



# Apple Hospitality REIT Inc. (APLE)

Updated December 10<sup>th</sup>, 2023 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$16.9	<b>5 Year CAGR Estimate:</b>	9.0%	<b>Market Cap:</b>	\$3.9 B
<b>Fair Value Price:</b>	\$18.6	<b>5 Year Growth Estimate:</b>	2.3%	<b>Ex-Dividend Date:</b>	02/30/24 <sup>1</sup>
<b>% Fair Value:</b>	91%	<b>5 Year Valuation Multiple Estimate:</b>	1.9%	<b>Dividend Payment Date:</b>	03/15/24 <sup>2</sup>
<b>Dividend Yield:</b>	5.7%	<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>	Hold

## Overview & Current Events

Apple Hospitality REIT is a \$3.9 billion hotel REIT that owns a portfolio of hotels with tens of thousands of rooms located in scores of markets and across dozens of states. It franchises its properties out to leading brands, including Marriott-branded hotels, Hilton-branded hotels, and Hyatt-branded hotels. 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.

For the third quarter ending September 30, 2023, Apple Hospitality REIT, Inc. reported a slight decrease in net income to \$58.5 million, a 1.1% dip compared to the same period last year. Despite this, the nine-month perspective had a healthier 10% growth in net income, reaching \$156.7 million. This stability is mirrored in the earnings per share, which held steady at \$0.26 for the quarter, while showing a notable 9.7% rise over nine months to \$0.68. Apple Hospitality saw a modest increase in operating income, achieving \$76.3 million for the quarter, up 1.2% year-over-year, and a more significant 10.4% increase over nine months to \$208.6 million. However, the operating margin slightly declined to 21.3% from 22.1% in the same quarter of the previous year. The company's adjusted EBITDA also reflected growth, with a 2.6% rise to \$121.9 million for the quarter and a 7.1% increase over nine months to \$346.4 million. Comparable Hotels Adjusted Hotel EBITDA showed similar trends, registering modest increases of 0.8% for the quarter and 6.1% over nine months. Apple Hospitality's Modified Funds From Operations (MFFO) also improved, reaching \$104.1 million for the quarter and \$294.5 million over nine months, representing respective increases of 1.5% and 6.4%. Additionally, the company witnessed growth in its hotel operations, with a 0.9% increase in the Average Daily Rate (ADR) to \$159.36, a 1.8% rise in occupancy to 77.1%, and a 2.8% hike in Revenue Per Available Room (RevPAR) to \$122.91. Apple Hospitality acquired four hotels and a parking garage for approximately \$178 million and has contracts for three more hotels, with a combined anticipated purchase price of approximately \$212 million, demonstrating the company's active expansion and investment strategy.

## 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>\$18.55</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>3</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

<sup>1</sup> Estimated

<sup>2</sup> Estimated

<sup>3</sup> Shares in millions

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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 2.3% NAV per share CAGR moving forward.

## 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	<b>0.9</b>	<b>1.0</b>
Avg. Yld.	---	---	4.8%	6.9%	7.0%	7.2%	7.4%	2.2%	0.2%	3.7%	<b>5.7%</b>	<b>5.0%</b>

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%	<b>57%</b>	<b>61%</b>

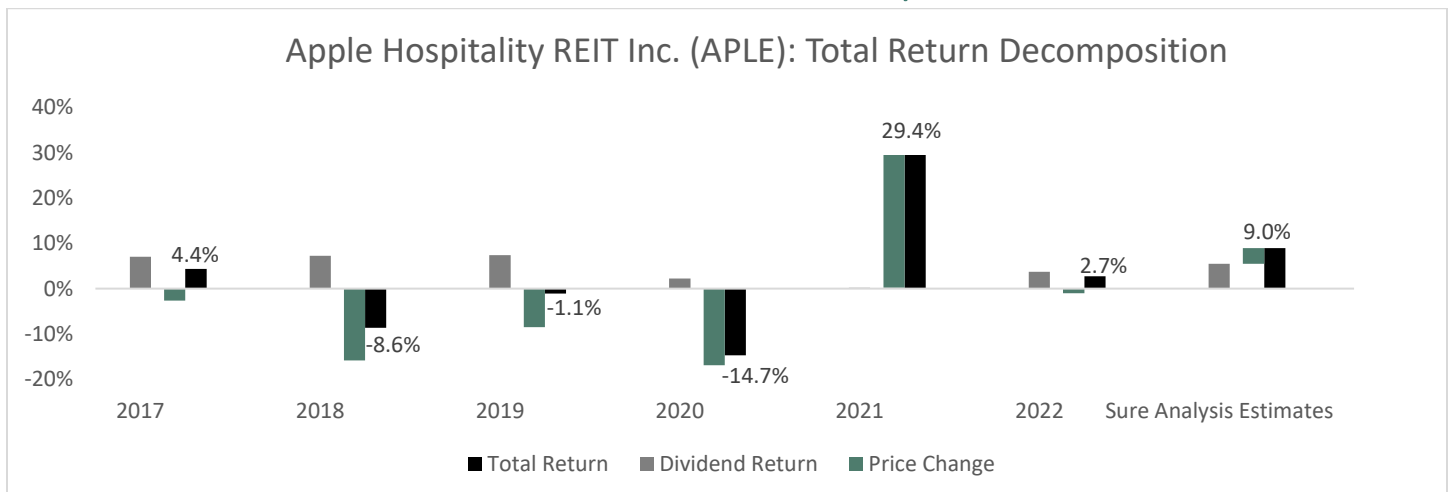
Apple does not have a recorded history as a public trust during a typical recession, therefore it is hard to judge its recession resilience, other than to compare it to hotel REITs. Typically, during a recessionary period, hotel REITs experience significant losses of income. Therefore, Apple is likely 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 9% expected annualized total returns over the next half decade, we give the stock a Hold 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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