



Apple Hospitality REIT Inc. (APLE)

Updated December 1st, 2019 by Samuel Smith

Key Metrics

Current Price:	\$16	5 Year CAGR Estimate:	7.9%	Volatility Percentile:	7.7%
Fair Value Price:	\$16	5 Year Growth Estimate:	1.0%	Momentum Percentile:	42.5%
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.4%	Growth Percentile:	5.0%
Dividend Yield:	7.5%	5 Year Price Target	\$17	Valuation Percentile:	70.8%
Dividend Risk Score:	D	Retirement Suitability Score:	B	Total Return Percentile:	61.1%

Overview & Current Events

Apple Hospitality REIT is a \$3.6 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 has sustained or grown its dividend every year beginning in 2015.

Apple reported Q3 results on 11/4/19. Modified FFO-per-share came in at \$0.45, down from \$0.47 in the year-ago quarter, while comparable hotels RevPAR rose 1.1% year-over-year, as did comparable hotels occupancy (up 70 basis points to 79.9%). Adjusted hotel EBITDA margin fell by 50 basis points to 37.6% year-over-year, accounting for some of the declines in modified FFO-per-share despite the rising RevPAR and hotel occupancy numbers.

Looking ahead, management lowered its midpoint 2019 comparable RevPAR guidance from flattish to slightly negative ~-0.125%. Meanwhile, it kept its comparable hotels adjusted hotel EBITDA margin outlook roughly flat at 36.4%-36.9%, while reducing the top end of its adjusted EBITDA guidance to \$435 million, down from \$441 million. No changes were significant enough to warrant us changing our forecasts.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFO/S	---	---	\$0.66	\$0.70	\$0.75	\$0.77	\$1.53	\$1.56	\$1.74	\$1.72	\$1.70	\$1.79
DPS	---	---	---	---	---	---	\$0.80	\$1.20	\$1.20	\$1.20	\$1.20	\$1.26
Shares¹	33	68	91	91	91	187	180	191	224	230	230	220

Since it first began reporting FFO/share in its annual reports (2011), Apple has generated very impressive annualized FFO/share growth of nearly 15% 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 over the past year, as FFO/share actually declined by over 1% in 2018. This year should see this slowdown continue, as margins further compress due to increasing competition and rising inflation.

Though the trust continues to buy back shares at steep discounts to the price at which it issues them, and acts as a net buyer in the marketplace, shrinking margins are offsetting these tailwinds for now. We see this trend continuing for the foreseeable future since we are also late in the current economic cycle. However, strategic acquisitions and dispositions, as well as opportunistic buybacks should sustain FFO/share. As a result, we forecast FFO/share to grow at a 1% clip over the next five years.

We expect the dividend to grow with FFO/share during this time span despite the fairly low payout ratio because management has shown itself to favor share buybacks and increasing scale over growing the dividend. Given the already-high dividend yield, we see this as prudent.

¹ 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/FFO	---	---	---	---	---	---	11.9	12.8	11.3	8.2	9.4	9.6
Avg. Yld.	---	---	---	---	---	---	4.4%	6.6%	6.0%	6.1%	7.5%	7.4%

Apple's growth has plateaued and is not likely to pick up momentum until the cycle resets. That being said, the trust has a strong balance sheet and an attractive, well-covered dividend at current prices. This, combined with management's consistent share repurchases, should provide a solid floor to the share price. Therefore, while we believe that a discount to the historical average price-to-FFO multiple is currently warranted, we believe that it is a bit overdone. As a result, we forecast a slight annual tailwind from multiple expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	---	---	52.3%	76.9%	69.0%	69.8%	70.6%	70.4%

