



# Apple Hospitality REIT Inc. (APLE)

Updated August 23<sup>rd</sup>, 2023 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$14.7	<b>5 Year CAGR Estimate:</b>	11.9%	<b>Market Cap:</b>	\$3.4 B
<b>Fair Value Price:</b>	\$19.4	<b>5 Year Growth Estimate:</b>	1.4%	<b>Ex-Dividend Date:</b>	08/30/23
<b>% Fair Value:</b>	76%	<b>5 Year Valuation Multiple Estimate:</b>	5.7%	<b>Dividend Payment Date:</b>	09/15/23
<b>Dividend Yield:</b>	6.5%	<b>5 Year Price Target</b>	\$21	<b>Years Of Dividend Growth:</b>	2
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

Apple Hospitality REIT is a \$3.4 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 its Q2 operational results on August 3rd. The company achieved Q2 Funds From Operations (FFO) of \$0.49, meeting expectations. Despite a year-over-year revenue increase of 7.1% to \$361.63 million, which exceeded estimates by \$9.25 million, Apple Hospitality made some adjustments to its 2023 guidance. The company lowered the net income range by \$2 million to the low end and by \$7 million to the high end. On the other hand, they increased the low and high ends of the Comparable Hotels RevPAR Change by 100 basis points, and they also raised the low and high ends of the Comparable Hotels Adjusted Hotel EBITDA Margin % guidance by 10 basis points. However, the company reduced the high end of the range for Adjusted EBITDA by \$5 million and decreased the low end by \$3 million. These adjustments are attributed to higher anticipated general and administrative expenses due to the outperformance of relative shareholder return metrics, which are part of the company's incentive plans. The guidance for Comparable Hotels RevPAR Change and Comparable Hotels Adjusted Hotel EBITDA Margin % includes properties acquired as of January 1, 2022, while excluding dispositions, assets held for sale, and one non-hotel property leased to third parties since that date.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>FFO/S</b>	\$0.75	\$0.77	\$1.53	\$1.56	\$1.74	\$1.72	\$1.70	\$0.09	\$0.93	\$1.53	<b>\$1.68</b>	<b>\$1.72</b>
<b>NAV/S</b>	---	---	\$15.18	\$15.78	\$15.53	\$15.22	\$14.70	\$9.03	\$17.40	\$19.36	<b>\$19.36</b>	<b>\$20.80</b>
<b>DPS</b>	---	---	\$0.80	\$1.20	\$1.20	\$1.20	\$1.20	\$0.30	\$0.04	\$0.76	<b>\$0.96</b>	<b>\$1.05</b>
<b>Shares<sup>1</sup></b>	187.0	186.3	174.3	222.9	230.2	223.7	223.9	223.2	228.3	228.9	<b>228.8</b>	<b>230.0</b>

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. We expect a 1.4% NAV per share CAGR moving forward.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
<b>P/ NAV</b>	---	---	1.1	1.1	1.1	1.1	1.1	1.5	0.9	0.8	<b>0.8</b>	<b>1.00</b>
<b>Avg. Yld.</b>	---	---	4.8%	6.9%	7.0%	7.2%	7.4%	2.2%	0.2%	3.7%	<b>6.5%</b>	<b>5.0%</b>

<sup>1</sup> 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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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 would 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%

