



# RLJ Lodging Trust (RLJ)

Updated March 9<sup>th</sup>, 2022 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$12.80	<b>5 Year CAGR Estimate:</b>	11.9%	<b>Market Cap:</b>	\$2.2 B
<b>Fair Value Price:</b>	\$13	<b>5 Year Growth Estimate:</b>	9.0%	<b>Ex-Dividend Date:</b>	3/29/2022 <sup>1</sup>
<b>% Fair Value:</b>	98%	<b>5 Year Valuation Multiple Estimate:</b>	0.3%	<b>Dividend Payment Date:</b>	4/14/2022
<b>Dividend Yield:</b>	0.3%	<b>5 Year Price Target</b>	\$20	<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 21,500 rooms, located in 22 states and the District of Columbia. RLJ has a market capitalization of \$2.2 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 in 2020. 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, but it is still far from returning to pre-pandemic profits.

In late February, RLJ reported (2/23/22) financial results for the fourth quarter of fiscal 2021. The company benefited from a recovery in leisure demand and a modest improvement in urban markets. Revenue per available room more than doubled and reached 75% of the 2019 level, the highest level since the onset of the pandemic. As a result, the REIT switched from adjusted funds from operations (AFFO) per share of -\$0.28 in the prior year's quarter to \$0.14. 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 \$1.30 this year.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>FFO</b>	\$1.76	\$2.08	\$2.42	\$2.52	\$2.69	\$2.41	\$2.27	\$2.04	-\$0.98	\$0.19	<b>\$1.30</b>	<b>\$2.00</b>
<b>DPS</b>	\$0.70	\$0.83	\$1.04	\$1.32	\$1.32	\$1.32	\$1.32	\$1.32	\$0.04	\$0.04	<b>\$0.04</b>	<b>\$1.28</b>
<b>Shares<sup>2</sup></b>	105.7	118.7	128.3	129.0	123.9	140.7	174.3	171.4	164.5	164.1	<b>164.5</b>	<b>200.0</b>

RLJ has exhibited lackluster business performance in the last five years. Moreover, due to the impact of the pandemic on its business, the REIT posted its first loss in a decade in 2020. However, thanks to the distribution of vaccines worldwide, RLJ has begun to recover from the pandemic. The recent rally of oil prices to a 13-year high have raised fears of an imminent recession. Even if this proves correct, we expect the economy to recover from such a recession. In addition, RLJ 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 9.0% average annual rate over the next five years off this year's low comparison base.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
<b>P/FFO</b>	10.3	11.0	11.7	11.6	8.0	9.0	9.3	8.6	---	---	<b>9.8</b>	<b>10.0</b>
<b>Avg. Yld.</b>	3.9%	3.6%	3.7%	4.5%	6.1%	6.1%	6.2%	7.5%	0.4%	0.3%	<b>0.3%</b>	<b>6.4%</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.



# RLJ Lodging Trust (RLJ)

Updated March 9<sup>th</sup>, 2022 by Aristofanis Papadatos

RLJ is currently trading at a price-to-FFO ratio of 9.8, which is slightly lower than the historical average FFO multiple of 10.0. If the stock trades at its average valuation level in five years, it will enjoy a 0.3% annualized gain in its returns.

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

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	40%	40%	43%	52%	49%	55%	58%	65%	---	3%	3%	64%