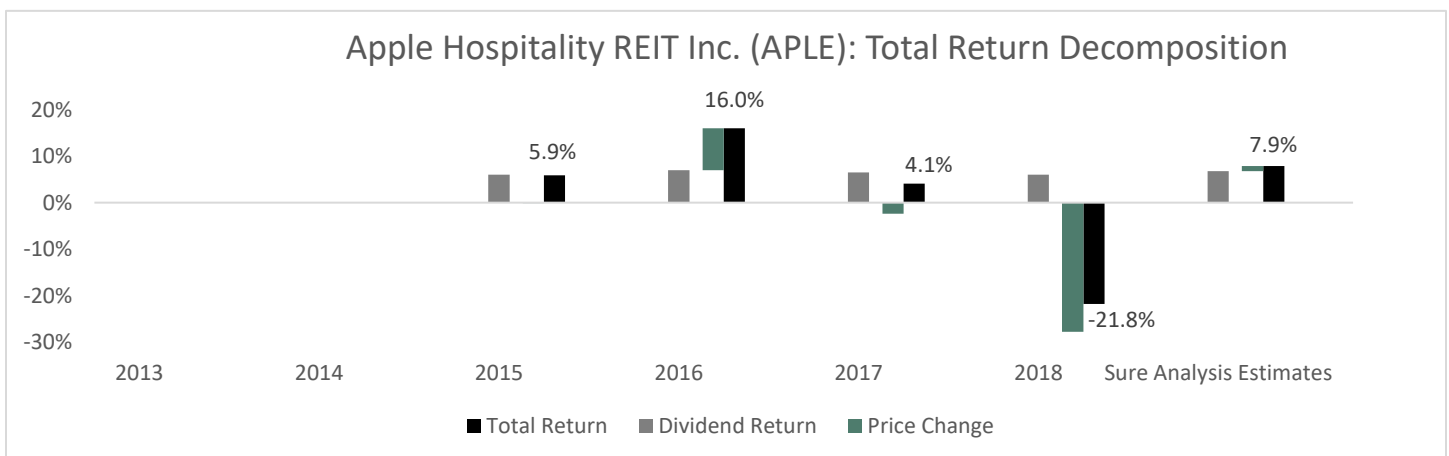
Apple does not have a recorded history as a public trust during the last recession, therefore it is hard to judge its recession resilience, other than to compare it to hotel REITs. Typically, during a recessionary period, hotel REITs experience significant losses of income. Therefore, Apple is likely 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 by far the lowest debt-to-equity in the sector (~30%), a weighted-average interest rate of only ~3.7%, and undrawn capacity on its credit line of well over \$200 million. It's weighted average debt maturity term is well over 5 years, combining with its liquidity to provide the REIT with plenty of flexibility to respond opportunistically to economic and/or market conditions, as it did this past December by repurchasing a large number of shares at a steep discount.

Final Thoughts & Recommendation

Apple Hospitality is one of the most attractive plays in the hotel sector due to its strong brand power, very conservative balance sheet, and attractive, well-covered dividend. While the slowing outlook for the economy and hotel sector do not make it a buy, its 7.9% total return outlook (7.5% dividend yield, 1.0% projected annual multiple expansion, and 0.4% projected annualized growth rate) makes it a solid hold for income investors. We will likely switch it to a buy on any further meaningful pullback.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	N/A	N/A	321	366	388	804	898	1041	1239	1271
Gross Profit	N/A	N/A	117	139	147	300	335	391	461	469
Gross Margin	N/A	N/A	36.7%	38.0%	37.9%	37.3%	37.3%	37.6%	37.2%	36.9%
SG&A Exp.	N/A	N/A	8	9	6	21	20	17	26	24
D&A Exp.	N/A	N/A	50	53	55	113	127	148	176	183
Operating Profit	N/A	N/A	61	78	86	166	188	226	258	261
Operating Margin	N/A	N/A	19.0%	21.3%	22.1%	20.6%	21.0%	21.7%	20.8%	20.5%
Net Profit	N/A	N/A	70	75	115	7	117	145	182	206
Net Margin	N/A	N/A	21.8%	20.6%	29.7%	0.8%	13.1%	13.9%	14.7%	16.2%
Free Cash Flow	N/A	N/A	100	106	115	184	219	266	321	331
Income Tax	N/A	N/A	1	1	1	2	1	0	1	1

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	N/A	N/A	1701	1526	1491	3777	3723	4980	4902	4929
Total Liabilities	N/A	N/A	137	180	179	762	1076	1463	1331	1520
Accounts Payable	N/A	N/A	13	13	17	56	78	125	109	107
Long-Term Debt	N/A	N/A	124	167	163	707	998	1338	1222	1412
Shareholder's Equity	N/A	N/A	1564	1346	1312	3015	2647	3517	3571	3409
D/E Ratio	N/A	N/A	0.08	0.12	0.12	0.23	0.38	0.38	0.34	0.41

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	N/A	N/A	4.1%	4.7%	7.6%	0.3%	3.1%	3.3%	3.7%	4.2%
Return on Equity	N/A	N/A	4.4%	5.2%	8.7%	0.3%	4.1%	4.7%	5.1%	5.9%
ROIC	N/A	N/A	4.1%	4.7%	7.7%	0.3%	3.2%	3.4%	3.8%	4.3%
Shares Out.	N/A	N/A	91	91	91	187	180	191	224	230
Revenue/Share	N/A	N/A	3.51	4.01	4.25	4.30	4.98	5.45	5.54	5.53
FCF/Share	N/A	N/A	1.10	1.17	1.26	0.99	1.21	1.39	1.44	1.44

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

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