



Apple Hospitality REIT Inc. (APLE)

Updated July 9th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$14.0	5 Year CAGR Estimate:	13.1%	Market Cap:	\$3.4B
Fair Value Price:	\$18.5	5 Year Growth Estimate:	2.4%	Ex-Dividend Date:	9/27/24 ¹
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.7%	Dividend Payment Date:	10/15/24 ²
Dividend Yield:	6.9%	5 Year Price Target	\$21	Years Of Dividend Growth:	2
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Apple Hospitality REIT is a \$3.4 billion hotel REIT that owns a portfolio of hotels with tens of thousands of rooms located in scores of markets and across dozens of states. It franchises its properties out to leading brands, including Marriott-branded hotels, Hilton-branded hotels, and Hyatt-branded hotels. It was formed in 2007 and had sustained or grown its dividend every year beginning in 2015, prior to 2020 when it had to suspend its dividend due to the COVID-19 impacts on its business. As of December 31, 2023, Apple Hospitality owned 225 hotels with a total of 29,900 guest rooms across 88 markets in 38 states.

Apple Hospitality REIT, Inc. (APLE) announced its first-quarter results for 2024. The company reported a net income of \$54.1 million, a 64.2% increase from the previous year, with net income per share rising to \$0.22. Operating income grew by 45.4% to \$71.6 million, and Adjusted EBITDAre increased by 5.8% to \$100.8 million. The company's average daily rate (ADR) was \$153.18, and occupancy remained steady at 72.0%, resulting in a RevPAR of \$110.25.

Despite these gains, Comparable Hotels Adjusted Hotel EBITDA slightly declined by 3.2% to \$111.7 million. The company acquired the AC Hotel Washington DC Convention Center for \$116.8 million and sold two Hilton hotels in Arkansas for \$33.5 million. Apple Hospitality paid \$70.2 million in distributions, or \$0.29 per share, and maintained a strong balance sheet with \$1.5 billion in total debt.

CEO Justin Knight noted the company's resilience despite challenges like the Easter holiday shift and ongoing inflationary pressures. The company is confident in its portfolio's performance and anticipates further growth, supported by strategic acquisitions and effective management. The company's updated 2024 outlook includes increased net income and Adjusted EBITDAre projections.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO/S	\$0.77	\$1.53	\$1.56	\$1.74	\$1.72	\$1.70	\$0.09	\$0.93	\$1.53	\$1.60	\$1.63	\$1.72
NAV/S	---	\$15.18	\$15.78	\$15.53	\$15.22	\$14.70	\$9.03	\$17.40	\$19.36	\$18.54	\$18.45	\$20.80
DPS	---	\$0.80	\$1.20	\$1.20	\$1.20	\$1.20	\$0.30	\$0.04	\$0.76	\$1.04	\$0.96	\$1.05
Shares³	186.3	174.3	222.9	230.2	223.7	223.9	223.2	228.3	228.9	241.5	242.3	230.0

Since it first began reporting FFO/share in its annual reports (2011), Apple initially generated very impressive annualized FFO/share growth thanks to its growing scale (due in large part to a merger in 2015), effective and efficient business model, and strong economic tailwinds in the United States during that period. However, this growth rate has slowed dramatically recently, largely due to the Covid-19 outbreak and an accompanying downturn in the hotel industry that was further accelerated by the rise of companies like AirBnB. We expect a 2.4% NAV per share CAGR moving forward.

¹ Estimated

² Estimated

³ Shares 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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/ NAV	---	1.1	1.1	1.1	1.1	1.1	1.5	0.9	0.8	0.9	0.8	1.0
Avg. Yld.	---	4.8%	6.9%	7.0%	7.2%	7.4%	2.2%	0.3%	4.9%	6.2%	6.9%	5.0%

Apple Hospitality has a portfolio of quality assets and a solid balance sheet. As a result, we believe it deserves to trade in-line with its private market value and therefore assign a fair value multiple estimate of 1.0 times NAV. The dividend yield is attractive at current levels. Over time, we expect the company to see its price to NAV ratio increase to eventually trade in-line with its NAV and therefore its dividend yield would decline to 5% even though the dividend per share is likely to continue growing.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	52%	77%	69%	70%	71%	333%	4%	50%	65%	59%	61%

