

Apartment Investment (AIV)

\$47.19 (As of 03/09/20)

Price Target (6-12 Months): **\$50.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/02/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: F

Summary

Apartment Investment and Management Company or Aimco has a well-diversified portfolio of residential properties in key markets that is likely to benefit from favorable demographics, household formation trends and a healthy job market. Efforts to improve portfolio quality and investments in valuable properties also bode well for long-term growth. The company posted year-over-year growth in fourth-quarter 2019 pro forma funds from operations (FFO) per share. This was driven by decent growth in same-store property net operating income (NOI), higher occupancy and increase in rents. However, elevated levels of apartment deliveries might adversely impact the company, affecting occupancy and rent growth. Further, the earnings dilutive impact of divestitures cannot be avoided in the near term. Its shares have underperformed the industry over the past year.

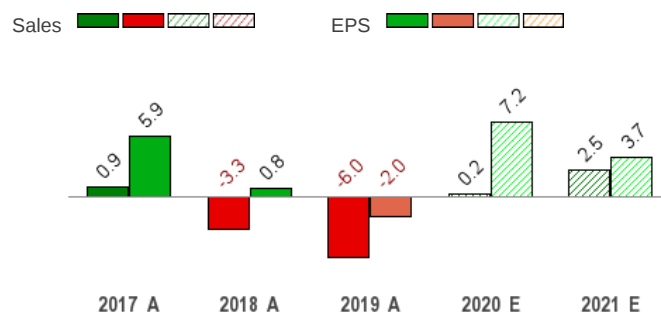
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$55.68 - \$46.31
20 Day Average Volume (sh)	1,404,750
Market Cap	\$7.0 B
YTD Price Change	-8.6%
Beta	0.63
Dividend / Div Yld	\$1.64 / 3.5%
Industry	REIT and Equity Trust - Residential
Zacks Industry Rank	Top 38% (95 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	05/07/2020
Earnings ESP	0.3%
P/E TTM	18.9
P/E F1	17.6
PEG F1	3.3
P/S TTM	7.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	242 E	243 E	246 E	247 E	939 E
2020	229 E	229 E	230 E	231 E	916 E
2019	230 A	224 A	230 A	230 A	914 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.68 E	\$0.69 E	\$0.71 E	\$0.72 E	\$2.78 E
2020	\$0.65 E	\$0.65 E	\$0.67 E	\$0.67 E	\$2.68 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 03/09/2020. The reports text is as of 03/10/2020.

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.

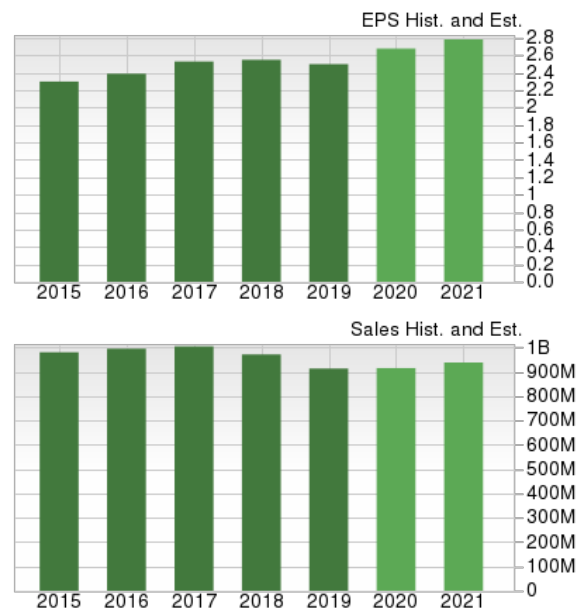
Aimco's portfolio of market rate apartment communities is diversified by both geography and price point. As of Dec 31, 2019, the company's portfolio comprised ownership interest in 124 apartment communities with 32,839 apartment homes in 17 states and the District of Columbia.

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 Dec 31, 2019, the Same-Store segment consisted of 91 consolidated apartment communities, while the Redevelopment and Development segment included seven consolidated apartment communities. Furthermore, the Acquisition segment included seven consolidated apartment communities and the Other Real Estate segment, 15 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.



