



Apple Hospitality REIT Inc. (APLE)

Updated February 27th, 2023 by Samuel Smith

Key Metrics

Current Price:	\$16.6	5 Year CAGR Estimate:	9.3%	Market Cap:	\$3.8 B
Fair Value Price:	\$19.4	5 Year Growth Estimate:	1.4%	Ex-Dividend Date:	03/27/23 ¹
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.1%	Dividend Payment Date:	06/15/23 ²
Dividend Yield:	5.8%	5 Year Price Target	\$21	Years Of Dividend Growth:	2
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Apple Hospitality REIT is a \$3.8 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 recently released its operational results for the Fourth Quarter and Full Year ending on December 31, 2022. The Company's portfolio has shown strong operating performance, with RevPAR (Revenue Per Available Room) improving by approximately 7% and 3% for the fourth quarter and full year 2022, respectively, as compared to the same periods in 2019. Additionally, the Average Daily Rate (ADR) experienced growth of approximately 12% and 9%, respectively, for the same periods. However, occupancy decreased by around 4% and 6% for the fourth quarter and full year 2022, respectively, compared to the same periods in 2019. Despite this, the occupancy and RevPAR for the Company's portfolio in the fourth quarter of 2022, as well as occupancy, ADR, and RevPAR for the full year 2022, have exceeded industry averages for the respective periods reported by STR. According to preliminary results for the Company's portfolio in January 2023, occupancy was approximately 64%, up by 13% compared to January 2022, partially influenced by the impact of the Omicron variant in 2022, and down by 4% as compared to January 2019. The ADR growth for January 2023 was approximately 10% compared to January 2022 and 7% compared to January 2019.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO/S	\$0.75	\$0.77	\$1.53	\$1.56	\$1.74	\$1.72	\$1.70	\$0.09	\$0.93	\$1.53	\$1.68	\$1.72
NAV/S	---	---	\$15.18	\$15.78	\$15.53	\$15.22	\$14.70	\$9.03	\$17.40	\$19.36	\$19.36	\$20.80
DPS	---	---	\$0.80	\$1.20	\$1.20	\$1.20	\$1.20	\$0.30	\$0.04	\$0.76	\$0.96	\$1.05
Shares³	187.0	186.3	174.3	222.9	230.2	223.7	223.9	223.2	228.3	228.9	228.7	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, largely due to the Covid-19 outbreak and an accompanying downturn in the hotel industry that was further accelerated by the rise of companies like AirBnB. The trust also temporarily suspended its dividend in 2020 and only reinstated a token dividend in 2021 before restoring a more meaningful dividend in 2022.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/ NAV	---	---	1.1	1.1	1.1	1.1	1.1	1.5	0.9	0.8	0.9	1.00
Avg. Yld.	---	---	4.8%	6.9%	7.0%	7.2%	7.4%	2.2%	0.2%	3.7%	5.8%	5.0%

Apple Hospitality has a portfolio of quality assets and a solid balance sheet. As a result, we believe it deserves to trade in-line with its private market value and therefore assign a fair value multiple estimate of 1.0 times NAV. The dividend yield is attractive at current levels. Over time, we expect the company to see its price to NAV ratio increase to eventually trade in-line with its NAV and therefore its dividend yield will decline to 5% even though the dividend per share is likely to continue growing.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	52%	77%	69%	70%	71%	333%	4%	50%	57%	61%

