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## Thursday's TSX breakouts: This REIT's valuation is becoming attractive

By JENNIFER DOWTY

### *A look at American Hotel Income Properties REIT LP*

In today's TSX Breakouts report, there are 21 securities on the positive breakouts list (securities with positive price momentum), while the list of securities on the negative breakouts list (stocks with negative price momentum) expanded to 15.

Discussed today is a recent entrant to the negative breakouts list.

Challenging railway traffic conditions may cause the unit price to drift down further; however, once the unit price stabilizes, it may represent an attractive buying opportunity for income investors, and for that reason it is highlighted in today's Breakouts report. The security that I am referring to is **American Hotel Income Properties REIT LP**, or AHIP. (HOT.UN-T<sup>1</sup>).

A brief outline is provided below that may serve as a springboard for further fundamental research.

#### **The limited partnership**

American Hotel Income Properties REIT LP has a portfolio of 80 hotel properties across the United States. The REIT is focused on owning and acquiring hotels in secondary markets that are located in high-traffic areas in close proximity to transportation such as railroads, airports, and highways. The company's portfolio is divided into two segments, 45 railroad hotels and 35 branded hotels. Railway hotels, operating under the banner Oak Tree Inn Hotels, service the U.S. rail industry. These railway hotels have an attractive feature – lodging contracts spanning over a number of years. The majority, approximately 76 per cent, of the rail guestrooms are guaranteed, which smooths the company's funds from operations (FFO) and provides reliable cash flows. The branded hotels segment has franchise agreements with leading hotels such as Hilton and Marriott.

Fundamentally, AHIP is facing some headwinds in 2016 that could keep the unit price under pressure in the near-term. After the market closed on March 8, AHIP reported fourth-quarter results that were in-line with the consensus estimate, FFO per unit came in at 21 cents (U.S.), just as the Street forecast. Same property occupancy dropped to 71.5 per cent from 82.2 per cent during the fourth-quarter of 2014. The same property average daily rate (ADR) was higher year-over-year at \$70.72 up from \$65.37 last year. Same property revenue per available room (RevPAR) was \$50.56, down from \$53.73 in the previous year. Furthermore, management's outlook for 2016 was cautious. The company noted that total rail traffic was down 11 per cent in the fourth quarter driven partly by lower coal shipments, and anticipates the weakness in rail traffic will persist this year. Management also forecasts demand in energy related regions will remain weak in 2016. The unit price decline 2 per cent the following trading day.

AHIP will be reporting first-quarter financial results on Thursday May 12, after the market closes. The

consensus FFO per unit estimate is 18.5 cents (U.S.).

## **Distribution policy**

AHIP pays unitholders a monthly distribution of 5.4 cents (U.S.) per unit, or 64.8 cents per year, equating to an annualized yield of over 8 per cent.

The distribution appears sustainable as the AFFO payout ratio was 89 per cent in 2015.

## **Valuation**

On a price-to-FFO basis, AHIP is trading at a multiple of 7.1 times the 2017 consensus forecast. On a price-to-AFFO basis, AHIP is trading at a multiple of 8.3 times the 2017 consensus estimate (using an exchange rate of 1.2859 Canadian dollars per U.S. dollar).

## **Analysts' recommendations**

According to Bloomberg, there are five buy recommendations. There are no hold nor sell recommendations. Analysts' one-year target prices are fairly concentrated. The average one-year target price is \$12.50 (Cdn.), suggesting units of AHIP could appreciate over 24 per cent. Individual target prices are as follows: \$12, \$12.25, two at \$12.50, and \$13.25.

The consensus FFO estimate is \$1.04 (U.S.) in 2016, up from 93 cents in 2015, and anticipated to rise to \$1.10 in 2017. The consensus AFFO forecast is 89 cents in 2016, increasing to 94 cents in 2017.

## **Chart watch**

For the past three years, the units have traded in a tight trading range, predominately between \$10 and \$11.50. Right now, the units are under pressure and the unit price could break below the \$10 level; however, each time it has broken below this trading range, the weakness has been short-lived. For now, the momentum remains negative.

There is downside support at \$10, and failing that around \$9.50 (the unit price closed at a low of \$9.60 during the 2015 summer market meltdown on August 17).

The relative strength index is at 35, suggesting that the unit price is not quite at an oversold level. Typically, a reading at or below 30 indicates an oversold condition.

The Breakouts file is a technical analysis screen intended to identify companies that are technically breaking out. In addition, this report highlights a company's dividend policy, analysts' recommendations, and provides a brief technical analysis for a security to provide readers with more information.

If a stock appears on the positive breakouts list, this indicates positive price momentum, and that a company may be worthwhile for investors to look at the fundamentals in order to determine if the recent price strength is warranted and will continue. If a security appears on the negative breakouts list, this indicates negative price momentum, and may be indicative of either deteriorating fundamentals or perhaps indicates a buying opportunity.

A technical analysis screen does not replace fundamental analysis, but can help identify companies worth having a closer look at.

Below is a list of securities principally from the S&P/TSX composite index and the S&P/TSX Small Cap index that are technically breaking out, reaching new 55-day highs or lows. Securities on the positive breakouts list have displayed positive price momentum during this period. Securities on negative breakouts list have experienced negative price momentum.

## **References**

1. [www.theglobeandmail.com/globe-investor/markets/stocks/summary/?q=hot.un-t](http://www.theglobeandmail.com/globe-investor/markets/stocks/summary/?q=hot.un-t)



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