

Host Hotels & Resorts (HST)

\$14.45 (As of 06/09/20)

Price Target (6-12 Months): **\$16.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/01/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

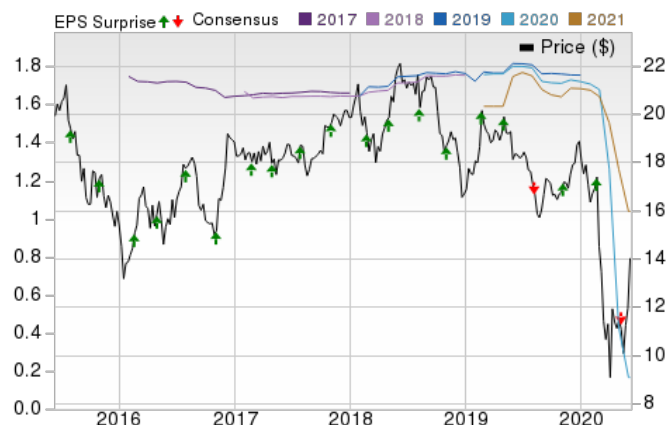
Growth: D

Momentum: F

Summary

Host Hotels is making efforts to boost liquidity through the use of revolver balance, reductions in hotel level expenses, capital-expenditure delays, temporary suspension of future dividends and stock repurchases. This positions the company well to withstand even a complete shutdown of the entire portfolio until the 2021 end. Also, its efforts to enhance its portfolio quality by recycling capital out of low RevPAR assets to the high RevPAR ones have enabled the company to enjoy a solid portfolio of upscale hotels. Nonetheless, the coronavirus outbreak and the related restrictions on travel are weakening the group, business and leisure travel demand. With 20 hotels likely to remain suspended as of Jun 30, Host Hotels expects a further decline in second-quarter results. Shares of the company have underperformed its industry over the past year.

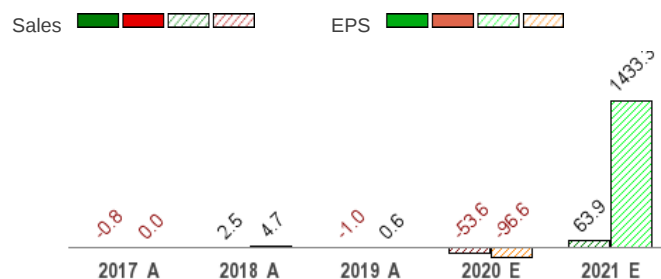
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$18.93 - \$7.86
20 Day Average Volume (sh)	14,976,901
Market Cap	\$10.2 B
YTD Price Change	-22.1%
Beta	1.27
Dividend / Div Yld	\$0.80 / 5.5%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 44% (141 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-14.8%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	-80.8%
Expected Report Date	08/04/2020
Earnings ESP	-16.9%
P/E TTM	9.5
P/E F1	240.8
PEG F1	48.2
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,032 E	1,128 E	1,030 E	1,147 E	4,159 E
2020	1,052 A	324 E	568 E	898 E	2,537 E
2019	1,390 A	1,483 A	1,262 A	1,334 A	5,469 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.26 E	\$0.32 E	\$0.21 E	\$0.29 E	\$0.92 E
2020	\$0.23 A	-\$0.25 E	-\$0.05 E	\$0.12 E	\$0.06 E
2019	\$0.48 A	\$0.53 A	\$0.35 A	\$0.41 A	\$1.78 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 06/09/2020. The reports text is as of 06/10/2020.

Overview

Bethesda, MD-based Host Hotels & Resorts Inc., one of the leading lodging real estate investment trusts (REITs), engages in the ownership, acquisition, and redevelopment of luxury and upper-upscale hotels in the United States and abroad.

