



# Apple Hospitality REIT Inc. (APLE)

Updated March 26<sup>th</sup>, 2024 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$16.3	<b>5 Year CAGR Estimate:</b>	9.8%	<b>Market Cap:</b>	\$3.9B
<b>Fair Value Price:</b>	\$18.5	<b>5 Year Growth Estimate:</b>	2.4%	<b>Ex-Dividend Date:</b>	6/27/24 <sup>1</sup>
<b>% Fair Value:</b>	88%	<b>5 Year Valuation Multiple Estimate:</b>	2.5%	<b>Dividend Payment Date:</b>	7/15/24 <sup>2</sup>
<b>Dividend Yield:</b>	5.9%	<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. As of December 31, 2023, Apple Hospitality owned 225 hotels with a total of 29,900 guest rooms across 88 markets in 38 states.

For the fourth quarter, Apple Hospitality REIT, Inc. reported strong operating performance, with increases in Comparable Hotels Revenue per Available Room (RevPAR) and Average Daily Rate (ADR) for both the fourth quarter and full year of 2023 compared to the same periods in 2022. Comparable Hotels Occupancy remained steady in the fourth quarter but increased for the full year, outperforming industry averages according to STR data. Despite a slight decrease in Comparable Hotels Adjusted Hotel Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) for the fourth quarter, the company saw a year-over-year increase for the full year. However, the Adjusted Hotel EBITDA Margin experienced a slight decline for both periods compared to 2022. Transactional activity included acquisitions of six hotels and a parking garage, with two additional hotels under contract for purchase. In February 2024, the company sold two hotels, generating gross sales of approximately \$33.5 million. In terms of capital markets, Apple Hospitality conducted an at-the-market offering program during the fourth quarter, selling approximately 12.8 million shares and receiving net proceeds of approximately \$216 million.

The company maintained a strong and flexible balance sheet, with total debt to total capitalization, net of cash and equivalents, at approximately 25% as of December 31, 2023. Apple Hospitality paid distributions totaling \$0.24 per common share during the fourth quarter, representing an annualized yield of approximately 6.0% based on the stock's closing price in February 2024. In December 2023, Apple Hospitality published its annual Corporate Responsibility Report, highlighting its commitment to environmental sustainability, governance, employee welfare, and community engagement. The report and related materials are available on the company's website.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>FFO/S</b>	\$0.77	\$1.53	\$1.56	\$1.74	\$1.72	\$1.70	\$0.09	\$0.93	\$1.53	\$1.60	<b>\$1.63</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	\$18.54	<b>\$18.45</b>	<b>\$20.80</b>
<b>DPS</b>	---	\$0.80	\$1.20	\$1.20	\$1.20	\$1.20	\$0.30	\$0.04	\$0.76	\$1.04	<b>\$0.96</b>	<b>\$1.05</b>
<b>Shares<sup>3</sup></b>	186.3	174.3	222.9	230.2	223.7	223.9	223.2	228.3	228.9	241.5	<b>241.5</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

<sup>1</sup> Estimated

<sup>2</sup> Estimated

<sup>3</sup> Shares in millions

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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 2.4% NAV per share CAGR moving forward.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/ NAV	---	1.1	1.1	1.1	1.1	1.1	1.5	0.9	0.8	0.9	<b>0.9</b>	<b>1.0</b>
Avg. Yld.	---	4.8%	6.9%	7.0%	7.2%	7.4%	2.2%	0.3%	4.9%	6.2%	<b>5.9%</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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	52%	77%	69%	70%	71%	333%	4%	50%	65%	<b>59%</b>	<b>61%</b>