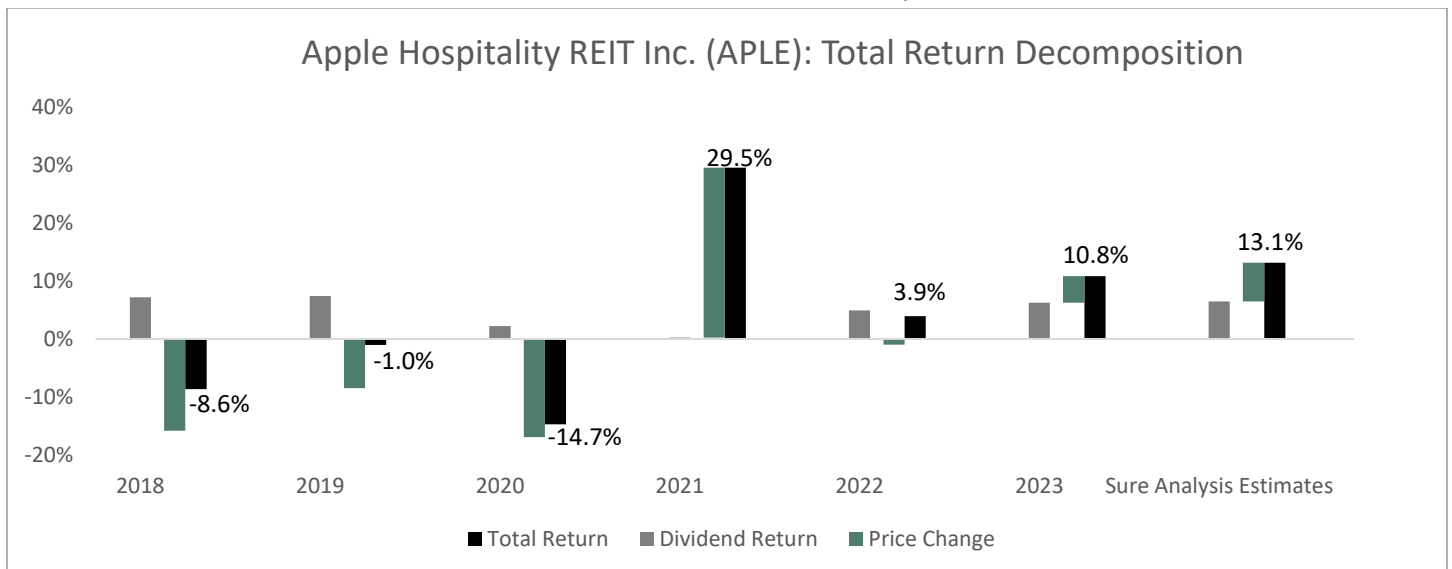
Apple does not have a recorded history as a public trust during a typical recession, therefore it is hard to judge its recession resilience, other than to compare it to hotel REITs. Typically, during a recessionary period, hotel REITs experience significant losses of income. Therefore, Apple is likely not very recession resistant. However, its concentration in strong brand names, excellent locations, strong balance sheet, franchising model, and emphasis on value should enable it to outperform its peers in a recession.

It has some of the lowest debt-to-equity in the sector and plenty of liquidity along with a well-laddered debt maturity profile. As a result, it is well-positioned to respond opportunistically to averse economic and/or market conditions as it has in the past by repurchasing shares at a steep discount.

Final Thoughts & Recommendation

Apple Hospitality is one of the strongest players in the hotel sector due to its strong brand power, conservative balance sheet, and high-quality assets. Furthermore, its dividend yield is quite attractive at the moment. With 13.1% expected annualized total returns over the next half decade, we give the stock a Buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	804	898	1,041	1,239	1,271	1,267	602	934	1,238	1,344
Gross Profit	300	335	391	461	469	465	121	320	455	484
Gross Margin	37.3%	37.3%	37.6%	37.2%	36.9%	36.7%	20.2%	34.2%	36.7%	36.0%
SG&A Exp.	21	20	17	26	24	36	29	41	42	47
D&A Exp.	113	127	148	176	183	193	200	184	182	183
Operating Profit	166	188	226	258	261	235	(108)	94	231	253
Operating Margin	20.6%	21.0%	21.7%	20.8%	20.5%	18.6%	-17.9%	10.1%	18.6%	18.8%
Net Profit	7	117	145	182	206	172	(173)	19	145	177
Net Margin	0.8%	13.1%	13.9%	14.7%	16.2%	13.6%	-28.8%	2.0%	11.7%	13.2%
Free Cash Flow	184	219	266	321	331	307	(22)	199	309	327
Income Tax	2	1	0	1	1	1	0	0	2	1

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,777	3,723	4,980	4,902	4,929	4,942	4,830	4,791	4,773	4,937
Total Liabilities	762	1,076	1,463	1,331	1,520	1,651	1,800	1,643	1,594	1,613
Accounts Payable	56	78	125	109	107	114	98	93	116	130
Long-Term Debt	707	998	1,338	1,222	1,412	1,320	1,483	1,439	1,366	1,371
Shareholder's Equity	3,015	2,647	3,517	3,571	3,409	3,291	3,029	3,147	3,178	3,324
LTD/E Ratio	0.23	0.38	0.38	0.34	0.41	0.40	0.49	0.46	0.43	0.41

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.3%	3.1%	3.3%	3.7%	4.2%	3.5%	-3.5%	0.4%	3.0%	3.7%
Return on Equity	0.3%	4.1%	4.7%	5.1%	5.9%	5.1%	-5.5%	0.6%	4.6%	5.5%
ROIC	0.3%	3.2%	3.4%	3.8%	4.3%	3.6%	-3.8%	0.4%	3.2%	3.8%
Shares Out.	186.3	174.3	222.9	230.2	223.7	223.9	223.2	228.3	228.9	241.5
Revenue/Share	4.30	4.98	5.45	5.54	5.53	5.66	2.69	4.13	5.41	5.86
FCF/Share	0.99	1.21	1.39	1.44	1.44	1.37	(0.10)	0.88	1.35	1.43

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

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