



ALERT for TFSA and RRSP Investors: Value Stock on Sale

Description

Temple Hotels (TSX:TPH) is a [real estate investment company](#) with hotel properties located across Canada. The portfolio of Temple Hotels consists of 28 hotel properties, representing almost 3,800 rooms and a participating 50% interest in two additional hotels, comprising 299 rooms. Temple Hotels is the largest hotel owner in Fort McMurray, Alberta, with a portfolio of over 800 rooms in eight properties.

The primary long-term investment objectives of Temple Hotels are to yield [stable and growing cash flows](#) and to maximize the long-term share value of the company through the active management of company assets. The company also engages in value-added acquisitions and pursues capital-improvement programs on selected properties when opportunities arise.

The company's first hotel property, the Temple Gardens Mineral Spa was purchased in October 2006. Temple Gardens Mineral Spa is a 181 room, full-service hotel and spa complex, which is located in Moose Jaw, Saskatchewan and is connected to the Casino Moose Jaw.

The company has a price-to-book ratio of 4.53 and market capitalization of \$133 million. Debt is very high at Temple Hotels, as evidenced by a debt-to-equity ratio of 13.13. The company has average performance metrics with an operating margin of 8.04%.

In the most recent quarter, the company's revenue decreased \$4.1 million, or 9% on a year-to-year basis, due to a decrease in revenue in the Alberta portfolio. Hotel operating income decreased by \$3 million, or 21% on a year-to-year basis. A non-cash provision for impairment of \$20.6 million was recorded to reflect the impact of economic conditions on the carrying value of Temple's hotel properties, predominantly in Fort McMurray, Alberta.

Funds from operations decreased by \$1.5 million, or \$0.21 per common share, last quarter. The increase in the weighted average number of common shares outstanding contributed to the decrease on a per-common-share basis.

In the third quarter, the company refinanced two mortgage loans and fully repaid a third mortgage loan. The two loans are not subject to financial covenant tests until late 2021, and the interest rate was

reduced from 8.95% to 4.50%.

This transaction greatly strengthened the company. As a condition of refinancing, the company fully repaid the maturing balance of \$15.8 million secured against one property located in Fort McMurray and paid down an aggregate of \$5 million on the two refinanced loans.

In October 2019, the company also refinanced a mortgage on a hotel property located in Fort McMurray with the incumbent lender for one year at an interest rate of just 4.66%. As a condition or refinancing, the company paid down \$14 million of the matured amount.

As a result of these initiatives, the company's total debt was \$381.8 million — a decrease of \$75.6 million compared to \$457.5 million at the end of last year.

The investment thesis lies in the fair value of hotels owned by the company being much greater than the company's stock price. The company has significantly de-risked over the past year and reduced debt to a far more manageable amount. Once the Fort McMurray economy improves, long-term shareholders of Temple Hotels can expect to do well.

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