



# Apple Hospitality REIT Inc. (APLE)

Updated September 26<sup>th</sup>, 2024 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$15.0	<b>5 Year CAGR Estimate:</b>	11.6%	<b>Market Cap:</b>	\$3.7B
<b>Fair Value Price:</b>	\$18.5	<b>5 Year Growth Estimate:</b>	2.4%	<b>Ex-Dividend Date:</b>	9/30/24
<b>% Fair Value:</b>	81%	<b>5 Year Valuation Multiple Estimate:</b>	4.2%	<b>Dividend Payment Date:</b>	10/15/24
<b>Dividend Yield:</b>	6.4%	<b>5 Year Price Target</b>	\$21	<b>Years Of Dividend Growth:</b>	2
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

Apple Hospitality REIT is a \$3.7 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) reported its second-quarter 2024 financial results, demonstrating solid performance across key metrics. The company posted earnings per share (EPS) of \$0.31, beating estimates by \$0.01, and generated revenue of \$390.08 million, representing a 7.87% year-over-year increase and surpassing expectations by \$2.57 million. For the second quarter, Apple Hospitality recorded net income of \$73.9 million, an increase of 13.2% compared to the same period in 2023, with a net income per share of \$0.31, up 6.9%. The company's operating income for Q2 was \$93.5 million, up 12.6%, and the operating margin improved by 100 basis points to 24%. Adjusted EBITDA rose by 9.1% to \$140.9 million, while Modified Funds from Operations (MFFO) increased 8.9% to \$121.3 million.

Comparable hotel performance remained strong, with Average Daily Rate (ADR) at \$163.01, a 0.3% increase year-over-year, and occupancy rising by 2.2% to 79.8%. Revenue per available room (RevPAR) for comparable hotels grew by 2.5% to \$130.09. However, Comparable Hotels Adjusted Hotel EBITDA margin slightly declined by 50 basis points to 39.1%. The company's portfolio, as of June 30, 2024, comprised 224 hotels with a total of 30,068 guest rooms across 87 markets in 37 states and the District of Columbia. During the second quarter, Apple Hospitality acquired the 262-room Embassy Suites by Hilton Madison Downtown for \$79.5 million and sold the SpringHill Suites by Marriott Greensboro for \$7.1 million. Year-to-date, the company has sold three hotels for \$41 million and purchased two hotels for \$196 million. Apple Hospitality also repurchased 1.6 million common shares during the year for \$23 million and maintained its balance sheet strength, with total debt to total capitalization at 30%. The company paid out \$0.24 per share in distributions during the quarter, representing an annualized yield of 6.6%.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>FFO/S</b>	\$0.77	\$1.53	\$1.56	\$1.74	\$1.72	\$1.70	\$0.09	\$0.93	\$1.53	\$1.60	<b>\$1.63</b>	<b>\$1.72</b>
<b>NAV/S</b>	---	\$15.18	\$15.78	\$15.53	\$15.22	\$14.70	\$9.03	\$17.40	\$19.36	\$18.54	<b>\$18.45</b>	<b>\$20.80</b>
<b>DPS</b>	---	\$0.80	\$1.20	\$1.20	\$1.20	\$1.20	\$0.30	\$0.04	\$0.76	\$1.04	<b>\$0.96</b>	<b>\$1.05</b>
<b>Shares<sup>1</sup></b>	186.3	174.3	222.9	230.2	223.7	223.9	223.2	228.3	228.9	241.5	<b>240.7</b>	<b>230.0</b>

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

<sup>1</sup> Shares in millions

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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.

## 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	<b>0.8</b>	<b>1.0</b>
Avg. Yld.	---	4.8%	6.9%	7.0%	7.2%	7.4%	2.2%	0.3%	4.9%	6.2%	<b>6.4%</b>	<b>5.0%</b>

