Apartment Investment (AIV)

$36.55 (As of 08/04/20)

Price Target (6-12 Months): **$31.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 08/04/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: D | Growth: C | Momentum: A	**5-Strong Sell** VGM:C

Summary

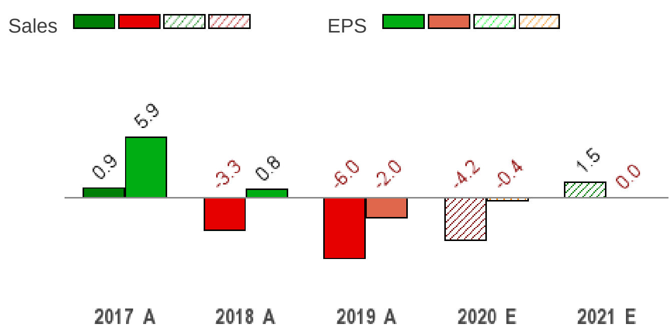
Apartment Investment and Management Company, commonly known as Aimco reported second-quarter 2020 pro-forma funds from operations (FFO) of 63 cents per share, surpassing the Zacks Consensus Estimate of 61 cents. However, the top line missed estimates and declined 2.4% year over year. Notably, amid the pandemic and its adverse impacts on economy and jobs, the rent-paying capability of tenants will likely bear the brunt, affecting rental rates and occupancy. In fact, a decline in average daily occupancy and rental rate on leases resulted in a year-over-year fall in same-store revenues and net operating income (NOI). Also, its shares have underperformed the industry over the past year. Further, competitive new supply in certain submarkets is concerning because it curtails landlords' ability to command more rent and result in lesser absorption.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$55.68 - $24.53**
20 Day Average Volume (sh)	**1,216,817**
Market Cap	**$5.4 B**
YTD Price Change	**-29.2%**
Beta	**0.84**
Dividend / Div Yld	**$1.64 / 4.5%**
Industry	**REIT and Equity Trust - Residential**
Zacks Industry Rank	**Bottom 11% (226 out of 254)**
Last EPS Surprise	**3.3%**
Last Sales Surprise	**-0.5%**
EPS F1 Est- 4 week change	**-0.9%**
Expected Report Date	**10/29/2020**
Earnings ESP	**0.0%**
P/E TTM	**14.1**
P/E F1	**14.7**
PEG F1	**2.8**
P/S TTM	**6.0**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					889 E
2020	225 A	219 A	217 E	215 E	876 E
2019	230 A	224 A	230 A	230 A	914 A

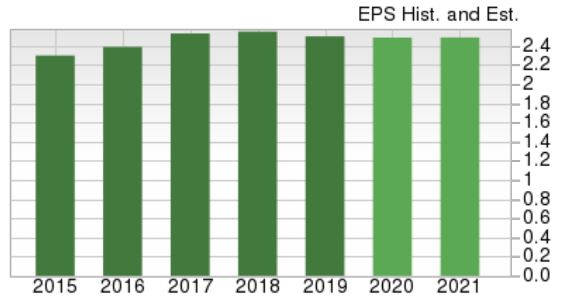
EPS Estimates

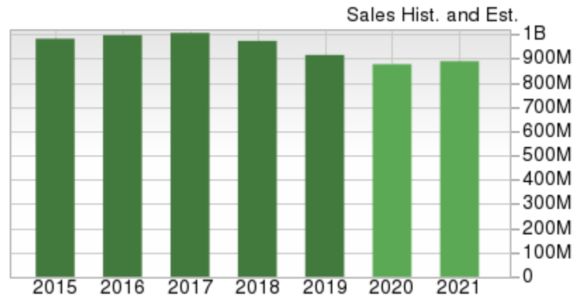
	Q1	Q2	Q3	Q4	Annual*
2021	$0.60 E	$0.62 E	$0.64 E	$0.65 E	$2.49 E
2020	$0.67 A	$0.63 A	$0.60 E	$0.59 E	$2.49 E
2019	$0.61 A	$0.60 A	$0.64 A	$0.65 A	$2.50 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/04/2020. The reports text is as of 08/05/2020.

