



American Campus Communities, Inc. (ACC)

Updated April 26th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$65	5 Year CAGR Estimate:	1.0%	Market Cap:	\$17.9 B
Fair Value Price:	\$48	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	05/07/2022 ¹
% Fair Value:	136%	5 Year Valuation Multiple Estimate:	-5.9%	Dividend Payment Date:	05/21/2022
Dividend Yield:	2.9%	5 Year Price Target	\$58	Years Of Dividend Growth:	N/A
Dividend Risk Score:	F	Retirement Suitability Score:	F	Rating:	Sell

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 166 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 36 third-party properties the company only manages, its managed portfolio includes 203 properties with approximately 140,300 beds. American Campus Communities generates around \$890 million in annual revenues and is headquartered in Austin, Texas.

On April 19th, Blackstone (NYSE: BX) agreed to American Campus Communities for about \$12.8 billion, or \$65.47/share.

On April 25th, 2022, American Campus reported its Q1 results for the period ending March 31st, 2022. Revenues came in at \$253 million, 15.84% higher year-over-year. The increase in revenue was primarily due to improvements in the company's operations during the 2021-2022 academic year, following the impact of COVID-19 on the 2020-2021 academic year. In addition, same-store average occupancy increased to 95.6% versus 89.9% in the prior-year period, and rental revenues per occupied bed grew by 3.1% to \$815.

FFO totaled \$101.3 million, or \$0.75/share, as compared to \$79.4 million, or \$0.58/share for the same quarter in 2021. The significant year-over-year increase in FFO was attributed to operating expenses growing disproportionately to revenues by only 4.3% year-over-year. Management's previous guidance for fiscal 2022 included same-store rental revenue growth between 3.2% and 4.6% and FFO/share between \$2.46 and \$2.56. However, in light of the company's pending transaction with Blackstone, management did not provide an updated outlook. We continue to utilize the midpoint of the original range in our estimates.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO/shr	\$1.95	\$2.22	\$2.42	\$2.38	\$2.23	\$2.31	\$2.38	\$2.52	\$2.02	\$2.15	\$2.51	\$3.05
DPS	\$1.35	\$1.42	\$1.50	\$1.58	\$1.66	\$1.74	\$1.82	\$1.87	\$1.88	\$1.88	\$1.88	\$2.13
Shares²	84.7	104.8	105	112	129.2	135.1	136.8	137.3	139.2	140.2	140.5	150.0

Over the past decade, management has done a great job in growing the company's portfolio and revenues, which have expanded from \$466.1 million in 2012 to \$889.0 million last year. 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 4% in the medium term. In

¹ Estimated dates based on past dividend dates

² 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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terms of its DPS, the company has been very prudent with its growth rates since its IPO. Combined with the overall recession-resistant cash flows it enjoys, this has resulted in no dividend cuts over the past 18 years. DPS remained constant from 2005 to 2013, grew from 2013 to 2020, and was again halted last year. We continue to expect a medium-term DPS growth rate of around 2.5%, though investors should not expect annual increases.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/FFO	22.1	17.1	15.7	16.0	22.4	19.9	17.2	18.3	17.3	22.3	25.8	19.0
Avg. Yld.	3.1%	3.7%	3.9%	4.2%	3.3%	3.8%	4.4%	4.1%	5.4%	3.9%	2.9%	3.7%

American Campus' valuation multiple remained quite stable over the past decade, averaging 19 times the trust's underlying FFO. Currently, the valuation multiple has expanded amid shares trading near Blackstone's purchase price. We would normally expect the valuation to return close to its average in the medium-term, which better reflects the company's overall prospects in our view. However, this is non-meaningful at this time following the upcoming buyout.

