



RLJ Lodging Trust (RLJ)

Updated May 10th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$12.30	5 Year CAGR Estimate:	12.8%	Market Cap:	\$2.2 B
Fair Value Price:	\$13	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	6/28/2022 ¹
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.1%	Dividend Payment Date:	7/14/2022
Dividend Yield:	0.3%	5 Year Price Target	\$20	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Buy

Overview & Current Events

RLJ Lodging Trust (RLJ) is a self-advised real estate investment trust (REIT) that owns primarily premium-branded, high-margin, full-service hotels. It currently has 95 hotels, with approximately 21,100 rooms, located in 22 states and the District of Columbia. RLJ has a market capitalization of \$2.2 billion. Sunbelt markets, which are characterized by superior economic growth, represent 46% of the total EBITDA of the trust. The Hilton and Marriot brands represent 41% and 36%, respectively, of the hotel rooms of RLJ.

RLJ has been severely hit by the coronavirus crisis. The social distancing measures, along with the collapse in business travel, caused the demand for hotels to evaporate in 2020. Consequently, the trust incurred its first loss in a decade, it cut its dividend by -97% and its stock price plunged -75% in the first two months of the pandemic. Thanks to the massive vaccine rollout, RLJ has begun to recover, but it is still far from returning to pre-pandemic profits.

In early May, RLJ reported (5/4/22) financial results for the first quarter of fiscal 2022. The company benefited from a recovery in leisure demand and accelerated demand in urban markets. Revenue per available room more than doubled and reached 74% of the 2019 level, nearly the highest level since the onset of the pandemic. As a result, the REIT switched from adjusted funds from operations (AFFO) per share of -\$0.18 in last year's quarter to \$0.14. Due to the high sensitivity of RLJ to the course of the pandemic, management has not provided any guidance.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO	\$1.76	\$2.08	\$2.42	\$2.52	\$2.69	\$2.41	\$2.27	\$2.04	-\$0.98	\$0.19	\$1.30	\$2.00
DPS	\$0.70	\$0.83	\$1.04	\$1.32	\$1.32	\$1.32	\$1.32	\$1.32	\$0.04	\$0.04	\$0.04	\$1.28
Shares²	105.7	118.7	128.3	129.0	123.9	140.7	174.3	171.4	164.5	164.1	166.0	200.0

RLJ has exhibited lackluster business performance in the last five years. Moreover, due to the impact of the pandemic on its business, the REIT posted its first loss in a decade in 2020. However, thanks to the distribution of vaccines worldwide, RLJ has begun to recover from the pandemic. The 40-year high inflation and the resultant aggressive hikes of interest rates by the Fed have raised fears of an imminent recession. Even if this proves correct, we expect the economy to recover from such a recession. In addition, RLJ is selling some low-return hotels, in slow-growth markets, and is buying high-return hotels, with much higher margins. We thus expect the REIT to return close to pre-pandemic levels in five years. More precisely, we expect RLJ to grow its FFO per share at a 9.0% average annual rate over the next five years off this year's low comparison base.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/FFO	10.3	11.0	11.7	11.6	8.0	9.0	9.3	8.6	---	---	9.5	10.0
Avg. Yld.	3.9%	3.6%	3.7%	4.5%	6.1%	6.1%	6.2%	7.5%	0.4%	0.3%	0.3%	6.4%

¹ Estimated date.

² In millions.

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RLJ is currently trading at a price-to-FFO ratio of 9.5, which is slightly lower than the historical average FFO multiple of 10.0. If the stock trades at its average valuation level in five years, it will enjoy a 1.1% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	40%	40%	43%	52%	49%	55%	58%	65%	---	3%	3%	64%