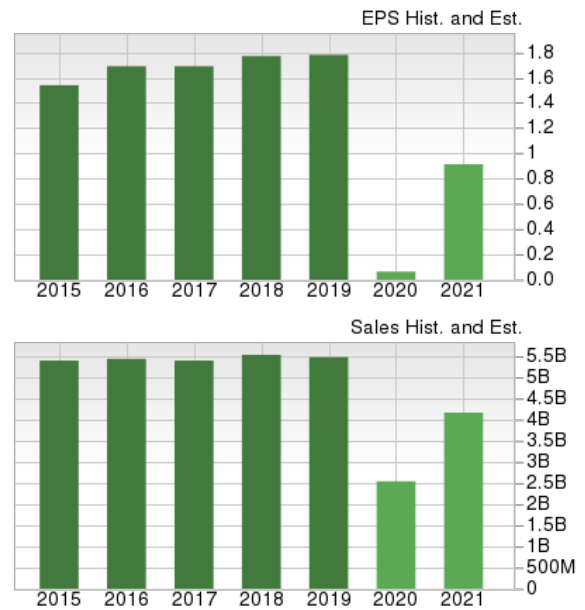
In operating its properties, positioned mainly in growing markets in the United States and globally, the company teams up with premium brands such as Marriott, Westin, Ritz-Carlton, Hyatt and Hilton. Moreover, in certain select submarkets, the company has several unbranded or soft-branded properties to lure distinctive customer profiles.

Host Hotels currently enjoys ownership of 75 U.S. and five international properties in Brazil and Canada — aggregating around 46,700 rooms.

Host Hotels primarily focuses on the following asset categories:

- **Resorts** in locations with strong airlift and limited supply growth. Operated by premier operators, such properties have superior amenities.
- **Convention destination hotels** in urban and resort markets. These properties are group oriented and have high-quality meeting facilities. Often, these assets are associated with prominent convention centers.
- **High-end urban hotels** positioned in key locations. Such assets have multiple demand drivers for both business and leisure travelers.

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:

- ▲ Host Hotels' properties are positioned across central business districts of main cities, close to airports and in resort/conference destinations that benefit from significant barriers-to-entry. Furthermore, the company's value-enhancement initiatives are likely to aid long-term growth in its revenue per available room (RevPAR). Moreover, amid social-distancing mandates, the company's large property sizes will enable its hotels to capture the budding demand. In fact, it is witnessing a recovery in leisure demand in specific drive-to markets and this is expected to continue improving. Moreover, as of Jun 1, 16 of the company's top 20 markets are in Phase 1 or higher stages of reopening.
- ▲ Host Hotels undertakes a strategic capital-recycling program to improve its portfolio quality and strengthen its position in the United States, where it has a greater scale and competitive advantage. Since 2018 through Jun 1, the company acquired high-quality properties worth \$1.6 billion, which have scope for long-term growth. Furthermore, the company has been making strategic non-core asset dispositions, aiming at lowering the company's international and New York exposure. With these proceeds, it has flexibility to add premium properties to its portfolio and invest in existing assets. Additionally, the company projects capital expenditure of \$450-\$525 million for the year. This includes \$290-\$340 million in return on investment (ROI) projects, and \$160-\$185 million in renewal and replacement projects. Such investments are likely to help the company improve its portfolio quality and bolster revenues.
- ▲ Host Hotels enjoys a large pool of unencumbered assets. In fact, as of Mar 31, 2020, 100% of its consolidated assets were unencumbered. With a high percentage of such assets, the company can enjoy accessibility to secured and unsecured debt markets, and maintain availability on the line. Moreover, currently Host Hotels is the only lodging REIT that has investment-grade credit rating. The company enjoys BBB-/BBB-/Baa2 credit rating from S&P Global, Fitch and Moody's. This will enable it to enjoy favorable cost of capital in future. Additionally, the company's debt maturity profile is well-laddered and it has no material debt maturities until 2023.
- ▲ Host Hotels also has a decent balance sheet and ample liquidity to withstand any market mayhem. The company exited the first quarter with cash balance of \$2.8 billion and FF&E escrow reserves of \$165 million. Moreover, during the quarter, it drew down the entire \$1.5-billion capacity on its revolver in a bid to boost the cash position and preserve financial flexibility. Additional measures to improve liquidity include reductions in hotel level expenses, capital expenditure delays, temporary suspension of future dividends and stock repurchases. Further, with \$2.6 billion of cash position as of May 31, the company has sufficient liquidity to withstand a complete shutdown of its entire portfolio until 2021 end. Therefore, the financial flexibility provides it ample scope for deploying capital for long-term growth opportunities and at the same time, carrying out redevelopment initiatives.