Overview





Headquartered in Denver, CO, Apartment Investment and Management Company – commonly known as Aimco – is a real estate investment trust (REIT) that is engaged in the acquisition, ownership, management and redevelopment of apartment properties situated in some of the largest markets in the United States.

Aimco's portfolio of apartment communities is diversified by both geography and price point. As of Mar 31, 2020, the company's portfolio comprised ownership interest in 124 apartment communities, with 32,846 apartment homes in 17 states and the District of Columbia.

In 2019, the company has revised its segmental information as a result of the 2018 sale of the Asset Management business. The company reports in four following segments: Same Store, Redevelopment and Development, Acquisition, and Other Real Estate.

As of Mar 31, 2020, the Same-Store segment consisted of 95 consolidated apartment communities, while the Redevelopment and Development segment included six consolidated apartment communities. Furthermore, the Acquisition segment included one consolidated apartment community and the Other Real Estate segment had 18 apartment communities.

Notably, in December 2019, Aimco announced a $275-million loan to the partnership which owns Parkmerced Apartments. Accruing interest at 10% per annum, the loan has a five-year term. Also, there is the right of the partnership to extend for a second five-year term. Moreover, it is secured by a pledge of the ownership of the partnership. This loan will offer current income to Aimco. Furthermore, Aimco has acquired a 10-year option to buy a 30% stake in the partnership and thus, participate in its substantial development pipeline.

Note: *All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.*

(Note: *Certain information will be updated once the company files its latest 10-Q.*)

Reasons To Sell:

> Adverse impacts of the coronavirus outbreak will likely dent rental rates and occupancy for Aimco's properties. Higher competitive supply and earnings dilution from divestiture add to its woes.

- Apartment deliveries are expected to remain elevated in a number of the company's markets in the near term. In fact, the company expects competitive new supply to be high primarily to "A" price point communities in certain submarkets. This high supply is a concern because it curtails landlords' ability to command more rent and result in lesser absorption. Such an environment is predicted to continue in the near term, and result in aggressive rental concessions and moderate pricing power of landlords.

- The coronavirus pandemic, which has been wreaking havoc and resulting in macroeconomic uncertainties, is expected to impact the rent-paying capability of residential tenants. As such, Aimoc's top line is likely to bear the brunt in the near term, with adverse impacts on rental rates and occupancy. In fact, due to the several restrictions and shelter-in-place orders in the company's markets, it witnessed significant declines in leasing activities in late March. Although the company executed leases in the second quarter, it has a year-to-date shortfall of 675 deals. Moreover, management noted that it is at or near the bottom in monthly average daily occupancy. Additionally, Aimco witnessed a year-over-year decline in renewal and new lease rents. The company expects new leasing to be very competitive.

- In line with its portfolio strategy, the company aims to sell up to 10% of its total apartment communities in its portfolio annually. In 2019, the company sold 12 apartment communities. Further, in May, Aimco disposed of Ravensworth Apartments for $58.9 million. Although Aimco's efforts to sell non-core assets with lower average revenues per apartment home are a strategic fit for the long term, the dilutive impact on earnings from such asset dispositions cannot be avoided in the near term. In fact, the company's top-line performance in the recent quarters was affected by revenues lost from sale of its Asset Management business.

- Aimco engages in long-cycle redevelopments that require investment in larger building systems. Currently, the company has five projects in long-cycle redevelopments, with an estimated cost of completion of $151 million. In June, Aimco resumed short-cycle redevelopment at two sites. Although such projects are likely to improve NOI and have higher value creation, it increases Aimco's operational risks by exposing it to lease-up risks. In fact, at Jun 30, Aimco's exposure to lease-up at long-cycle redevelopment and development communities was 809 apartment homes. Further, due to the longer cycle time, the projects usually take time to generate revenues and result in current-period earnings dilution.