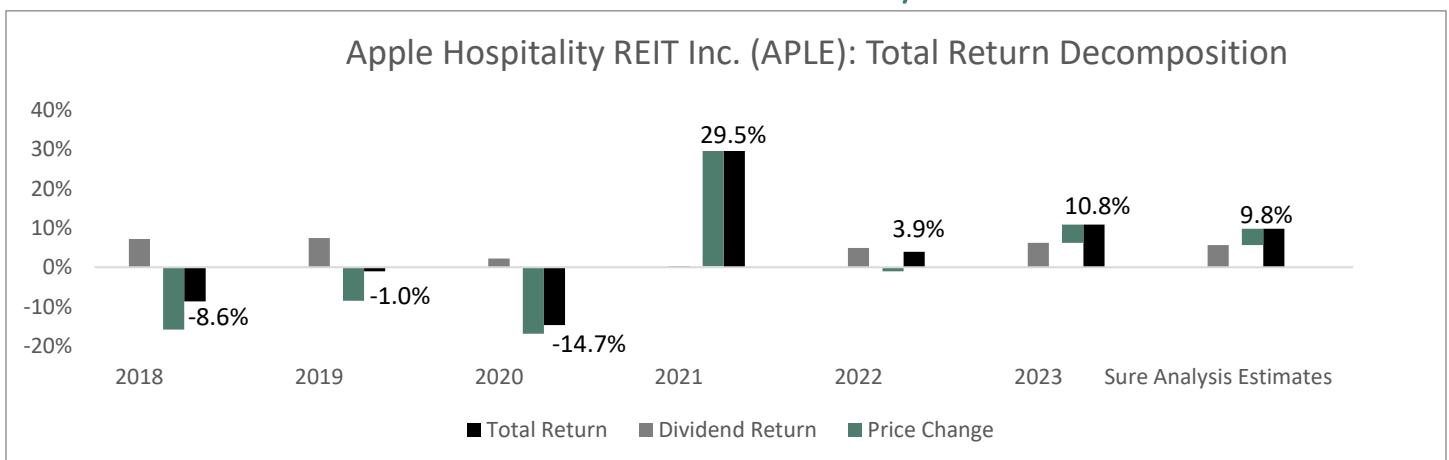
Apple does not have a recorded history as a public trust during a typical recession, therefore it is hard to judge its recession resilience, other than to compare it to hotel REITs. Typically, during a recessionary period, hotel REITs experience significant losses of income. Therefore, Apple is likely 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 9.8% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	804	898	1,041	1,239	1,271	1,267	602	934	1,238	1,344
<b>Gross Profit</b>	300	335	391	461	469	465	121	320	455	484
<b>Gross Margin</b>	37.3%	37.3%	37.6%	37.2%	36.9%	36.7%	20.2%	34.2%	36.7%	36.0%
<b>SG&amp;A Exp.</b>	21	20	17	26	24	36	29	41	42	47
<b>D&amp;A Exp.</b>	113	127	148	176	183	193	200	184	182	183
<b>Operating Profit</b>	166	188	226	258	261	235	(108)	94	231	253
<b>Operating Margin</b>	20.6%	21.0%	21.7%	20.8%	20.5%	18.6%	-17.9%	10.1%	18.6%	18.8%
<b>Net Profit</b>	7	117	145	182	206	172	(173)	19	145	177
<b>Net Margin</b>	0.8%	13.1%	13.9%	14.7%	16.2%	13.6%	-28.8%	2.0%	11.7%	13.2%
<b>Free Cash Flow</b>	184	219	266	321	331	307	(22)	199	309	327
<b>Income Tax</b>	2	1	0	1	1	1	0	0	2	1

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	3,777	3,723	4,980	4,902	4,929	4,942	4,830	4,791	4,773	4,937
<b>Total Liabilities</b>	762	1,076	1,463	1,331	1,520	1,651	1,800	1,643	1,594	1,613
<b>Accounts Payable</b>	56	78	125	109	107	114	98	93	116	130
<b>Long-Term Debt</b>	707	998	1,338	1,222	1,412	1,320	1,483	1,439	1,366	1,371
<b>Shareholder's Equity</b>	3,015	2,647	3,517	3,571	3,409	3,291	3,029	3,147	3,178	3,324
<b>LTD/E Ratio</b>	0.23	0.38	0.38	0.34	0.41	0.40	0.49	0.46	0.43	0.41

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	0.3%	3.1%	3.3%	3.7%	4.2%	3.5%	-3.5%	0.4%	3.0%	3.7%
<b>Return on Equity</b>	0.3%	4.1%	4.7%	5.1%	5.9%	5.1%	-5.5%	0.6%	4.6%	5.5%
<b>ROIC</b>	0.3%	3.2%	3.4%	3.8%	4.3%	3.6%	-3.8%	0.4%	3.2%	3.8%
<b>Shares Out.</b>	186.3	174.3	222.9	230.2	223.7	223.9	223.2	228.3	228.9	241.5
<b>Revenue/Share</b>	4.30	4.98	5.45	5.54	5.53	5.66	2.69	4.13	5.41	5.86
<b>FCF/Share</b>	0.99	1.21	1.39	1.44	1.44	1.37	(0.10)	0.88	1.35	1.43

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

## Disclaimer

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