



Chatham Lodging (CLDT)

Updated February 25th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$14	5 Year CAGR Estimate:	2.0%	Market Cap:	\$634M
Fair Value Price:	\$12	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	N/A
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-2.9%	Dividend Payment Date:	N/A
Dividend Yield:	2.0%	5 Year Price Target	\$16	Years of Dividend Growth:	0
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Last Dividend Increase:	0

Overview & Current Events

Chatham Lodging Trust manages and invests in upscale extended stay and premium branded hotel services. The company wholly owns 39 hotels with nearly 6,000 rooms across 15 states and the District of Columbia.

Chatham also has an interest in 85 hotels with almost 12,000 rooms/suites. The company looks to buy properties at a discount in large city centers. Chatham was formed as an REIT in October 2009 and has a market cap of \$634 million. Chatham operates under brand names like Hyatt, Marriot, and Hilton.

On February 24th, Chatham Lodging Trust announced fourth quarter results. Portfolio revenue per available room (RevPAR) declined 60% to \$47, compared to last year. Average daily rate (ADR) decreased 34% to \$104, and occupancy rate dropped 40% to 45%. Occupancy is down quarter-over-quarter, from 53% in third quarter to 45% in fourth quarter. All hotels were open during the quarter. The declines in these metrics are slowing, but barely. Adjusted FFO fell by \$24 million compared to last year, to a loss of \$8.7 million. Per share, adjusted FFO of -\$0.18 compared unfavorably to the \$0.32 earned in 4Q19. No distribution was paid in the fourth quarter, compared to a \$0.33 distribution last year.

For the full fiscal 2020 year, RevPAR dropped from \$132.6 in 2019 to \$57.7, a steep decline. Occupancy on December 31st, 2019 was 80% and was a far better situation than the 2020 occupancy of 48%. AFFO per share became negative at -\$0.40, vs. \$1.85 earned in 2019. Due to the dividend suspension, the dividend earned per share fell from \$1.32 in 2019 to \$0.22 in 2020.

Following a series of corporate actions to mitigate the impact of the COVID-19 pandemic, Chatham currently has estimated liquidity of \$136 million, including \$21 million in cash, and \$115 million remaining capacity on the credit facility. The company mentions that a 2021 dividend payment is not expected, but if one is to be paid, it will be the minimum required to maintain REIT status.

The company is developing and has begun construction on a hotel in the Warner Center in Los Angeles, CA. This is the first ground-up development since the company's inception. Total development costs are expected to be about \$70 million. The surrounding area employs more than 50,000 people. To date, the company has spent \$44 million on this project. The hotel is expected to open during 4Q2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO/S	\$0.28	\$1.29	\$1.26	\$1.42	\$2.26	\$2.29	\$2.14	\$1.95	\$1.85	(\$0.40)	\$0.60	\$1.91
DPS	\$0.70	\$0.78	\$0.84	\$0.93	\$1.20	\$1.38	\$1.32	\$1.32	\$1.32	\$0.22	\$0.00	\$0.60
Shares¹	13.8	13.9	26	34	38	38	45	47	47.5	48.0	50.0	65.0

Prior to the coronavirus pandemic, funds from operations per share (FFO/S) had followed a steady compounded annual increase, but from 2017 onwards, results began lacking compared to prior years. In the most recent years, and understandably due to the pandemic, funds from operations have been slaughtered. The REIT has experienced difficulty due to increased competition from other hotels and home sharing services like Airbnb, and then COVID-19 came and exacerbated CLDT's difficulties. While this is concerning for Chatham, they are dedicated to converting existing space

¹ In millions

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into income producing assets and maintaining liquidity. The plan is to convert unused space into substantial revenue and profits. Chatham acquired two hotels to their portfolio in 2018 adding approximately \$70 million worth of assets. Once completed, the Warner Center hotel should also provide a boost to EBITDA, and this is expected to open by the end of this year. These are long term assets that will take some time to produce income and boost FFO. Chatham has taken a beating due to its exposure to business-related travel, and considering all travel has been significantly cut, expected earnings for the company are low. It is very possible that the exceptional reduction in business travel becomes permanent, which would bode unfavorably for Chatham.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/FFO	38.5	12.02	16.5	20.6	9.2	9	10.6	9.1	9.9	-	9.3	8.0
Avg. Yld.	6.7%	5.4%	4.9%	3.6%	2.9%	3.6%	5.0%	6.5%	7.1%	2.4%	0.0%	3.9%

Chatham has historically traded at a price-to-funds from operations (P/FFO) multiple of 9.7 over the past 5 years and is currently expecting a lower-than-normal year in terms of FFO. Chatham is expected to face difficulties of unknown proportions due to COVID-19. However, based on our estimated normalized FFO power of \$1.50, P/FFO would come in around 9.3. Hence, we expect Chatham's multiple will drop slightly.

