



# RLJ Lodging Trust (RLJ)

Updated November 26<sup>th</sup>, 2021 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$13.80	<b>5 Year CAGR Estimate:</b>	9.9%	<b>Market Cap:</b>	\$2.3 B
<b>Fair Value Price:</b>	\$18.70	<b>5 Year Growth Estimate:</b>	1.0%	<b>Ex-Dividend Date:</b>	12/29/2021 <sup>1</sup>
<b>% Fair Value:</b>	74%	<b>5 Year Valuation Multiple Estimate:</b>	6.3%	<b>Dividend Payment Date:</b>	1/14/2022
<b>Dividend Yield:</b>	0.3%	<b>5 Year Price Target</b>	\$19.70	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	F	<b>Last Dividend Increase:</b>	N/A

## Overview & Current Events

RLJ Lodging Trust (RLJ) is a self-advised real estate investment trust (REIT) that owns primarily premium-branded, high-margin, full-service hotels. It currently has 97 hotels, with approximately 22,100 rooms, located in 22 states and the District of Columbia. RLJ has a market capitalization of \$2.3 billion. Sunbelt markets, which are characterized by superior economic growth, represent 46% of the total EBITDA of the trust. The Hilton and Marriot brands represent 41% and 36%, respectively, of the hotel rooms of RLJ.

RLJ has been severely hit by the coronavirus crisis. The social distancing measures, along with the collapse in business travel, caused the demand for hotels to evaporate last year. Consequently, the trust incurred its first loss in a decade, it cut its dividend by -97% and its stock price plunged -75% in the first two months of the pandemic. Thanks to the massive vaccine rollout, RLJ has begun to recover this year, but it is still far from returning to pre-pandemic profits.

In early November, RLJ reported (11/4/21) financial results for the third quarter of fiscal 2021. The company benefited from a recovery in leisure demand and a modest improvement in business transient and group demand. It now has 95 of its 97 hotels open, with one hotel being repaired from damages caused by Hurricane Ida. Leisure demand recovered to 93% of the 2019 level while business transient and group revenues stood at 73% of the 2019 level. As a result, total occupancy was 79% of the 2019 level and adjusted funds from operations (AFFO) per share improved from -\$0.32 in last year's quarter to \$0.17. Due to the high sensitivity of RLJ to the course of the pandemic, management has not provided any guidance. We expect RLJ to post AFFO per share of \$0.20 this year.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>FFO</b>	\$1.49	\$1.76	\$2.08	\$2.42	\$2.52	\$2.69	\$2.41	\$2.27	\$2.04	-\$0.98	<b>\$0.20</b>	<b>\$1.97</b>
<b>DPS</b>	\$0.38	\$0.70	\$0.83	\$1.04	\$1.32	\$1.32	\$1.32	\$1.32	\$1.32	\$0.04	<b>\$0.04</b>	<b>\$1.28</b>
<b>Shares<sup>2</sup></b>	95.3	105.7	118.7	128.3	129.0	123.9	140.7	174.3	171.4	164.5	<b>164.1</b>	<b>200.0</b>

RLJ has posted declining FFO per share for four consecutive years. Moreover, due to the impact of the pandemic on its business, the REIT posted its first loss in a decade last year. However, thanks to the distribution of vaccines worldwide, RLJ has begun to recover from the pandemic. In addition, it is selling some low-return hotels, in slow-growth markets, and is buying high-return hotels, with much higher margins. We thus expect the REIT to return close to pre-pandemic levels in five years. More precisely, we expect RLJ to grow its FFO per share at a 1.0% average annual rate over the next five years off its mid-cycle level (10-year average) of \$1.87.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
<b>P/FFO</b>	10.4	10.3	11.0	11.7	11.6	8.0	9.0	9.3	8.6	---	<b>7.4</b>	<b>10.0</b>
<b>Avg. Yld.</b>	2.4%	3.9%	3.6%	3.7%	4.5%	6.1%	6.1%	6.2%	7.5%	0.4%	<b>0.3%</b>	<b>6.5%</b>

<sup>1</sup> Estimated date.