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%	<b>59%</b>	<b>61%</b>

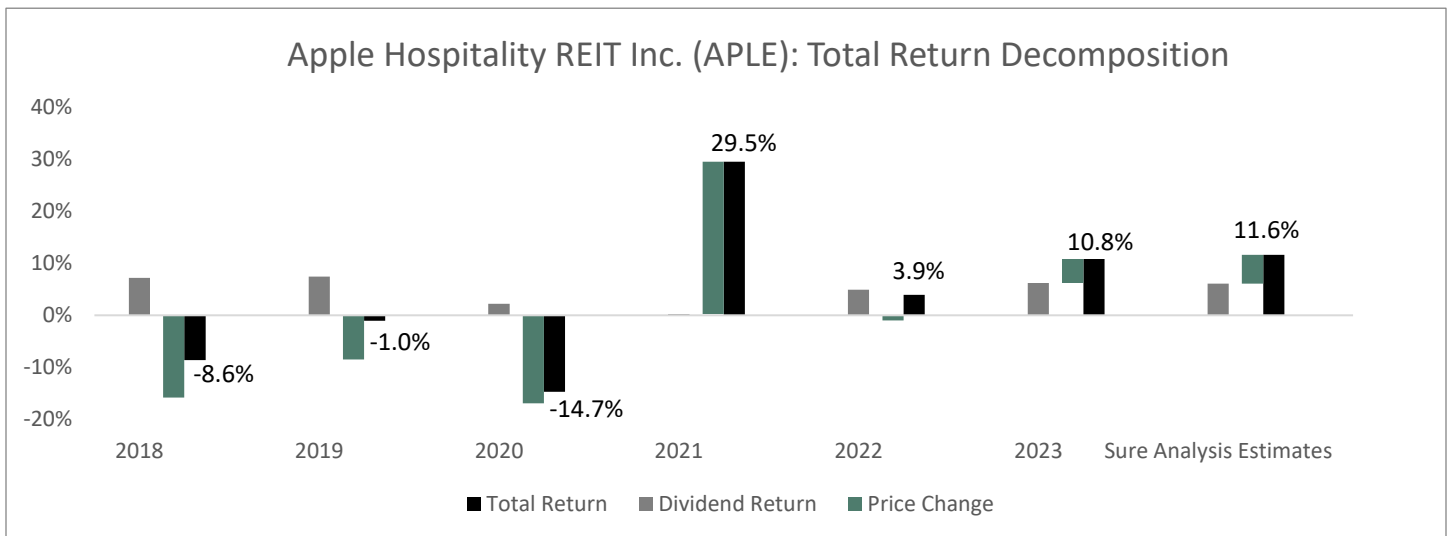
Apple does not have a recorded history as a public trust during a typical recession, therefore it is hard to judge its recession resilience, other than to compare it to hotel REITs. Typically, during a recessionary period, hotel REITs experience significant losses of income. Therefore, Apple is likely 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 11.6% 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
<b>Revenue</b>	804	898	1,041	1,239	1,271	1,267	602	934	1,238	1,344
<b>Gross Profit</b>	300	335	391	461	469	465	121	320	455	484
<b>Gross Margin</b>	37.3%	37.3%	37.6%	37.2%	36.9%	36.7%	20.2%	34.2%	36.7%	36.0%
<b>SG&amp;A Exp.</b>	21	20	17	26	24	36	29	41	42	47
<b>D&amp;A Exp.</b>	113	127	148	176	183	193	200	184	182	183
<b>Operating Profit</b>	166	188	226	258	261	235	(108)	94	231	253
<b>Operating Margin</b>	20.6%	21.0%	21.7%	20.8%	20.5%	18.6%	-17.9%	10.1%	18.6%	18.8%
<b>Net Profit</b>	7	117	145	182	206	172	(173)	19	145	177
<b>Net Margin</b>	0.8%	13.1%	13.9%	14.7%	16.2%	13.6%	-28.8%	2.0%	11.7%	13.2%
<b>Free Cash Flow</b>	184	219	266	321	331	307	(22)	199	309	327
<b>Income Tax</b>	2	1	0	1	1	1	0	0	2	1

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	3,777	3,723	4,980	4,902	4,929	4,942	4,830	4,791	4,773	4,937
<b>Total Liabilities</b>	762	1,076	1,463	1,331	1,520	1,651	1,800	1,643	1,594	1,613
<b>Accounts Payable</b>	56	78	125	109	107	114	98	93	116	130
<b>Long-Term Debt</b>	707	998	1,338	1,222	1,412	1,320	1,483	1,439	1,366	1,371
<b>Shareholder's Equity</b>	3,015	2,647	3,517	3,571	3,409	3,291	3,029	3,147	3,178	3,324
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	0.3%	3.1%	3.3%	3.7%	4.2%	3.5%	-3.5%	0.4%	3.0%	3.7%
<b>Return on Equity</b>	0.3%	4.1%	4.7%	5.1%	5.9%	5.1%	-5.5%	0.6%	4.6%	5.5%
<b>ROIC</b>	0.3%	3.2%	3.4%	3.8%	4.3%	3.6%	-3.8%	0.4%	3.2%	3.8%
<b>Shares Out.</b>	186.3	174.3	222.9	230.2	223.7	223.9	223.2	228.3	228.9	241.5
<b>Revenue/Share</b>	4.30	4.98	5.45	5.54	5.53	5.66	2.69	4.13	5.41	5.86
<b>FCF/Share</b>	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.

### Disclaimer

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