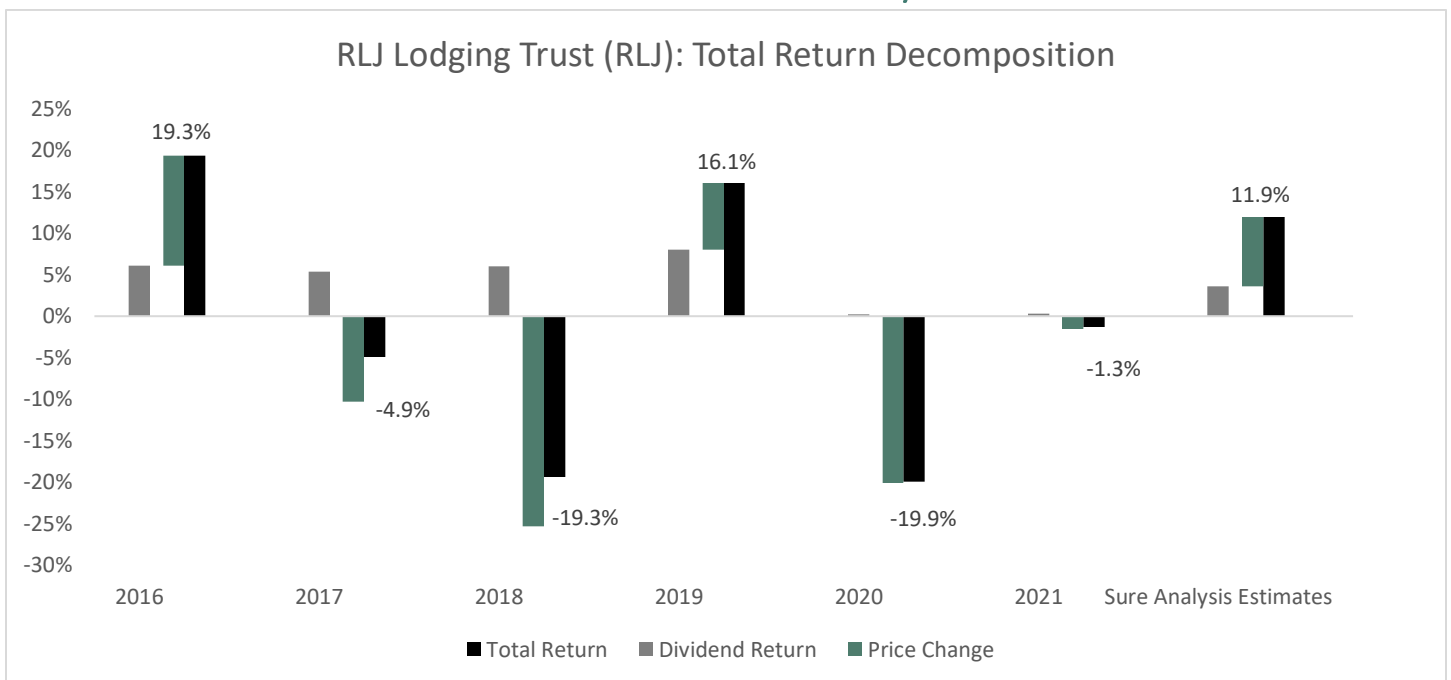
Due to the nature of its luxurious hotels, RLJ is highly vulnerable to recessions, as leisure and business demand decrease significantly during rough economic periods. More importantly, the REIT is extremely vulnerable to the pandemic, which has caused a plunge in business and group demand. The -97% cut of the dividend and the -75% plunge of the stock in just two months in 2020 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 nearly doubled off its bottom in 2020 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 an 11.9% average annual return over the next five years, primarily thanks to 9.0% annual growth of FFO per share, and thus we rate the stock as a buy. RLJ is ideal for the investors who can wait patiently for the demand for luxurious hotels to return to pre-pandemic levels. Nevertheless, investors should be aware that patience is required; if the 13-year high oil price, which has resulted from the invasion of Russia in Ukraine, causes a recession, the stock of RLJ will incur great pressure until the economy shows signs of a recovery from the recession.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# RJ Lodging Trust (RJ)

Updated March 9<sup>th</sup>, 2022 by Aristofanis Papadatos

## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	850	970	1,109	1,136	1,160	1,356	1,761	1,566	473	786
<b>Gross Profit</b>	288	332	391	402	415	453	549	490	-22	185
<b>Gross Margin</b>	33.9%	34.2%	35.3%	35.4%	35.7%	33.4%	31.2%	31.3%	-4.6%	23.6%
<b>SG&amp;A Exp.</b>	31	35	42	38	32	40	49	45	41	48
<b>D&amp;A Exp.</b>	127	127	144	157	163	185	239	210	192	186
<b>Operating Profit</b>	131	169	205	208	221	226	258	233	-257	(50)
<b>Operating Margin</b>	15.4%	17.4%	18.5%	18.3%	19.0%	16.6%	14.7%	14.9%	-54.4%	-6.4%
<b>Net Profit</b>	41	113	135	218	200	75	190	129	-404	(305)
<b>Net Margin</b>	4.9%	11.6%	12.2%	19.2%	17.3%	5.6%	10.8%	8.2%	-85.5%	-38.8%
<b>Free Cash Flow</b>	176	251	299	328	331	261	395	397	-169	43

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	3,346	3,718	4,128	3,973	4,023	6,795	6,002	5,851	5,617	5,149
<b>Cash &amp; Equivalents</b>	116	332	262	134	457	586	320	882	900	665
<b>Accounts Receivable</b>	23	23	26	26	26	60	52	40	13	31
<b>Goodwill &amp; Int. Ass.</b>	---	---	---	---	1	133	52	---	---	---
<b>Total Liabilities</b>	1,538	1,572	1,750	1,772	1,788	3,225	2,505	2,625	2,930	27,35
<b>Accounts Payable</b>	88	115	129	129	137	226	204	183	172	155
<b>Long-Term Debt</b>	1,414	1,410	1,558	1,575	1,583	2,880	2,203	2,196	2,588	2,409
<b>Shareholder's Equity</b>	1,790	2,128	2,361	2,183	2,222	3,180	3,107	2,835	2,300	2,031
<b>LTD/E Ratio</b>	0.79	0.66	0.66	0.72	0.71	0.81	0.63	0.69	0.97	1.00

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	1.2%	3.2%	3.5%	5.4%	5.0%	1.4%	3.0%	2.2%	-7.1%	-5.7%
<b>Return on Equity</b>	2.3%	5.8%	6.0%	9.6%	9.1%	2.8%	6.0%	4.3%	-15.8%	-14.1%
<b>ROIC</b>	1.3%	3.3%	3.6%	5.7%	5.3%	1.5%	3.1%	2.3%	-7.6%	-6.0%
<b>Shares Out.</b>	105.7	118.7	128.3	129.0	123.9	140.7	174.3	171.4	164.5	164.1
<b>Revenue/Share</b>	7.82	8.16	8.65	8.81	9.36	9.64	10.10	9.14	2.88	4.79
<b>FCF/Share</b>	1.62	2.11	2.33	2.55	2.67	1.85	2.27	2.32	-1.03	0.26

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.