Mossberg's Investor Digest

Best Idea Profile: **FelCor Lodging Trust (NYSE:FCH)**

DESCRIPTION:

Felcor Lodging Trust is a real estate investment trust with 90% of its portfolio consisting of upper-upscale luxury hotels in major urban and resort markets. The properties have 18,000 rooms in the U.S. Embassy Suites represent 32% of revenue and the Wyndham portfolio is 20%. Eight major urban markets make up two-thirds of the revenues, including New York, San Francisco, Boston, Los Angeles, and Miami. The REIT was founded in 1994 and is based in Irving, Texas.

KEY INVESTMENT CONSIDERATIONS:

Industry Strengthening – The supply/demand profile for the domestic hotel sector is very favorable for owners with attractive properties. Hotel construction declined rapidly during the recent financial crisis, resulting in not enough supply to satisfy either the leisure or quickly recovering business travel. Industry experts expect this disparity to continue for the next few years, which should drive revenues per room upward. FelCor has the highest exposure to the markets identified by industry experts as the most likely to outperform the U.S. industry average revenue per available room.

Transformation of Asset Profile – FelCor Lodging Trust suffered significantly when the recession hit, even to the point of near extinction. It is now half-way through a transformation of its assets. It is selling 70% of its hotels in suburban markets and 50% of airport hotels. The assets it is keeping—premium hotels in major markets, upscale resorts and hotels in high-traffic airports—are of significantly higher quality and in better markets with little growth of the supply. So far FelCor has sold 19 of the 39 hotels it has targeted, generating gross proceeds of $429 million. Of the 11 hotels that FelCor put up for sale this year, it has sold two in the last two months, one is under hard contract, and two more are under contracts that are expected to firm quickly. The positive financing environment should continue to aid FelCor's sales process. FelCor has also renovated much of the portfolio: Holiday Inns were upscaled to Wyndham hotels and the historic Knickerbocker Hotel in New York is being redeveloped as a 4+ star hotel and is on schedule to open in early 2014. Therefore, renovation expenses for FelCor are mostly completed.

Debt Profile Continuing to Improve – FelCor is using its asset sale proceeds to reduce debt and renovate. It has decreased interest expense $45 million since 2010 and expects a total $70 million reduction by 2015. Interest coverage is expected to double (3.2x) from 2012 to 2015. FelCor reduced average borrowing costs by 100 basis points in 2012 and expects to lower them by 80 additional basis points. This strong balance sheet, post asset sales, provides critical flexibility to seize strategic opportunities.

Reinstatement of Dividend Expected – FelCor expects to provide "a meaningful common dividend" by improving operations and generating cash through asset sales. It is possible this dividend could be instituted once the company retires its 2014 debt.

Competitive Advantage– FelCor's core portfolio is better located relative to its peers. It has good exposure to favorable markets and, if evaluating only its remaining core assets, FelCor has outperformed its competitors over the last five years.

Expanding Investor Outreach – Management stated that enhanced investor relations are one of its five areas of focus. It just completed an extensive investor tour that encompassed meeting with 75 investors.

VALUATION:

The REIT is under the radar of many investors because of dismal operating performance through the recession, suspension of the dividend and a low investor profile.

FelCor Lodging Trust (NYSE:FCH)
Investment Data (as of 8/8/13)

Recent Price	**$5.95**
52-Week Range	$3.90 - $6.47
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	124 M
Average Trading Volume (3 mos)	831 k
Market Capitalization	$739 M
Cash	$66 M
Long-term Debt	$1.7 B
Enterprise Value (EV)	$2.9 B
Book Value	$(1.19)
TTM Revenue	$933 M
P/ Revenue	0.8 x
TTM EPS	$(1.58)
P/ EPS	NA
TTM EBITDA	$169 M
EV/ EBITDA	17.0 x