- Over the past year, shares of Aimco have declined 27% compared with the industry's fall of 16.9%. Moreover, the trend in estimate revisions for 2020 FFO per share does not indicate a favorable outlook for the company as estimates have been revised marginally downward over the past month. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has a limited upside potential.

Risks

- Aimco has a sturdy portfolio diversified both in terms of geography and price point, and situated in 12 of the largest markets in the United States. In fact, the company's portfolio of apartment communities is diversified across "A," "B," and "C+" price points. This helps in mitigating its risks to economic downturns and also provides growth opportunities. It aims to adjust the current 50:50 balance between "A" and "B/C+" properties to a greater allocation of "B" properties that offer scope for above-average value creation. Moreover, resilience in the company's operating platform amid the economic turbulence enabled it to collect 97.2% and 95.8% of its total second-quarter and July residential rents, respectively.

- The rise in demand for apartment properties driven by 'echo boomers' – children of the baby boomer generation – keeps us positive on the stock. This age cohort, which mainly consists of people less than 35 years of age, prefers to stay on their own. Added to this, due to changing lifestyle, people, on an average, are settling later in life and thereby buying homes later, leading to a rising tendency of living in a rented home. Further, as renting is the only viable option for customers who cannot avail mortgage loans or are unwilling to buy a house at present, demand for Aimco's premium rental properties are expected to rise in the coming quarters.

- Aimco is revamping its portfolio through property sales and reinvesting the proceeds in select apartment homes with projected free cash flow internal rates of return higher than expected from the communities being sold. Moreover, the company is reinvesting the proceeds in measures like capital enhancements, redevelopments and occasional developments. Through the moves, Aimco increased its average revenues per apartment home by 2% (year over year) to $2,254. The company's percentage of A, B and C+ home was 53%, 29% and 18%, respectively, in second-quarter 2020. Also, during the second quarter, Aimco invested $62 million in redevelopment and development activities. In July 2018, the company also completed its exit from the affordable housing line of business. Such efforts are expected to help the company enhance its overall portfolio quality and achieve a favorable mix for long-term growth.

- Aimco has been well on track to enhance its balance sheet and liquidity position, and bring down leverage. The company believes that completed redevelopments will contribute to earnings growth by increasing EBITDA and thereby, reduce leverage ratios. Moreover, to bolster liquidity in these uncertain times, it made moves in the second quarter to increase available credit by generating $371 million in incremental new property loan proceeds and a $350-million bank term loan. As of Jun 30, 2020, Aimco's total liquidity of $1.2 billion consisted of cash and restricted cash of $428 million as well as a borrowing capacity of $793 million under its revolving credit facility. It also eliminated any loan maturities for the ongoing year. Hence, using nonrecourse, property level financing provides the company with ample financial flexibility and sufficient funds to meet its near-term capital needs. Moreover, it maintains an investment grade rating of BBB-, with stable outlook from both Standard and Poor's as well as Fitch Ratings.

Last Earnings Report

Aimco's Q2 FFO Surpasses, Revenues Miss Estimates

Quarter Ending	06/2020
Report Date	Aug 03, 2020
Sales Surprise	-0.45%
EPS Surprise	3.28%
Quarterly EPS	0.63
Annual EPS (TTM)	2.59

Aimco reported second-quarter 2020 pro-forma FFO of 63 cents per share, surpassing the Zacks Consensus Estimate of 61 cents. Also, the figure improved 5% from the year-ago quarter's 60 cents.

Quarterly results reflected higher residential rent and substantial rent collections. However, declining occupancy and same-store revenues remain headwinds.

Notably, rental and other property revenues of $218.8 million in the reported quarter missed the Zacks Consensus Estimate of $219.8 million. Further, the revenue figure comes in 2.4% lower than the prior-year quarter's $224.2 million.