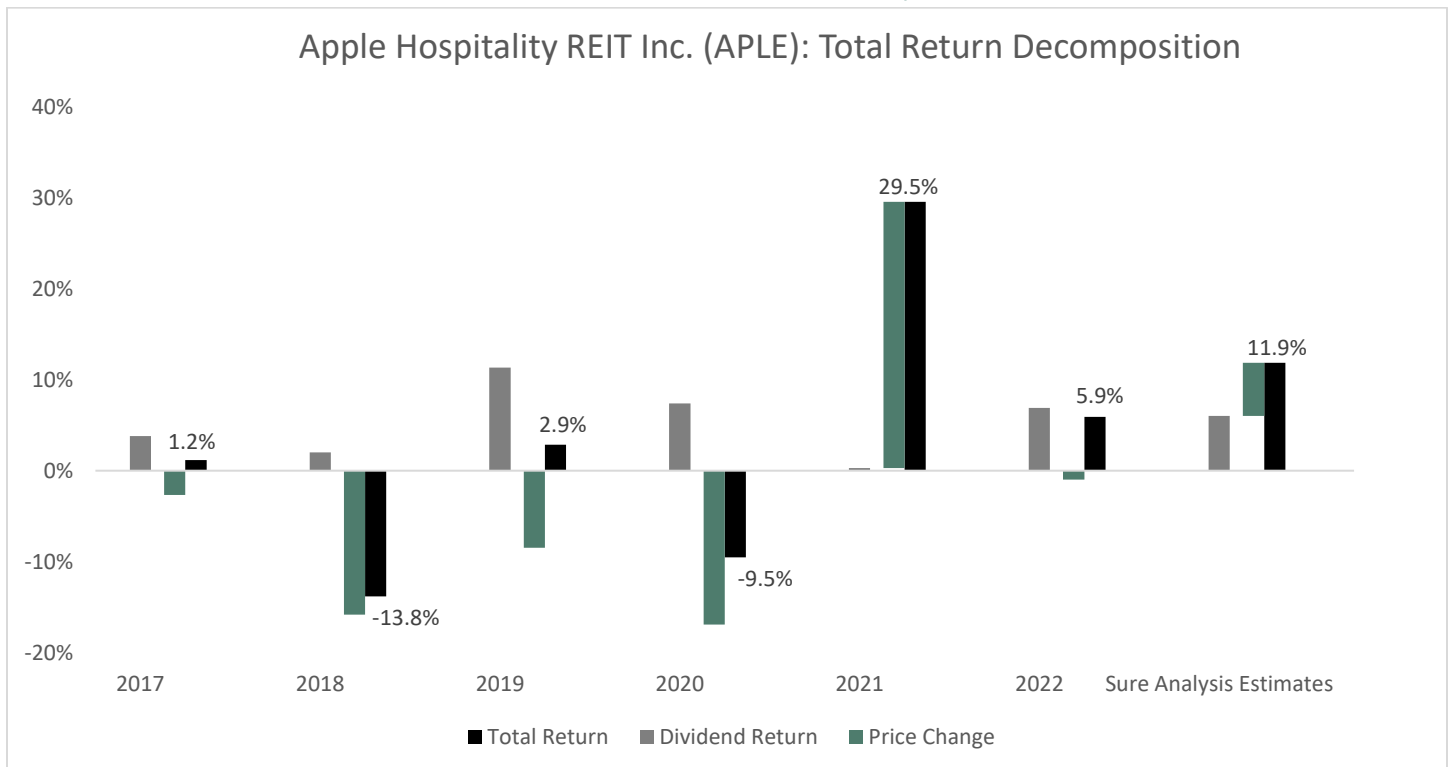
Apple does not have a recorded history as a public trust during a typical recession, therefore it is hard to judge its recession resilience, other than to compare it to hotel REITs. Typically, during a recessionary period, hotel REITs experience significant losses of income. Therefore, Apple is likely 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. With 11.9% expected annualized total returns over the next half decade, we give the stock a Buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	1,491	3,777	3,723	4,980	4,902	4,929	4,942	4,830	4,791	4,773
<b>Total Liabilities</b>	179	762	1,076	1,463	1,331	1,520	1,651	1,800	1,643	1,594
<b>Accounts Payable</b>	17	56	78	125	109	107	114	98	93	116
<b>Long-Term Debt</b>	163	707	998	1,338	1,222	1,412	1,320	1,483	1,439	1,366
<b>Shareholder's Equity</b>	1,312	3,015	2,647	3,517	3,571	3,409	3,291	3,029	3,147	3,178
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	7.6%	0.3%	3.1%	3.3%	3.7%	4.2%	3.5%	-3.5%	0.4%	3.0%
<b>Return on Equity</b>	8.7%	0.3%	4.1%	4.7%	5.1%	5.9%	5.1%	-5.5%	0.6%	4.6%
<b>ROIC</b>	7.7%	0.3%	3.2%	3.4%	3.8%	4.3%	3.6%	-3.8%	0.4%	3.2%
<b>Shares Out.</b>	187.0	186.3	174.3	222.9	230.2	223.7	223.9	223.2	228.3	228.9
<b>Revenue/Share</b>	4.25	4.30	4.98	5.45	5.54	5.53	5.66	2.69	4.13	5.41
<b>FCF/Share</b>	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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