With a solid portfolio of upscale hotels across lucrative markets, Host Hotels will likely witness RevPAR growth. Also, strategic capital-recycling program and share buyback activities augur well.

Reasons To Sell:

- ▼ The rampant coronavirus outbreak is weakening travel demand and has compelled the company to withdraw its 2020 guidance. The COVID-19-outbreak related restrictions on travel resulted in a sharp decline in group, business and leisure travel. Moreover, delays or cancellation of conventions and conferences and other large public gatherings, which are typically demand drivers at the company's hotels, resulted in 24.3% and 21% declines in first-quarter revenues and total RevPAR. Additionally, since restrictions on travel were primarily implemented in mid-March, the company expects adverse impact to continue in the second quarter. In fact, it anticipates 20 hotels, representing 22% of room count to remain suspended as of Jun 30, 2020.
- ▼ Majority of Host Hotels' properties are concentrated in the luxury and upper-upscale segments. However, during economic downturn, these segments bear the brunt as unfavorable macroeconomic conditions compel customers to reduce discretionary spending and choose lower-priced brands over the company's premium ones. Also, the hotel industry is cyclical in nature and heavily dependent on the overall health of economies in which it operates. Therefore, in case of an economic slowdown like that of present times, though the company's revenues are immediately affected, many of the expense categories associated with owning and operating hotels, such as debt-service payments, property taxes, insurance, utilities and employee wages and benefits, remain relatively inflexible.
- ▼ Host Hotels is making efforts to enhance its portfolio quality through strategic dispositions of properties, aiming at lowering its international and New York exposure. Since 2018 through Jun 1, the company completed \$3.3 billion in low-RevPAR and high-capex asset sales. While the proceeds, offer the company the flexibility to add properties to its portfolio, invest in existing assets or go for share repurchases, the company cannot bypass the near-term dilutive impact from asset dispositions.
- ▼ Shares of Host Hotels have underperformed its industry over the past year. The company's shares have plummeted 21.8% in the past year against the industry's growth of 0.6%. Additionally, the trend in estimate revisions of the current-year FFO per share does not indicate a favorable outlook for the company as it witnessed a 71% downward revision over the past month. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential.

Weakened travel demand due to the coronavirus outbreak is a major concern. Also, cyclical nature of the hotel industry and the dilutive impact of asset dispositions on earnings add to its woes.

Last Earnings Report

Host Hotels Misses Q1 FFO Estimates, Issues Update

Host Hotels reported first-quarter 2020 adjusted FFO per share of 23 cents, missing the Zacks Consensus Estimate of 27 cents. The reported figure also plummeted 52.1% from the year-ago tally of 48 cents.

The company generated total revenues of \$1.05 billion, surpassing the Zacks Consensus Estimate by 0.2%. The top line, however, declined 24.3% year over year.

Results reflect adverse impact of the coronavirus pandemic which has significantly hurt lodging demand, as governments started imposing travel restrictions and mandatory stay-at-home orders to curb the spread in the March-end quarter.

Behind the Headlines

During the first quarter, all owned hotel RevPAR (on a constant-dollar basis) fell 23.3% year on year to \$147.31. First-quarter EBITDA slumped 59.6% year over year to \$164 million.

During the quarter, transient room nights slipped 20% resulting in a revenue fall of 22%, underscoring the choppy business environment. Group room nights declined 25%, with a 25% decrease in revenues, for the quarter compared with the prior year. Notably, the company's transient business, group business and contract business had accounted for roughly 61%, 35%, and 4%, respectively, of its 2019 room sales.

Balance Sheet Position

Host Hotels exited the first quarter with cash balance of \$2.8 billion and FF&E escrow reserves of \$165 million. As of the same date, its debt balance amounted to \$5.3 billion. While the company has no significant maturities until 2023, its monthly interest expense is roughly \$13 million.

Further, following the first-quarter dividend payment in April and other payments, the company has an adjusted cash balance of \$2.5 billion.

Host Hotels repurchased 8.9 million shares at an average price of \$16.49 per share, aggregating \$147 million earlier in the quarter. The company has, however, suspended repurchases and anticipates the hold-up to remain in effect for the remaining of the year. Moreover, the company anticipates temporarily suspending or paying a nominal dividend until further notice.