Safety, Quality, Competitive Advantage, & Recession Resiliency

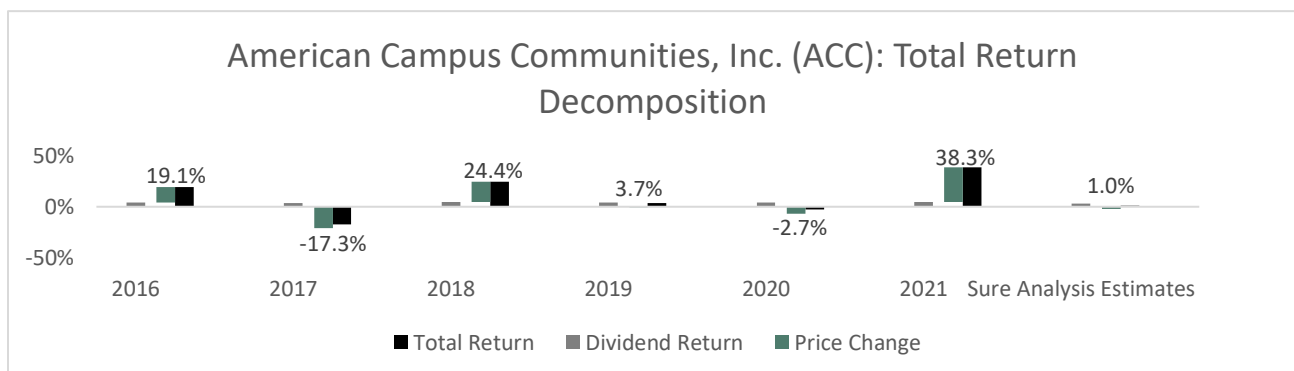
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	69%	64%	62%	66%	74%	75%	76%	74%	93%	87%	75%	70%

We consider American Campus' dividend relatively safe. On the one hand, the payout ratio had reached worrying levels, standing close to 90% during 2020-2021. 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 solid track record of growing its property portfolio and providing its shareholders with steady dividend payouts. Our usual medium-term projections are fundamentally non-meaningful as shares are currently priced based on Blackstone's acquisition which is expected to close soon. In that regard, we rate the stock a sell as the majority of upside emerging from this transaction has already been priced in.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	466	657	734	753	786	796	881	943	871	942
Gross Profit	244	339	381	395	421	434	477	517	457	500
Gross Margin	52.3%	51.5%	51.9%	52.4%	53.5%	54.5%	54.2%	54.9%	52.5%	53.1%
SG&A Exp.	27	22	26	29	32	42	46	45	50	63
D&A Exp.	116	187	198	209	211	235	263	275	268	276
Operating Profit	106	132	157	157	178	158	170	197	139	161
Operating Margin	22.7%	20.0%	21.5%	20.8%	22.6%	19.8%	19.3%	20.9%	15.9%	17.1%
Net Profit	57	105	63	116	99	69	117	85	73	36
Net Margin	12.2%	15.9%	8.6%	15.4%	12.6%	8.7%	13.3%	9.0%	8.4%	3.8%
Free Cash Flow	162	176	183	164	242	232	302	297	291	266
Income Tax	1	1	1	1	1	1	2	2	1	1

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	5,119	5,598	5,835	6,006	5,866	6,897	7,039	7,560	7,531	7,575
Cash & Equivalents	21	39	25	17	22	41	71	55	54	120
Accounts Receivable	14	9	10	18	8	9	9	13	11	14
Total Liabilities	2,442	2,967	3,219	3,225	2,415	3,398	3,492	4,221	4,375	4,305
Long-Term Debt	2,221	2,744	2,973	2,948	2,125	3,025	3,028	3,398	3,593	3,510
Shareholder's Equity	2,648	2,625	2,610	2,770	3,445	3,485	3,481	3,295	3,114	3,117
LTD/E Ratio	0.84	1.05	1.14	1.06	0.62	0.87	0.87	1.03	1.15	1.13

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.4%	2.0%	1.1%	2.0%	1.7%	1.1%	1.7%	1.2%	1.0%	0.5%
Return on Equity	2.8%	4.0%	2.4%	4.3%	3.2%	2.0%	3.4%	2.5%	2.3%	1.1%
ROIC	1.5%	2.0%	1.1%	2.0%	1.8%	1.1%	1.8%	1.3%	1.1%	0.5%
Shares Out.	84.7	104.8	105	112	129.2	135.1	136.8	137.3	137.6	139.7
Revenue/Share	5.46	6.24	6.94	6.61	6.05	5.86	6.40	6.82	6.28	6.75
FCF/Share	1.89	1.67	1.73	1.44	1.86	1.71	2.19	2.15	2.10	1.90

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

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