Reasons To Buy:

- ▲ Aimco has a sturdy portfolio diversified both in terms of geography and price point, and situated in some key markets in the United States. This helps in diversifying the company's exposure to economic downturns and to competitive new building supply.
- ▲ 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 continue 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 these moves, Aimco increased its average revenues per apartment home by 7% to \$2,272. The company's percentage of A, B and C+ home was 54%, 29% and 17%, respectively, in fourth-quarter 2019. Also, during the fourth quarter, Aimco invested \$58 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. Further, the company believes that completed redevelopments will contribute to earnings growth by increasing EBITDA and thereby reduce leverage ratios. Moreover, the company is aimed at boosting its financial flexibility by increasing its pool of unencumbered apartment assets. As of Dec 31, 2019, the estimated fair market value of the company's unencumbered apartment communities was around \$2.4 billion. Furthermore, at the end of the fourth quarter, Aimco had borrowing capacity of \$518 million under its revolving credit facility, after consideration of \$7 million of letters of credit backed by the facility.
- ▲ Over the past year, shares of Aimco have declined 5.3% against the industry's growth of 13.6%. Nonetheless, the trend in estimate revisions for 2020 FFO per share indicates an upbeat outlook for the company as estimates have been revised marginally upward over the past month. Therefore, given the improvement in fundamentals and positive estimate revisions, the stock has a decent upside potential.

Aimco's portfolio diversified in terms of geography and price point, revamping efforts through sales and reinvesting in select apartment homes and decent balance sheet are positives.

Reasons To Sell:

- ▼ Apartment deliveries are expected to remain elevated in a number of the company's markets in the near term.. 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.
- ▼ 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 and anticipates property dispositions to range between \$900 million and \$1,000 million for 2020. Although, Aimco's effort to sell non-core assets and buy property in higher-growth submarkets is 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.
- ▼ Although interest-rate levels are low, presently, any hike in future will likely be a challenge for the company. Essentially, rising rates imply higher borrowing cost for the company, which would affect its ability to purchase or develop real estate and lower dividend payouts as well. In addition, the dividend payout itself might become less attractive than the yields on fixed income and money market accounts.

Completion of a number of projects in Aimco's markets, leading to higher supply, is likely to impact rent growth. In addition, earnings-dilutive impacts of divestiture add to its woes.

Last Earnings Report

Aimco Meets FFO Estimates in Q4, Issues '20 Outlook

Aimco reported fourth-quarter 2019 pro forma FFO of 65 cents per share, meeting the Zacks Consensus Estimate. Also, the figure improved 5% from the year-ago quarter tally of 62 cents.

Quarterly results benefited from decent growth in same-store property NOI, higher occupancy and increase in rents.

Notably, total revenues of \$230.03 million in the reported quarter missed the Zacks Consensus Estimate of \$230.53 million. Further, the revenue figure came in 0.8% lower than the prior-year quarter's reported tally.

For full-year 2019, the FFO per share came in at \$2.5, in line with the Zacks Consensus Estimate and 2% higher than the prior-year tally of \$2.45. However, total revenues witnessed a 6% decline, year over year, to \$914.3 million.

Quarter in Detail

Same-store revenues (before utility reimbursements) increased 3.3% year over year to \$174.8 million, while expenses (net of utility reimbursements) flared up 4.4% to \$44 million. Consequently, same-store NOI climbed 2.9% year over year to \$130.8 million.

Same-store average daily occupancy expanded 40 basis points (bps) year over year to 97.4%. Rental rates on new leases inched up 0.7%, whereas renewal rental rates increased 5%.

As of Dec 31, 2019, Aimco had cash and restricted cash of \$177 million. Moreover, the estimated fair market value of the company's unencumbered apartment communities was around \$2.4 billion.

Furthermore, at the end of the fourth quarter, Aimco had borrowing capacity of \$518 million under its revolving credit facility, after consideration of \$7 million of letters of credit backed by the facility.

Portfolio Activity

During the October-December period, Aimco disposed four apartment communities consisting of 991 apartment homes. Net proceeds of \$201 million were generated from these sales.

During the reported quarter, Aimco invested \$58 million in redevelopment and development activities. In addition, the company 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 these moves, Aimco increased its average revenues per apartment home by 7% to \$2,272. However, NOI margin improved to 74% from the year-ago quarter's 73%. The company's percentage of A, B and C+ home was 54%, 29% and 17%, respectively, in fourth-quarter 2019.

