



American Campus Communities, Inc. (ACC)

Updated July 27th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$50	5 Year CAGR Estimate:	4.1%	Market Cap:	\$6.91B
Fair Value Price:	\$38	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	08/07/2021 ¹
% Fair Value:	131%	5 Year Valuation Multiple Estimate:	-5.2%	Dividend Payment Date:	08/21/2021
Dividend Yield:	3.7%	5 Year Price Target	\$51	Years Of Dividend Growth:	8 ²
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	2.2%

Overview & Current Events

American Campus Communities is one of the largest owners, managers, and developers of high-quality student housing properties in the United States in terms of beds owned and managed. The company's property portfolio contains 166 properties with approximately 111,900 beds. Specifically, the portfolio comprises 126 owned off-campus student housing properties in close proximity to colleges and universities, 34 American Campus Equity properties, and 6 on-campus participating properties operated under ground/facility leases with the related university systems. Combined with the 41 third-party properties the company only manages, its managed portfolio includes 207 properties with approximately 142,400 beds. American Campus Communities generates around \$870 million in annual revenues and is headquartered in Austin, Texas.

On July 26th, American Campus reported its Q2 results for the quarter ended June 30th, 2021. Revenues came in at \$208.5 million, 12.4% higher year-over-year due primarily due to COVID-19-related financial impacts affecting the prior-year period, including rent relief, the loss of revenue from summer camps and higher uncollectible accounts waived fees. FFO totaled \$56.7 million, or \$0.41/share, as compared to \$50.3 million, or \$0.36/share for the same quarter in 2020. The 12.7% year-over-year improvement in FFO was also attributed to higher revenues and operating expenses growing disproportionately to revenues, by only 8.9% year-over-year.

Management mentioned that American Campus' normalization continues on all fronts as it does not expect the need for on-campus refunds to continue into the upcoming academic year 2021-2022. Based upon these factors and overall economic trends and events, the company now anticipates Q3 FFO/share of \$0.32-0.36 and FY2021 FFO/share of \$1.95-\$2.09, the midpoint of which we have embedded in our estimates.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO/shr	\$1.87	\$1.95	\$2.22	\$2.42	\$2.38	\$2.23	\$2.31	\$2.38	\$2.52	\$2.02	\$2.02	\$2.70
DPS	\$1.35	\$1.35	\$1.42	\$1.50	\$1.58	\$1.66	\$1.74	\$1.82	\$1.87	\$1.88	\$1.88	\$2.13
Shares³	69.2	84.7	104.8	105	112	129.2	135.1	136.8	137.3	137.6	138.0	150.0

Over the past decade, management has done a great job in growing the company's portfolio and revenues, which have expanded from \$345.8 million in 2011 to \$876.8 million over the past four quarters. However, FFO/share has mostly been stable, as operating and financial expenses, as well as continuous investments towards growing the portfolio, have compressed the bottom line. The company believes that college remains a sound investment. The salary differential between college graduates and high school graduates is around \$23,000, which should translate into robust demand for its properties going forward. According to its overall portfolio expansion trend, ongoing campus developments, and recovery in occupancy and rental collections in its existing properties, we expect FFO/share growth of 6% in the medium term. In terms of its DPS, the company has been very prudent with its growth rates since its IPO, which, combined with the overall recession-resistant cash flows it enjoys, has resulted in no dividend cuts over the past 17 years. DPS

¹ Estimated dates based on past dividend dates

² While the company has paid 9 consecutive \$0.47 quarterly dividends, it needs to pay 2 more \$0.47 before its growth streak ends.

³ Share count is 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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remained constant from 2005 to 2013 but has grown slowly since, featuring a 5-year CAGR of 2.5%. We expect its medium-term growth to remain at a similar rate, of around 2.5%, due to limited room for greater increases.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/FFO	21.4	22.1	17.1	15.7	16.0	22.4	19.9	17.2	18.3	17.3	24.8	19.0
Avg. Yld.	3.4%	3.1%	3.7%	3.9%	4.2%	3.3%	3.8%	4.4%	4.1%	5.4%	3.7%	4.1%

American Campus' valuation multiple has remained quite stable over the past decade, trading at around 19 times its underlying FFO. Due to the currently compressed FFO/share and investors jumping on its previously higher yield as a result of the current low rate environment, the valuation has expanded beyond its historical average. We expect the valuation multiple to return close to its average in the medium term, better reflecting the company's overall prospects.