Notably, Host Hotels' debt is rated investment grade by its three rating providers — the S&P, Moody's and Fitch. Nevertheless, on Mar 25, Moody's lowered the company's outlook from Stable to Negative but retained its Baa2 credit rating. On Mar 20, the S&P lowered Host Hotels' outlook from Stable to CreditWatch Negative but retained its BBB- credit rating. Apart from this, on Apr 3, Fitch too downgraded the company's credit rating from BBB to BBB-, while maintaining its stable outlook.

Capital Expenditures

During the January-March period, the company invested around \$131 million in capital expenditures. Of this, \$76 million were ROI capital projects spend, and \$55 million were renewal and replacement project expenditures.

Remarkably, for 2020, the company has now guided capital-expenditures spending of \$450-\$525 million, marking a \$100-\$125 million reduction from its prior range.

Key capital projects in those assets and markets that are expected to recover faster have been prioritized, like leisure and drive-to destinations, as well as the previously-announced major return on investment projects.

Business Update

The company noted that 1.5 million net group room nights for the year have been cancelled as of May 4, resulting in an estimated \$630 million in total cancelled group revenues. Of this roughly 62% is room revenues. Additionally, about 90% of the group room revenues lost was for the first half of the year.

The company had average occupancy of 29% in March and estimates April occupancy of around 12% amid mandatory quarantines in many states. There has been rebooking of almost 12% of current-year group revenues, which had been canceled as of May 4. Majority have been rescheduled for the second half of the year.

Moreover, Host Hotels anticipates to reduce corporate expenses by 10-15% compared with initial February forecast. This would be done through reduced travel, compensation and other overheads.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	0.19%
EPS Surprise	-14.81%
Quarterly EPS	0.23
Annual EPS (TTM)	1.52

Recent News

Coronavirus Crisis Forces Host Hotels to Discard 2020 Guidance - Mar 9, 2020

The rampant coronavirus outbreak is weakening travel demand and compelling Lodging REITs to withdraw their 2020 guidance. Host Hotels too withdrew its outlook for the ongoing year.

The REIT, which had earlier notified about bearing the brunt of this epidemic on its operations but shied away from withdrawing its full-year view, has now confirmed that as of Mar 9, the company's total revenues, net income and adjusted EBITDA are suffer damages of roughly \$97 million, \$48 million and \$48 million, respectively. This, however, excludes the collection of approximately \$16 million from cancellation fees.

Bulk of the adverse impact on total revenues is because of group business cancellations. Particularly, activities in California where coronavirus cases have been reported are affected mainly due to group business cancellations. In fact, California markets accounted for nearly 58% of the group business cancellations. However, offering some relief, management stated that year-to-date notifications of group business cancellations, due to the COVID-19 calamity, have not stretched beyond the first half of the year.

Dividend Update

On Feb 19, the company announced a regular quarterly cash dividend of 20 cents per share. The dividend was paid on Apr 15, to stockholders of record on Mar 31, 2020.

Valuation

Host Hotels' shares have plunged 21.8% over the trailing 12-month period. Stocks in the Zacks sub-industry have gained 0.6% against the Zacks Finance sector's decline of 5.4% in the past year.

The S&P 500 Index has risen 11.8% over the trailing 12-month period.

The stock is currently trading at 26.28X forward 12-month FFO, which compares with the 19.90X for the Zacks sub-industry, 17.75X for the Zacks sector and 23.18X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 27.19X and as low as 5.66X, with a 5-year median of 10.75X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$16 price target reflects 29.10X FFO.

The table below shows summary valuation data for HST.

Valuation Multiples - HST					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	26.28	19.90	18.09	23.35
	5-Year High	27.19	19.90	18.09	23.35
	5-Year Low	5.66	14.32	11.58	15.23
	5-Year Median	10.75	16.08	13.98	17.49
P/S F12M	Current	3.06	8.55	6.00	3.63
	5-Year High	3.15	8.55	6.65	3.63
	5-Year Low	1.28	5.91	4.95	2.53
	5-Year Median	2.45	6.89	6.06	3.02
P/B TTM	Current	1.47	2.49	2.54	4.41
	5-Year High	2.29	3.01	2.91	4.56
	5-Year Low	0.91	1.80	1.71	2.83
	5-Year Median	1.86	2.50	2.53	3.65