<sup>2</sup> 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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RLJ is currently trading at a price-to-FFO ratio of 7.4, which is lower than the historical average FFO multiple of 10.0. If the stock reverts to its average valuation level in five years, it will enjoy a 6.3% annualized gain in its returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	25%	40%	40%	43%	52%	49%	55%	58%	65%	---	2%	65%

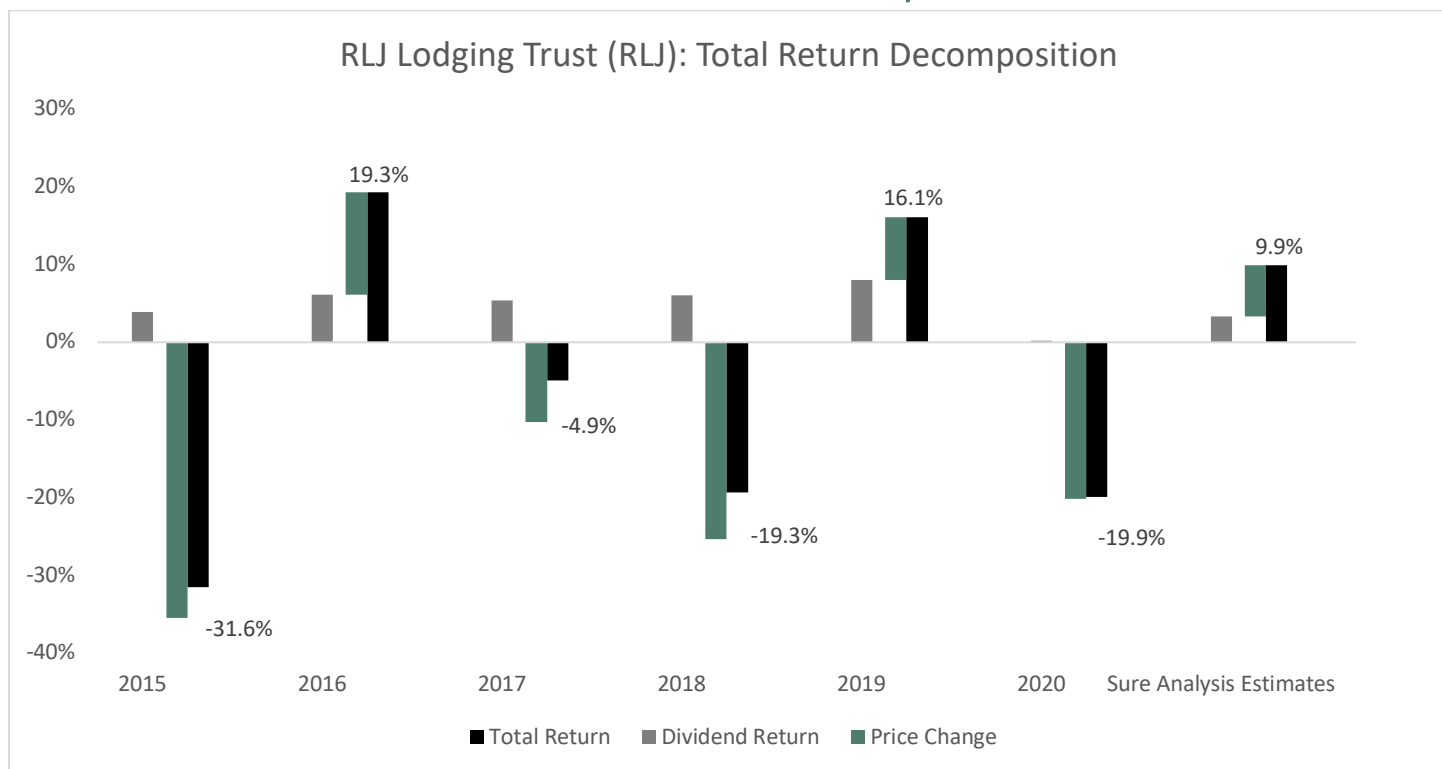
Due to the nature of its luxurious hotels, RLJ is highly vulnerable to recessions, as leisure and business demand decrease significantly during rough economic periods. More importantly, the REIT is extremely vulnerable to the pandemic, which has caused a plunge in business and group demand. The -97% cut of the dividend and the -75% plunge of the stock in just two months last year confirm that RLJ is unsuitable for the investors who cannot stomach severe paper losses and keep a long-term investing horizon.