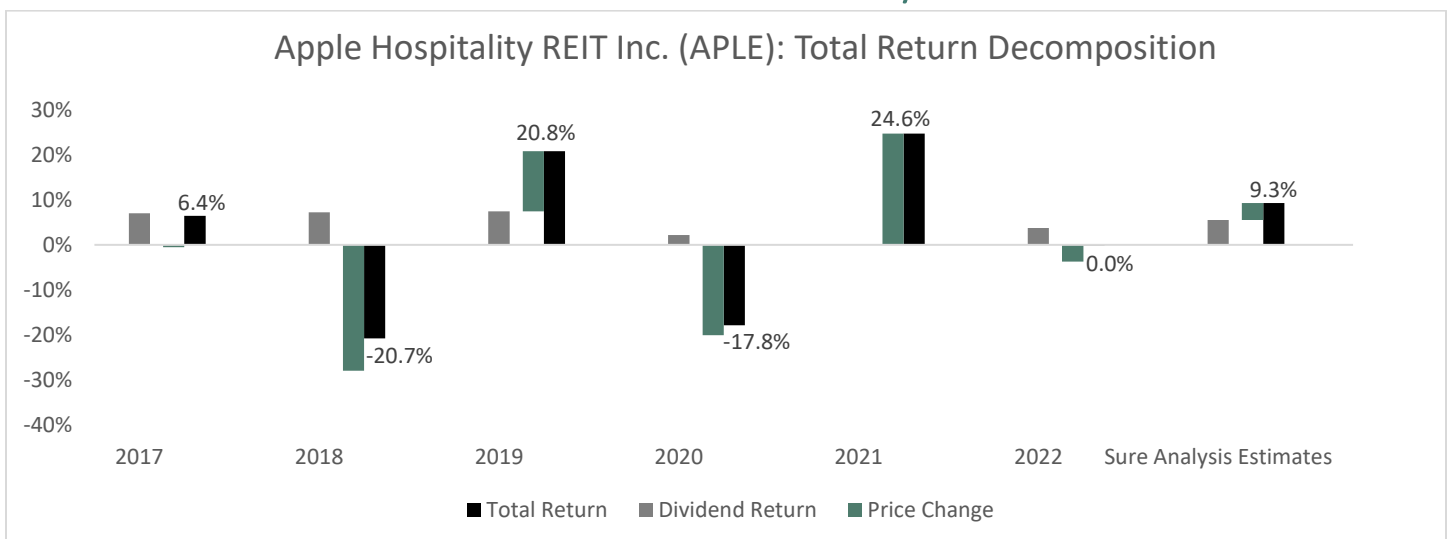
Apple does not have a recorded history as a public trust during a typical recession, therefore it is hard to judge its recession resilience, other than to compare it to hotel REITs. Typically, during a recessionary period, hotel REITs experience significant losses of income. Therefore, Apple is likely 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 and plenty of liquidity along with a well-laddered debt maturity profile. As a result, it is well-positioned to respond opportunistically to averse 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. Furthermore, its dividend yield is quite attractive at the moment. That said, the 9.3% expected annualized total return over the next half decade – while good – is not high enough to warrant a Buy rating. As a result, we rate it a Hold at the moment.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	388	804	898	1,041	1,239	1,271	1,267	602	934	1,238
Gross Profit	147	300	335	391	461	469	465	121	320	455
Gross Margin	37.9%	37.3%	37.3%	37.6%	37.2%	36.9%	36.7%	20.2%	34.2%	36.7%
SG&A Exp.	6	21	20	17	26	24	36	29	41	42
D&A Exp.	55	113	127	148	176	183	193	200	184	182
Operating Profit	86	166	188	226	258	261	235	(108)	94	231
Operating Margin	22.1%	20.6%	21.0%	21.7%	20.8%	20.5%	18.6%	-17.9%	10.1%	18.6%
Net Profit	115	7	117	145	182	206	172	(173)	19	145
Net Margin	29.7%	0.8%	13.1%	13.9%	14.7%	16.2%	13.6%	-28.8%	2.0%	11.7%
Free Cash Flow	115	184	219	266	321	331	307	(22)	199	309
Income Tax	1	2	1	0	1	1	1	0	0	2

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,491	3,777	3,723	4,980	4,902	4,929	4,942	4,830	4,791	4,773
Total Liabilities	179	762	1,076	1,463	1,331	1,520	1,651	1,800	1,643	1,594
Accounts Payable	17	56	78	125	109	107	114	98	93	116
Long-Term Debt	163	707	998	1,338	1,222	1,412	1,320	1,483	1,439	1,366
Shareholder's Equity	1,312	3,015	2,647	3,517	3,571	3,409	3,291	3,029	3,147	3,178
LTD/E Ratio	0.12	0.23	0.38	0.38	0.34	0.41	0.40	0.49	0.46	0.43

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.6%	0.3%	3.1%	3.3%	3.7%	4.2%	3.5%	-3.5%	0.4%	3.0%
Return on Equity	8.7%	0.3%	4.1%	4.7%	5.1%	5.9%	5.1%	-5.5%	0.6%	4.6%
ROIC	7.7%	0.3%	3.2%	3.4%	3.8%	4.3%	3.6%	-3.8%	0.4%	3.2%
Shares Out.	187.0	186.3	174.3	222.9	230.2	223.7	223.9	223.2	228.3	228.9
Revenue/Share	4.25	4.30	4.98	5.45	5.54	5.53	5.66	2.69	4.13	5.41
FCF/Share	1.26	0.99	1.21	1.39	1.44	1.44	1.37	(0.10)	0.88	1.35

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

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