As of Jul 31, the company collected 97.2% of its total second-quarter residential rents. Moreover, as of the same date, residential rent collection for July totaled 95.8%.

Quarter in Detail

Same-store revenues (before utility reimbursements) slid 1.1% year over year to $180.8 million, while expenses (net of utility reimbursements) edged down 0.4% to $48.7 million. Consequently, same-store NOI declined 1.4% year over year to $132.1 million.

Same-store average daily occupancy declined 140 basis points (bps) year over year to 95.5%. Rental rates on new leases decreased 4.7%, whereas renewal rental rates dropped 0.1% year over year.

Portfolio Activity

Aimco invested $62 million in five redevelopment and development activities during the June-end quarter. These five apartment communities under development or redevelopment have an estimated remaining cost of completion of around $151 million. Aimco also leased 59 redeveloped or newly-developed apartment homes.

In addition, it is revamping its portfolio through property sales, and reinvesting the proceeds in select apartment homes with higher rents, superior margins and higher-than-anticipated growth.

Through the moves, Aimco increased its average revenues per apartment home by 2% year over year to $2,254. However, NOI margin declined to 71% from the year-ago quarter's 72%. The company's percentage of A, B and C+ home was 53%, 29% and 18%, respectively, in second-quarter 2020.

During the reported quarter, the company sold an apartment community located in Annandale, VA, for $59 million. Net proceeds from the sale were $37 million.

Liquidity

As of Jun 30, 2020, Aimco's total liquidity of $1.2 billion consisted of cash and restricted cash of $428 million, as well as a borrowing capacity of $793 million under its revolving credit facility.

Further, the company made efforts to increase available credit by placing $609 million of new property loans (generating incremental proceeds of $371 million). In addition, it closed the refinancing of another $80 million in July. With this, Aimco has now eliminated loan maturities for 2020 and will have average annual maturities of $262 million between 2021 and 2024.

In the June-end quarter, the company secured a $350-million bank term loan and used proceeds to repay amounts outstanding on its revolving credit facility.

Recent News

Dividend Update

On Jul 28, the company announced a quarterly cash dividend of 41 cents per common share, sequentially flat and up 5% year over year. The dividend will be paid out on Aug 28 to shareholders of record as of Aug 14, 2020.

Valuation

Aimco's shares have been down 27% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector declined 16.9% and 10% over the past year, respectively.

The S&P 500 Index has been up 14.6% over the trailing 12-month period.

The stock is currently trading at 14.69X forward 12-month FFO, which compares with the 17.78X for the Zacks sub-industry, 16.28X for the Zacks sector and 22.58X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.32X and as low as 9.39X, with a 5-year median of 17.55X. Our underperform recommendation indicates that the stock will perform worse than the market. Our $31 price target reflects 12.46X FFO.

The table below shows summary valuation data for AIV.

Valuation Multiples - AIV

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.69	17.78	16.28	22.58
	5-Year High	21.32	22.36	16.28	22.58
	5-Year Low	9.39	15.54	11.59	15.25
	5-Year Median	17.55	18.55	14.21	17.55
P/S F12M	Current	6.16	9.33	6.05	3.60
	5-Year High	8.99	12.16	6.66	3.60
	5-Year Low	4.10	7.58	4.97	2.53
	5-Year Median	6.91	9.28	6.06	3.04
P/B TTM	Current	3.03	2.42	2.39	4.50
	5-Year High	5.42	3.30	2.91	4.56
	5-Year Low	2.02	1.82	1.72	2.83
	5-Year Median	4.04	2.42	2.53	3.72

As of 08/04/2020

Industry Analysis **Zacks Industry Rank:** Bottom 11% (226 out of 254)