On the other hand, RLJ has one of the healthiest balance sheets in the REIT universe, with a leverage ratio (Net Debt to EBITDA) of only 3.1 and no material debt maturities until 2024. This is critical in the ongoing crisis. We thus expect the REIT to endure the downturn and recover in the upcoming years.

## Final Thoughts & Recommendation

The S&P 500 has doubled off its bottom last year and hence most of the easy money has been made on most stocks in reference to the recovery from the pandemic. RLJ is an exception, as it still has a long way to go to return to pre-pandemic profits and hence the stock could still be undervalued from a long-term perspective. We expect the stock to offer a 9.9% average annual return over the next five years, primarily thanks to its valuation, and thus we rate the stock as a buy. RLJ is ideal for the investors who can wait patiently for the pandemic to subside and the demand for luxurious hotels to return to pre-pandemic levels.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	755	850	970	1,109	1,136	1,160	1,356	1,761	1,566	473
<b>Gross Profit</b>	251	288	332	391	402	415	453	549	490	-22
<b>Gross Margin</b>	33.2%	33.9%	34.2%	35.3%	35.4%	35.7%	33.4%	31.2%	31.3%	-4.6%
<b>SG&amp;A Exp.</b>	35	31	35	42	38	32	40	49	45	41
<b>D&amp;A Exp.</b>	131	127	127	144	157	163	185	239	210	192
<b>Operating Profit</b>	88	131	169	205	208	221	226	258	233	-257
<b>Operating Margin</b>	11.7%	15.4%	17.4%	18.5%	18.3%	19.0%	16.6%	14.7%	14.9%	-54.4%
<b>Net Profit</b>	11	41	113	135	218	200	75	190	129	-404
<b>Net Margin</b>	1.5%	4.9%	11.6%	12.2%	19.2%	17.3%	5.6%	10.8%	8.2%	-85.5%
<b>Free Cash Flow</b>	134	176	251	299	328	331	261	395	397	-169

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	3,290	3,346	3,718	4,128	3,973	4,023	6,795	6,002	5,851	5,617
<b>Cash &amp; Equivalents</b>	310	116	332	262	134	457	586	320	882	900
<b>Accounts Receivable</b>	20	23	23	26	26	26	60	52	40	13
<b>Goodwill &amp; Int. Ass.</b>	---	---	---	---	---	1	133	52	---	---
<b>Total Liabilities</b>	1,456	1,538	1,572	1,750	1,772	1,788	3,225	2,505	2,625	2,930
<b>Accounts Payable</b>	86	88	115	129	129	137	226	204	183	172
<b>Long-Term Debt</b>	1,342	1,414	1,410	1,558	1,575	1,583	2,880	2,203	2,196	2,588
<b>Shareholder's Equity</b>	1,815	1,790	2,128	2,361	2,183	2,222	3,180	3,107	2,835	2,300
<b>D/E Ratio</b>	0.74	0.79	0.66	0.66	0.72	0.71	0.81	0.63	0.69	0.97

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	0.4%	1.2%	3.2%	3.5%	5.4%	5.0%	1.4%	3.0%	2.2%	-7.1%
<b>Return on Equity</b>	0.8%	2.3%	5.8%	6.0%	9.6%	9.1%	2.8%	6.0%	4.3%	-15.8%
<b>ROIC</b>	0.4%	1.3%	3.3%	3.6%	5.7%	5.3%	1.5%	3.1%	2.3%	-7.6%
<b>Shares Out.</b>	95.3	105.7	118.7	128.3	129.0	123.9	140.7	174.3	171.4	164.5
<b>Revenue/Share</b>	7.92	7.82	8.16	8.65	8.81	9.36	9.64	10.10	9.14	2.88
<b>FCF/Share</b>	1.41	1.62	2.11	2.33	2.55	2.67	1.85	2.27	2.32	-1.03

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

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