Safety, Quality, Competitive Advantage, & Recession Resiliency

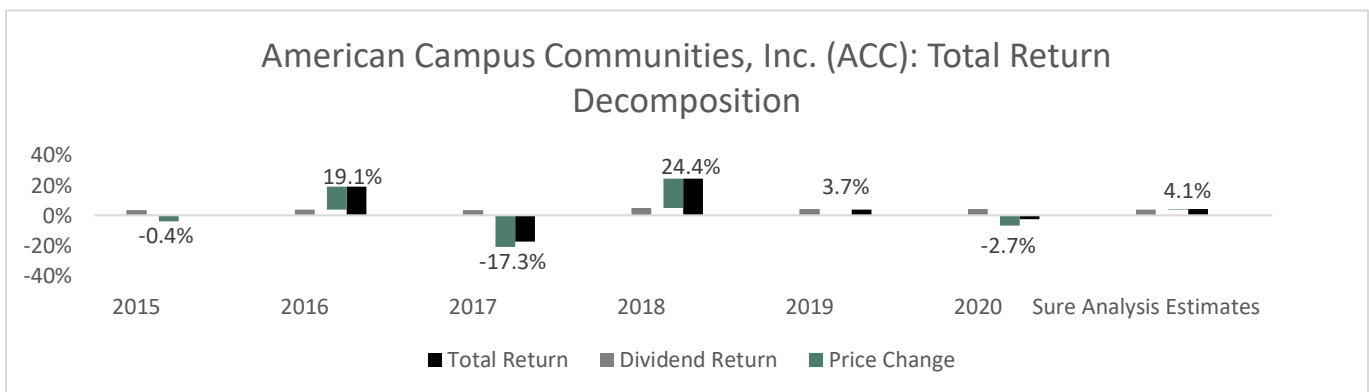
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	72%	69%	64%	62%	66%	74%	75%	76%	74%	93%	93%	79%

We consider American Campus' dividend relatively safe. On the one hand, the payout ratio has reached worrying levels, currently standing at 93% of the expected FY2021 FFO. On the other hand, the company's ongoing recovery should sustain the current pay-out levels and improve coverage going forward. The company's qualities include a predictable business model, with public 4-year universities remaining in high demand, displaying a very consistent enrollment growth CAGR of 1.5%-2.2% throughout several decades. Being amongst the leading owners, managers, and advisors in student housing development, the company has a great moat against its smaller competitors. We believe that cash flows will remain resilient during an ongoing recession. COVID-19 could be described as a period whose effects could be worse for the company than a prolonged recession due to many students choosing to live in their parents' homes rather than physically being on campus. Even during such a period, cash flows remained relatively resilient, hence our argument.

Final Thoughts & Recommendation

Overall, American Campus is a well-run company with a great track record of growing its property portfolio and providing its shareholders with robust dividend payouts. While COVID-19 temporarily pressured the company's FFO generation, we expect a gradual recovery in line with management's estimates. Still, we don't see satisfactory growth returns on a per-share basis and can also see potential valuation headwinds ahead, compressing the total shareholder returns. As a result, we project annualized returns of around 4.1% in the medium term. Hence, shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	362	466	657	734	753	786	796	881	943	871
Gross Profit	186	244	339	381	395	421	434	477	517	457
Gross Margin	51.5%	52.3%	51.5%	51.9%	52.4%	53.5%	54.5%	54.2%	54.9%	52.5%
SG&A Exp.	16	27	22	26	29	32	42	46	45	50
D&A Exp.	89	116	187	198	209	211	235	263	275	268
Operating Profit	89	106	132	157	157	178	158	170	197	139
Operating Margin	24.6%	22.7%	20.0%	21.5%	20.8%	22.6%	19.8%	19.3%	20.9%	15.9%
Net Profit	57	57	105	63	116	99	69	117	85	73
Net Margin	15.6%	12.2%	15.9%	8.6%	15.4%	12.6%	8.7%	13.3%	9.0%	8.4%
Free Cash Flow	100	162	176	183	164	242	232	302	297	291
Income Tax	0	1	1	1	1	1	1	2	2	1

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3,009	5,119	5,598	5,835	6,006	5,866	6,897	7,039	7,560	7,531
Cash & Equivalents	22	21	39	25	17	22	41	71	55	54
Accounts Receivable	5	14	9	10	18	8	9	9	13	11
Total Liabilities	1,605	2,442	2,967	3,219	3,225	2,415	3,398	3,492	4,221	4,375
Long-Term Debt	1,448	2,221	2,744	2,973	2,948	2,125	3,025	3,028	3,398	3,593
Shareholder's Equity	1,375	2,648	2,625	2,610	2,770	3,445	3,485	3,481	3,295	3,114
D/E Ratio	1.05	0.84	1.05	1.14	1.06	0.62	0.87	0.87	1.03	1.15

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.0%	1.4%	2.0%	1.1%	2.0%	1.7%	1.1%	1.7%	1.2%	1.0%
Return on Equity	4.4%	2.8%	4.0%	2.4%	4.3%	3.2%	2.0%	3.4%	2.5%	2.3%
ROIC	2.1%	1.5%	2.0%	1.1%	2.0%	1.8%	1.1%	1.8%	1.3%	1.1%
Shares Out.	69.2	84.7	104.8	105	112	129.2	135.1	136.8	137.3	137.6
Revenue/Share	5.18	5.46	6.24	6.94	6.61	6.05	5.86	6.40	6.82	6.28
FCF/Share	1.44	1.89	1.67	1.73	1.44	1.86	1.71	2.19	2.15	2.10

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

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