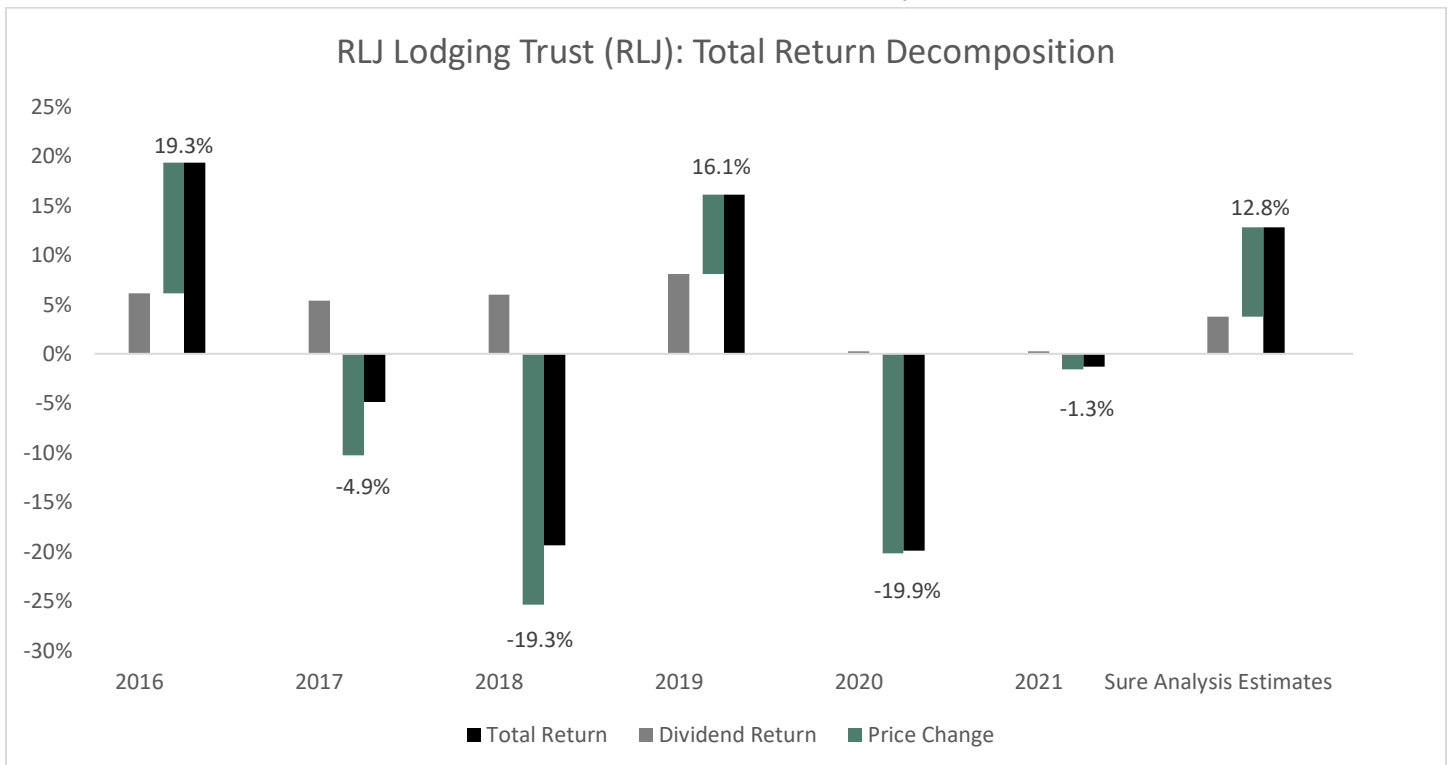
Due to the nature of its luxurious hotels, RLJ is highly vulnerable to recessions, as leisure and business demand decrease significantly during rough economic periods. More importantly, the REIT is extremely vulnerable to the pandemic, which has caused a plunge in business and group demand. The -97% cut of the dividend and the -75% plunge of the stock in just two months in 2020 confirm that RLJ is unsuitable for the investors who cannot stomach severe paper losses and keep a long-term investing horizon.

On the other hand, RLJ has one of the healthiest balance sheets in the REIT universe, with a leverage ratio (Net Debt to EBITDA) of only 3.1 and no material debt maturities until 2024. This is critical in the ongoing crisis. We thus expect the REIT to endure the downturn and recover in the upcoming years.

Final Thoughts & Recommendation

RLJ has a long way to go to return to pre-pandemic profits and hence the stock appears undervalued from a long-term perspective. We expect the stock to offer a 12.8% average annual return over the next five years thanks to 9.0% annual growth of FFO per share, a 0.3% dividend and a 1.1% annualized valuation tailwind. We thus rate the stock as a buy. RLJ is ideal for the investors who can wait patiently for the demand for luxurious hotels to return to pre-pandemic levels. Nevertheless, investors should be aware that great patience is required; if the aggressive interest rates hikes by the Fed cause a recession, the stock of RLJ will incur great pressure until the economy shows signs of a recovery.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	850	970	1,109	1,136	1,160	1,356	1,761	1,566	473	786
Gross Profit	288	332	391	402	415	453	549	490	-22	185
Gross Margin	33.9%	34.2%	35.3%	35.4%	35.7%	33.4%	31.2%	31.3%	-4.6%	23.6%
SG&A Exp.	31	35	42	38	32	40	49	45	41	48
D&A Exp.	127	127	144	157	163	185	239	210	192	186
Operating Profit	131	169	205	208	221	226	258	233	-257	(50)
Operating Margin	15.4%	17.4%	18.5%	18.3%	19.0%	16.6%	14.7%	14.9%	-54.4%	-6.4%
Net Profit	41	113	135	218	200	75	190	129	-404	(305)
Net Margin	4.9%	11.6%	12.2%	19.2%	17.3%	5.6%	10.8%	8.2%	-85.5%	-38.8%
Free Cash Flow	176	251	299	328	331	261	395	397	-169	43

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,346	3,718	4,128	3,973	4,023	6,795	6,002	5,851	5,617	5,149
Cash & Equivalents	116	332	262	134	457	586	320	882	900	665
Accounts Receivable	23	23	26	26	26	60	52	40	13	31
Goodwill & Int. Ass.	---	---	---	---	1	133	52	---	---	---
Total Liabilities	1,538	1,572	1,750	1,772	1,788	3,225	2,505	2,625	2,930	27,35
Accounts Payable	88	115	129	129	137	226	204	183	172	155
Long-Term Debt	1,414	1,410	1,558	1,575	1,583	2,880	2,203	2,196	2,588	2,409
Shareholder's Equity	1,790	2,128	2,361	2,183	2,222	3,180	3,107	2,835	2,300	2,031
LTD/E Ratio	0.79	0.66	0.66	0.72	0.71	0.81	0.63	0.69	0.97	1.00

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.2%	3.2%	3.5%	5.4%	5.0%	1.4%	3.0%	2.2%	-7.1%	-5.7%
Return on Equity	2.3%	5.8%	6.0%	9.6%	9.1%	2.8%	6.0%	4.3%	-15.8%	-14.1%
ROIC	1.3%	3.3%	3.6%	5.7%	5.3%	1.5%	3.1%	2.3%	-7.6%	-6.0%
Shares Out.	105.7	118.7	128.3	129.0	123.9	140.7	174.3	171.4	164.5	164.1
Revenue/Share	7.82	8.16	8.65	8.81	9.36	9.64	10.10	9.14	2.88	4.79
FCF/Share	1.62	2.11	2.33	2.55	2.67	1.85	2.27	2.32	-1.03	0.26

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

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