As of 06/09/2020

Industry Analysis Zacks Industry Rank: Bottom 44% (141 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Ashford Hospitality Trust Inc (AHT)	Neutral	4
Chatham Lodging Trust REIT (CLDT)	Neutral	3
Diamondrock Hospitality Company (DRH)	Neutral	3
Pebblebrook Hotel Trust (PEB)	Neutral	3
Park HotelsResorts Inc. (PK)	Neutral	4
Ryman Hospitality Properties, Inc. (RHP)	Neutral	3
RLJ Lodging Trust (RLJ)	Neutral	3
Sunstone Hotel Investors, Inc. (SHO)	Neutral	3

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	HST	X Industry	S&P 500	PEB	PK	RHP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	F	-	-	F	F	F
Market Cap	10.19 B	2.24 B	22.74 B	2.27 B	3.35 B	2.35 B
# of Analysts	9	4	14	6	5	3
Dividend Yield	5.54%	4.02%	1.81%	0.00%	12.67%	8.88%
Value Score	D	-	-	D	D	D
Cash/Price	0.28	0.06	0.06	0.35	0.44	0.31
EV/EBITDA	6.80	14.91	13.04	8.78	9.39	9.31
PEG Ratio	45.27	3.77	3.12	NA	NA	NA
Price/Book (P/B)	1.47	1.39	3.14	0.63	0.61	4.19
Price/Cash Flow (P/CF)	6.47	11.87	12.32	6.16	5.92	6.34
P/E (F1)	226.33	16.74	22.61	NA	253.75	NA
Price/Sales (P/S)	1.99	5.36	2.46	1.50	1.20	1.52
Earnings Yield	0.42%	5.75%	4.26%	-2.48%	0.42%	-3.62%
Debt/Equity	0.75	0.92	0.76	0.75	0.92	5.46
Cash Flow (\$/share)	2.23	2.03	7.01	2.81	2.40	6.75
Growth Score	D	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	2.38%	2.02%	10.87%	-0.69%	NA	7.45%
Proj. EPS Growth (F1/F0)	-96.38%	-2.81%	-10.76%	-116.41%	-98.06%	-122.64%
Curr. Cash Flow Growth	-21.39%	3.36%	5.48%	162.39%	-23.64%	-5.79%
Hist. Cash Flow Growth (3-5 yrs)	2.03%	12.74%	8.55%	20.82%	5.40%	8.35%
Current Ratio	12.76	1.83	1.29	1.40	5.41	3.13
Debt/Capital	43.21%	48.50%	44.75%	42.74%	47.87%	85.19%
Net Margin	14.25%	12.85%	10.54%	10.02%	-17.17%	4.52%
Return on Equity	9.95%	3.98%	16.08%	4.40%	-7.95%	14.32%
Sales/Assets	0.40	0.13	0.55	0.23	0.26	0.38
Proj. Sales Growth (F1/F0)	-53.60%	0.00%	-2.59%	-56.19%	-44.79%	-56.55%
Momentum Score	F	-	-	F	F	D
Daily Price Chg	-2.50%	-1.88%	-2.13%	-5.29%	-4.50%	-11.27%
1 Week Price Chg	17.34%	13.45%	7.51%	21.08%	33.06%	24.37%
4 Week Price Chg	47.00%	26.50%	16.33%	74.72%	94.93%	59.83%
12 Week Price Chg	43.50%	26.76%	28.71%	96.93%	132.57%	110.59%
52 Week Price Chg	-22.23%	-11.88%	1.59%	-39.51%	-48.65%	-46.59%
20 Day Average Volume	14,976,901	929,068	2,644,123	3,869,105	10,360,396	1,074,604
(F1) EPS Est 1 week change	-51.35%	0.00%	0.00%	-7.92%	-117.95%	0.00%
(F1) EPS Est 4 week change	-80.84%	0.00%	0.00%	-31.47%	-115.00%	-175.74%
(F1) EPS Est 12 week change	-95.16%	-5.44%	-15.96%	-119.47%	-102.81%	-122.67%
(Q1) EPS Est Mthly Chg	-836.67%	-0.27%	0.00%	-25.00%	-42.48%	-705.00%

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	D
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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