Guidance

For full-year 2020, the company has provided pro forma FFO per share guidance of \$2.62-\$2.72.

The company's full-year projections are backed by assumptions of same-store revenue growth of 3-3.8% and same-store expense growth of 1.6-2.4%, resulting in same-store NOI improvement of 3.2-4.6%.

For first-quarter 2020, Aimco has issued pro forma FFO per share guidance of 64-68 cents.

Quarter Ending 12/2019

Report Date	Jan 30, 2020
Sales Surprise	-0.22%
EPS Surprise	0.00%
Quarterly EPS	0.65
Annual EPS (TTM)	2.50

Recent News

Aimco's Latest Transactions to Be Accretive to 2020 FFO – Dec 2, 2019

Aimco announced two transactions related to the partnership which owns Parkmerced Apartments — a 3,221-apartment home community positioned on a 152-acre site in southwest San Francisco. The move is expected to boost full-year 2020 FFO projections.

The Transactions

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.

Notably, the partnership is led by Maximus Real Estate Partners, established in 2012 and run by its founder Rob Rosania.

Furthermore, Aimco has acquired a 10-year option to buy a 30% stake in the partnership and thus, participate in its substantial development pipeline. The exercise price is \$1 million. Notably, besides owning a rent-control portfolio of 3,221 apartment homes, the partnership also has the vested right to develop 4,093 new market-rate apartment homes. Therefore, the option offers Aimco a risk-adjusted scope to take part in the significant value creation anticipated from the partnership's vested rights for development.

Aimco met the funding needs for the loan through borrowing on its bank line and expects to repay by second-quarter 2020. Therefore, because of increase in bank borrowings, the company expects debt and preferred equity to EBITDA to be 7.2x at the end of 2019, before dropping to 6.5x by the end of 2020. The repayment is to be made from the \$275 million, in proceeds from sales of apartment communities in California, to make the transaction "leverage neutral."

The Impact

The loan, after taking into account the funding costs, is projected to boost the full-year 2020 FFO and adjusted FFO per share by 6 cents to \$2.65-\$2.69 and \$2.37-\$2.41, respectively. This indicates increase of 6-8% and 8-10%, respectively, versus 2019.

In Conclusion

The latest move is a strategic fit for Aimco, as besides benefiting from the current income from the loan, the company has scope to participate in the substantial development pipeline in a thriving market. Notably, the San Francisco market has highly-educated tech- and finance-heavy workforce.

The workforce earns a median income of \$130,000 per year, ranking #2 out of the top 50 U.S. markets. Moreover, over the last 20 years, multi-family rents have increased at a 4.12% CAGR, #5 in the nation, while median home price is \$1.1 million, ranking #1 in the nation, with a home price-to-income ratio of 8.5x. These indicate the prospects for solid demand for residential properties in the market.

Dividend Update

On Jan 29, Aimco announced cash dividend of 41 cents per share on its common stock for fourth-quarter 2019. This represented a sequential increase of 5%. The dividend was paid on Feb 28, to shareholders on record as of Feb 14, 2020.

Valuation

Aimco's shares have been down 5.3% over the trailing 12-month period. Stocks in the Zacks sub-industry gained 13.6% while the Zacks Finance sector declined 5.2% in the past year, respectively.

The S&P 500 index is up 5.6% in the past year.

The stock is currently trading at 17.53X forward 12-month FFO, which compares to 21.06X for the Zacks sub-industry, 12.97X for the Zacks sector and 17.01X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.32X and as low as 14.70X, with a 5-year median of 17.58X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$50 price target reflects 18.57X FFO.

The table below shows summary valuation data for AIV.