Safety, Quality, Competitive Advantage, & Recession Resiliency

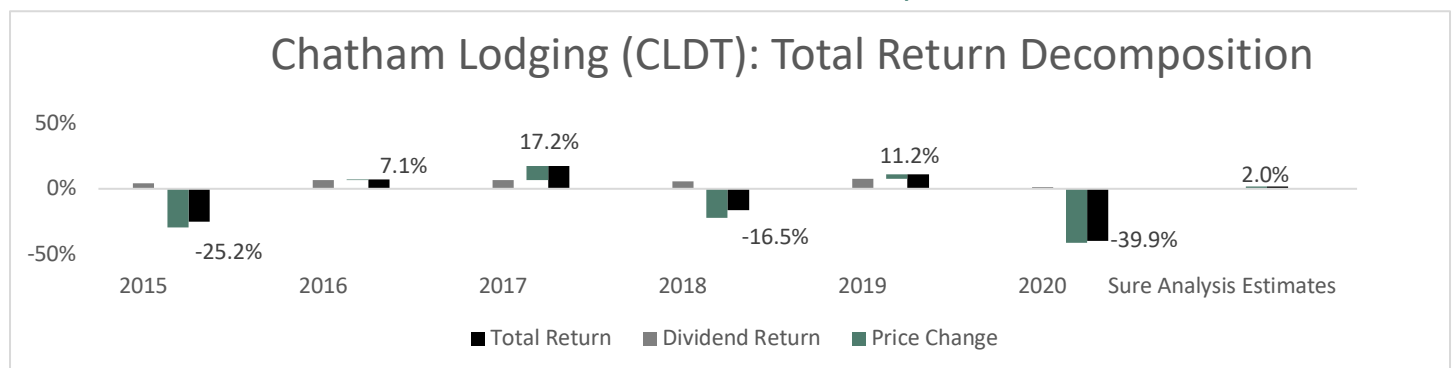
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	250%	60%	67%	65%	53%	60%	62%	68%	71%	-55%	0%	31%

Chatham does not have any public information from the last recession. During recessionary periods, hotel REIT's experience difficulty because their revenue is linked to consumers discretionary income. This means that Chatham would not be very resistant to recessions. Considering the COVID-19 pandemic has caused an immense drop in travel, Chatham is very susceptible to the ongoing recession. Chatham operates in large metropolitans which generally attract a lot of consumers; however, they have \$589 million worth of net debt, the majority of which is at fixed interest rates with an average interest rate of 4.4%. As predicted, in light of the coronavirus pandemic, Chatham has slashed the distribution for 2020 and 2021 and will only pay out what is necessary to hold its REIT status.

Final Thoughts & Recommendation

Overall, Chatham Lodging has a good reputation as an REIT with popular name brands, but the issues facing the hotel sector weighs very heavily on the company. We expect Chatham to offer total returns of 2%, primarily focused on earnings growth from this low point, which is speculative. At current prices, we do not see a margin of safety and see the company as overvalued, and thus rate the stock a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	99	125	195	273	290	296	318	25	328	145
Gross Profit	44	56	94	136	141	140	148	10	148	22
Gross Margin	44.3%	44.9%	48.3%	49.9%	48.6%	47.4%	46.4%	41.0%	45.2%	15.4%
SG&A Exp.	8	8	10	12	11	13	14	4	14	12
D&A Exp.	14	18	35	49	49	46	48	3	51	54
Operating Profit	15	17	27	56	59	60	58	0	58	-43
Operating Margin	14.8%	13.9%	13.7%	20.3%	20.3%	20.2%	18.3%	-1.8%	17.7%	-29.7%
Net Profit	-1	3	67	33	31	29	31	-1	19	-76
Net Margin	-1.5%	2.4%	34.3%	12.1%	10.9%	10.0%	9.6%	-4.8%	5.7%	-52.5%
Free Cash Flow	15	32	49	82	88	87	86	5	86	-20
Income Tax	0	0	0	0	0	0	0	0	0	0

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	457	674	1165	1337	1303	1392	1440	1440	1439	1370
Cash & Equivalents	4	4	15	21	12	9	7	7	7	21
Accounts Receivable	2	2	4	4	4	4	4	4	5	2
Total Liabilities	251	288	573	640	621	582	632	632	664	678
Accounts Payable	8	13	20	25	28	32	34	34	33	25
Long-Term Debt	239	272	550	605	583	538	583	583	585	609
Shareholder's Equity	205	383	589	693	677	803	797	797	762	678
D/E Ratio	1.17	0.71	0.93	0.87	0.86	0.67	0.73	0.73	0.77	0.90

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-0.3%	0.5%	7.3%	2.6%	2.4%	2.2%	2.2%	-1.0%	1.3%	-5.4%
Return on Equity	-0.7%	1.0%	13.8%	5.1%	4.6%	4.0%	3.8%	-1.4%	2.4%	-10.6%
ROIC	-0.3%	0.5%	7.4%	2.7%	2.5%	2.3%	2.2%	-1.1%	1.4%	-5.7%
Shares Out.	13.82	13.91	26.30	34.00	38.31	38.37	45.37	46.52	47.5	48.0
Revenue/Share	7.16	5.85	6.77	7.13	7.53	7.38	6.89	3.99	6.98	3.09
FCF/Share	1.08	1.48	1.71	2.14	2.28	2.16	1.86	0.83	1.83	-0.43

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

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