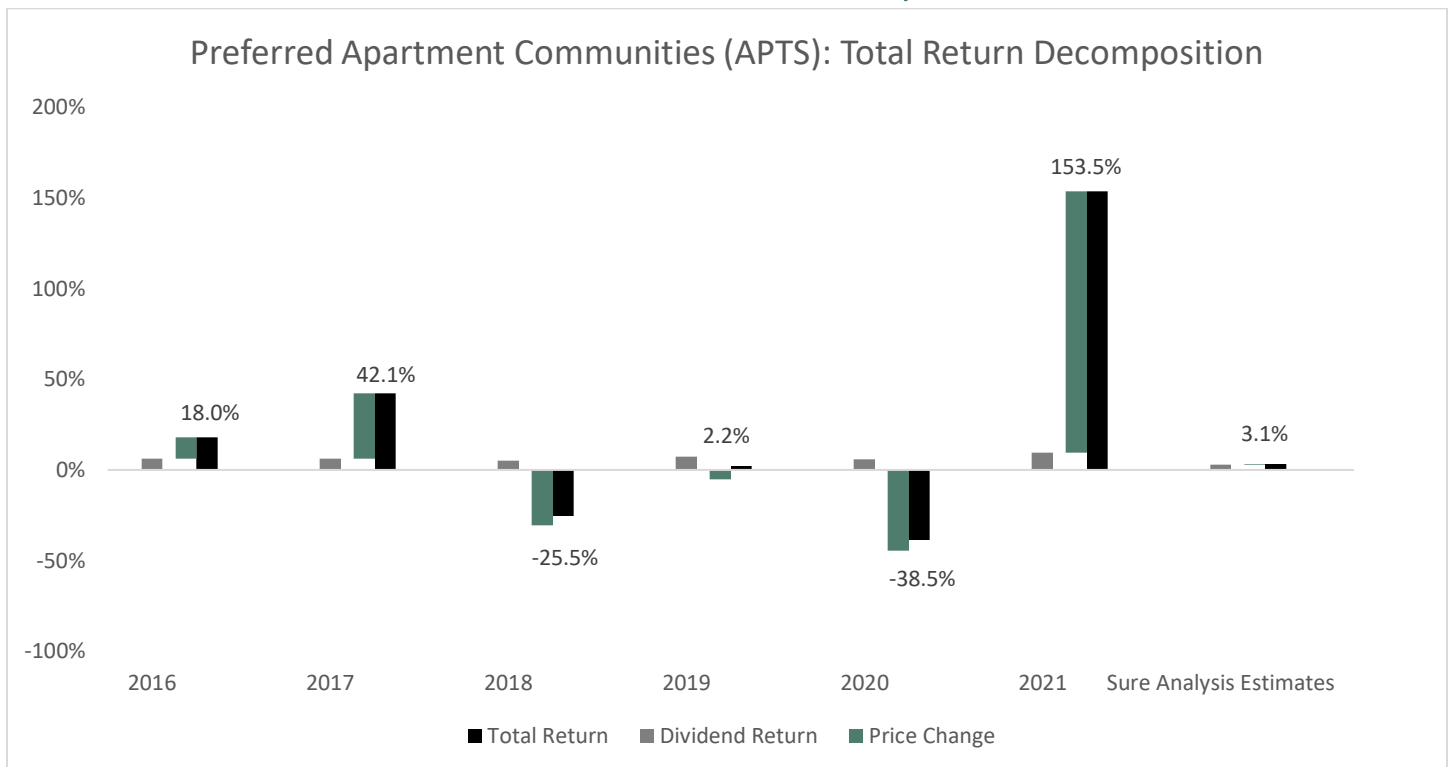
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	83%	74%	77%	74%	74%	78%	75%	77%	74%	64%	64%	79%

Preferred Apartment Communities had grown its FFO per share every year between its IPO in 2011 and 2019. It also grew its dividend every year between 2011 and 2019. However, the coronavirus crisis caught the REIT off-guard, with an excessive debt load, and thus the REIT slashed its dividend by -33% in 2020. This is a stern reminder of the high risk of companies that pursue growth by adding too much debt. Due to its leveraged business model, Preferred Apartment Communities is not considered a reliable income grower. It is also important to note that the REIT pays hefty amounts on preferred dividends, which exert a great financial burden on the REIT. In the last 12 months, Preferred Apartment Communities has paid only \$36 million on common dividends but \$184 million on preferred dividends.

Final Thoughts & Recommendation

Preferred Apartment Communities has been caught with a huge debt load in the coronavirus crisis and thus it has sold many properties lately. However, the REIT is on track to be acquired with an excessive premium later this year. As the stock has jumped to the announced deal price, it has essentially exhausted its upside potential. We thus rate the stock as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	12	32	57	109	200	294	397	470	502
Gross Profit	9	23	44	80	142	211	282	333	342
Gross Margin	71.7%	73.1%	77.5%	72.8%	71.0%	71.8%	70.9%	70.7%	68.2%
SG&A Exp.	3	5	8	13	25	35	38	45	215
D&A Exp.	4	15	16	38	78	113	165	179	202
Operating Profit	2	3	20	28	39	59	70	100	(80)
Operating Margin	18.9%	10.6%	34.6%	25.7%	19.3%	20.2%	17.6%	21.3%	-15.9%
Net Profit	(0)	(4)	2	(2)	(10)	28	43	(7)	(178)
Net Margin	-1.2%	-12.4%	3.7%	-2.2%	-4.8%	9.4%	10.9%	-1.5%	-35.4%
Free Cash Flow	4	9	15	35	62	86	145	146	48

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	123	342	691	1,296	2,421	3,252	4,411	4,771	4,281
Cash & Equivalents	3	9	3	2	12	21	39	94	29
Accounts Receivable	1	1	4	11	15	38	42	65	101
Goodwill & Int. Ass.	---	1	13	19	79	103	136	155	127
Total Liabilities	73	176	400	770	1,536	1,972	2,802	2,836	2,843
Accounts Payable	1	2	5	13	21	31	39	42	42
Long-Term Debt	70	170	382	709	1,465	1,843	2,362	2,637	2,631
Shareholder's Equity	50	165	289	523	884	1,276	1,608	1,931	1,440
D/E Ratio	1.41	1.03	1.32	1.36	1.66	1.44	1.47	1.37	1.83

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-0.1%	-1.7%	0.4%	-0.2%	-0.5%	1.0%	1.1%	-0.2%	-3.9%
Return on Equity	-0.3%	-3.7%	0.9%	-0.6%	-1.4%	2.6%	3.0%	-0.4%	-10.5%
ROIC	-0.1%	-1.7%	0.4%	-0.3%	-0.5%	1.0%	1.2%	-0.2%	-4.1%
Shares Out.	5.2	9.5	17.4	22.2	24.0	31.9	40.0	44.3	49.9
Revenue/Share	2.42	3.40	3.25	4.93	8.35	9.21	9.92	10.63	10.30
FCF/Share	0.81	0.92	0.89	1.59	2.57	2.70	3.63	3.29	0.98

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

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