Valuation Multiples - AIV					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.53	21.06	12.97	17.01
	5-Year High	21.32	22.36	16.21	19.34
	5-Year Low	14.7	16.32	12.01	15.18
	5-Year Median	17.58	18.67	13.97	17.42
P/S F12M	Current	7.64	11.5	5.99	3.14
	5-Year High	8.99	12.16	6.64	3.44
	5-Year Low	5.54	7.42	5.39	2.54
	5-Year Median	6.91	9.25	6.04	3.01
P/B TTM	Current	3.78	3.05	2.46	3.99
	5-Year High	5.42	3.28	2.89	4.56
	5-Year Low	3.18	2.09	1.83	2.85
	5-Year Median	4.04	2.41	2.52	3.63

As of 03/09/2020

Industry Analysis Zacks Industry Rank: Top 38% (95 out of 253)



Top Peers

AvalonBay Communities, Inc. (AVB)	Neutral
Camden Property Trust (CPT)	Neutral
Equity Residential (EQR)	Neutral
Essex Property Trust, Inc. (ESS)	Neutral
Investors Real Estate Trust (IRET)	Neutral
Mid-America Apartment Communities, Inc. (MAA)	Neutral
NexPoint Residential Trust, Inc. (NXRT)	Neutral
United Dominion Realty Trust, Inc. (UDR)	Neutral

Industry Comparison Industry: Reit And Equity Trust - Residential				Industry Peers		
	AIV Neutral	X Industry	S&P 500	AVB Neutral	EQR Neutral	UDR Neutral
VGM Score	F	-	-	F	C	C
Market Cap	7.03 B	1.48 B	19.13 B	27.73 B	27.70 B	13.43 B
# of Analysts	8	4.5	13	11	11	11
Dividend Yield	3.48%	3.30%	2.26%	3.08%	3.05%	3.01%
Value Score	D	-	-	F	F	F
Cash/Price	0.02	0.02	0.05	0.00	0.00	0.04
EV/EBITDA	10.70	16.89	11.99	23.43	16.48	19.91
PEG Ratio	3.41	3.38	1.68	3.75	3.61	4.44
Price/Book (P/B)	3.78	1.92	2.64	2.51	2.63	4.00
Price/Cash Flow (P/CF)	8.15	12.20	10.70	18.58	14.89	19.28
P/E (F1)	18.02	17.10	15.44	20.10	20.53	20.66
Price/Sales (P/S)	7.69	7.30	2.05	12.50	10.26	11.66
Earnings Yield	5.68%	5.85%	6.47%	4.98%	4.87%	4.85%
Debt/Equity	2.42	0.96	0.70	0.68	0.86	1.41
Cash Flow (\$/share)	5.79	2.78	7.01	10.61	5.00	2.36
Growth Score	F	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	3.28%	3.82%	10.85%	4.05%	0.29%	5.67%
Proj. EPS Growth (F1/F0)	7.15%	5.72%	6.25%	5.02%	3.93%	6.08%
Curr. Cash Flow Growth	-18.15%	15.08%	6.09%	-9.39%	23.84%	8.47%
Hist. Cash Flow Growth (3-5 yrs)	18.87%	17.18%	8.52%	6.67%	5.74%	5.98%
Current Ratio	0.49	0.92	1.24	0.40	0.28	4.71
Debt/Capital	71.23%	47.56%	42.57%	40.37%	47.40%	58.14%
Net Margin	51.85%	13.61%	11.69%	35.42%	35.93%	16.08%
Return on Equity	25.88%	5.74%	16.74%	7.26%	9.36%	5.81%
Sales/Assets	0.14	0.12	0.54	0.12	0.13	0.13
Proj. Sales Growth (F1/F0)	0.21%	5.53%	3.76%	10.21%	2.82%	9.86%
Momentum Score	F	-	-	D	B	C
Daily Price Chg	-5.26%	-7.08%	-7.65%	-5.69%	-4.08%	-5.65%
1 Week Price Chg	4.12%	4.12%	-0.67%	4.22%	3.38%	7.40%
4 Week Price Chg	-12.51%	-12.33%	-19.26%	-11.09%	-12.33%	-7.73%
12 Week Price Chg	-8.14%	-8.14%	-17.26%	-5.83%	-8.63%	-1.60%
52 Week Price Chg	-5.30%	2.14%	-6.83%	-0.14%	0.04%	1.54%
20 Day Average Volume	1,404,750	672,972	2,684,709	864,306	1,694,108	2,178,924
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.04%	-0.06%
(F1) EPS Est 4 week change	0.38%	0.00%	-0.06%	-0.03%	0.04%	-0.32%
(F1) EPS Est 12 week change	1.29%	-0.45%	-0.46%	-0.26%	0.34%	-0.41%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.40%	0.36%	-0.04%	-0.45%

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	F
Momentum Score	F
VGM Score	F

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.

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