Top Peers

Company (Ticker)	Rec	Rank
Equity Residential **(EQR)**	Neutral	4
Essex Property Trust, Inc. **(ESS)**	Neutral	3
MidAmerica Apartment Communities, Inc. **(MAA)**	Neutral	4
United Dominion Realty Trust, Inc. **(UDR)**	Neutral	4
AvalonBay Communities, Inc. **(AVB)**	Underperform	4
Camden Property Trust **(CPT)**	Underperform	4
Investors Real Estate Trust **(IRET)**	Underperform	4
NexPoint Residential Trust, Inc. **(NXRT)**	Underperform	3

Industry Comparison Industry: Reit And Equity Trust - Residential

Industry Peers

	AIV	X Industry	S&P 500	AVB	EQR	UDR
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	4	4	4
VGM Score	C	-	-	D	C	C
Market Cap	5.44 B	1.23 B	22.75 B	21.35 B	19.90 B	10.38 B
# of Analysts	7	4	14	7	11	10
Dividend Yield	4.49%	4.14%	1.76%	4.19%	4.51%	4.09%
Value Score	D	-	-	D	D	C
Cash/Price	0.06	0.03	0.07	0.02	0.01	0.06
EV/EBITDA	9.40	16.75	13.09	19.10	12.64	16.52
PEG Ratio	2.77	4.18	2.95	6.48	3.94	3.38
Price/Book (P/B)	3.07	1.80	3.16	1.96	1.84	3.08
Price/Cash Flow (P/CF)	6.31	13.44	12.32	14.30	10.69	14.88
P/E (F1)	14.68	16.42	21.81	16.72	15.98	16.89
Price/Sales (P/S)	6.02	6.02	2.46	9.05	7.36	8.45
Earnings Yield	6.81%	6.09%	4.40%	5.98%	6.25%	5.91%
Debt/Equity	2.77	0.99	0.76	0.70	0.78	1.41
Cash Flow ($/share)	5.79	2.46	6.94	10.61	5.00	2.36
Growth Score	C	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	2.84%	3.03%	10.46%	3.84%	1.29%	5.46%
Proj. EPS Growth (F1/F0)	-0.52%	-2.46%	-7.16%	-2.86%	-4.17%	0.14%
Curr. Cash Flow Growth	-18.15%	7.20%	5.47%	-9.39%	23.84%	8.47%
Hist. Cash Flow Growth (3-5 yrs)	18.87%	15.38%	8.55%	6.67%	5.74%	5.98%
Current Ratio	1.25	1.46	1.32	2.72	1.06	4.08
Debt/Capital	73.87%	47.18%	44.36%	41.25%	44.70%	62.12%
Net Margin	20.09%	13.64%	10.25%	33.32%	41.64%	15.31%
Return on Equity	10.05%	4.71%	14.67%	7.21%	10.62%	5.63%
Sales/Assets	0.13	0.12	0.51	0.12	0.13	0.13
Proj. Sales Growth (F1/F0)	-4.15%	2.15%	-1.71%	5.93%	-2.79%	9.62%
Momentum Score	A	-	-	B	B	D
Daily Price Chg	-2.19%	1.18%	0.42%	1.18%	2.16%	0.17%
1 Week Price Chg	8.89%	3.09%	0.14%	4.27%	-1.31%	2.00%
4 Week Price Chg	-3.82%	2.76%	4.97%	-1.95%	-7.17%	-4.66%
12 Week Price Chg	3.25%	12.75%	15.30%	0.13%	-11.06%	-2.63%
52 Week Price Chg	-26.97%	-23.24%	2.34%	-25.30%	-32.45%	-24.07%
20 Day Average Volume	1,216,817	448,266	2,082,836	990,733	2,619,432	1,636,415
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.14%	-0.10%
(F1) EPS Est 4 week change	-0.91%	0.00%	0.93%	0.70%	-0.08%	-0.10%
(F1) EPS Est 12 week change	-5.28%	-2.83%	0.78%	-2.83%	-4.39%	-2.11%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.17%	-0.98%	1.11%	-0.05%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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