

Host Hotels & Resorts (HST)

\$16.91 (As of 02/17/20)

Price Target (6-12 Months): **\$18.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/29/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: D

Summary

Host Hotels' diversified portfolio of high-quality properties in key cities and a strong operating platform position it to perform well over the long term. Moreover, the company is actively refining its portfolio by reducing exposure in high capex assets and international markets, and simultaneously focusing on key U.S. markets. Also, it has a decent balance sheet and ample liquidity to support its growth endeavors. However, supply growth in its markets is affecting occupancy rates. In addition, amid weaker lodging demand, Host Hotels' overall revenue per available room (RevPAR) growth is likely to be muted in the near term. The company's shares have underperformed its industry over the past year. The trend in estimate revisions of the current-year funds from operations (FFO) per share does not indicate an upbeat outlook either.

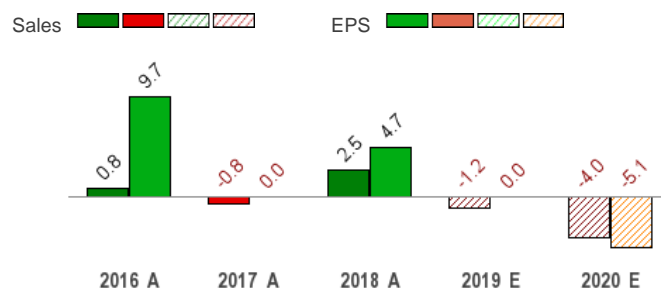
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$20.35 - \$15.51
20 Day Average Volume (sh)	7,243,108
Market Cap	\$12.1 B
YTD Price Change	-8.8%
Beta	1.17
Dividend / Div Yld	\$0.80 / 4.7%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 37% (160 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.9%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	-1.6%
Expected Report Date	02/19/2020
Earnings ESP	0.0%
P/E TTM	9.5
P/E F1	10.1
PEG F1	2.0
P/S TTM	2.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,330 E	1,406 E	1,226 E	1,300 E	5,239 E
2019	1,390 A	1,483 A	1,262 A	1,324 E	5,456 E
2018	1,346 A	1,518 A	1,299 A	1,361 A	5,524 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.44 E	\$0.50 E	\$0.33 E	\$0.38 E	\$1.68 E
2019	\$0.48 A	\$0.53 A	\$0.35 A	\$0.40 E	\$1.77 E
2018	\$0.43 A	\$0.54 A	\$0.37 A	\$0.43 A	\$1.77 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 02/17/2020. The reports text is as of 02/18/2020.

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.

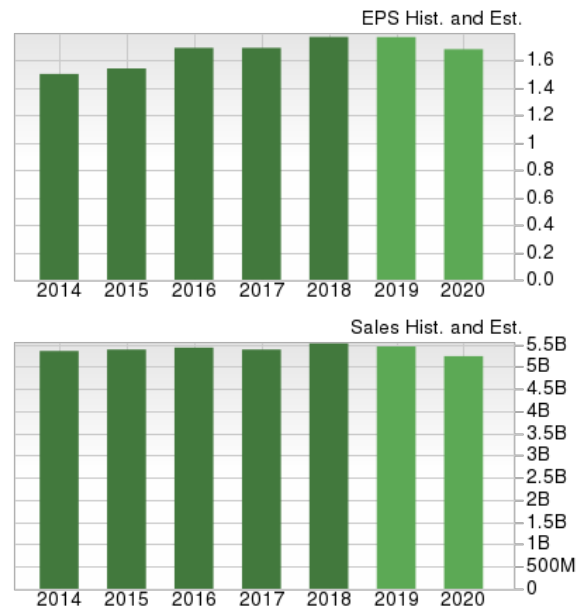
In operating its properties, positioned in more than 50 key markets globally, the company teams up with premium brands such as Marriott, Westin, Sheraton, Ritz-Carlton, Hyatt, W and St. Regis. Moreover, in certain select submarkets, the company has several unbranded or soft-branded properties to lure distinctive customer profiles.

Host Hotels currently enjoys ownership of 75 U.S. and five international properties — aggregating around 46,500 rooms. In addition, the company has non-controlling interest in six domestic and one international joint venture.

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 is likely to grow its RevPAR from its value-enhancement initiatives.
- ▲ 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, the company has 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, invest in existing assets or go for share repurchases. Additionally, Host Hotels projects capital expenditures of \$550-\$590 million for the year. This comprises \$315-\$335 million in return on investment (ROI) projects, and \$235-\$255 million in renewal and replacement projects. Such investments are likely to help the company improve its portfolio quality and bolster revenues.
- ▲ Host Hotels also has a decent balance sheet and ample liquidity. The company exited third-quarter 2019 with \$2 billion of unrestricted cash, not including \$1.5 billion of available balance under its credit facility's revolver and \$184 million in the FF&E escrow reserve. In addition, as of Sep 30, 2019, the company's debt had a weighted average maturity of 5.7 years. Also, the company has no significant debt maturities until 2023. Therefore, in addition to disposition proceeds, this provides the company ample scope for deploying capital for long-term growth opportunities and at the same time, carrying out redevelopment initiatives.
- ▲ Host Hotels' share buybacks and dividend hikes demonstrate its commitment to drive shareholder value and superior capital-deployment ability. The company initially announced a \$500-million share-repurchase program in February 2017. This authorization was enhanced with the most recent addition of \$500 million in August 2019, bringing the tally to \$1 billion. Under this program, the company repurchased 12.1 million shares of common stock totaling \$200 million in the third quarter. After taking into account the repurchase executed in the quarter, Host Hotels has \$600 million of capacity available under this repurchase program. Further, solid dividend payouts remain arguably the biggest attraction for REIT investors and this December, the company announced a special dividend of 5 cents per share. This was in addition to the fourth-quarter cash dividend of 20 cents per share, reaching the total dividend figure for the year to 85 cents. Given the company's financial position and lower debt-to-equity ratio compared to that of the industry, this dividend payout is expected to be sustainable. Such measures encourage shareholders' confidence on the stock.

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:

- ▼ Though supply growth has been tepid in the past, it has gathered momentum in recent times. In fact, industry supply growth is expected to be above the long-term average in the near term. Markets like New York, Seattle and Chicago continue to witness increase in supply, which is affecting the company's RevPAR performance. Amid above-average supply growth, maintaining high level of occupancy and average room rates is a challenge for the company. This will limit overall RevPAR growth for its portfolio in the near term.
- ▼ Moreover, constrained lodging demand is also impacting the Host Hotels results. In fact, slower global economic growth, uncertainty of a long-term U.S.-China trade deal and domestic political turbulence continue to weigh on business sentiment. This is impacting business transient and leisure demand. Amid this, the company's expectations for business transient revenues have moderated and it has revised outlook for 2019 comparable constant dollar RevPAR growth to the range of -1% to -0.25%.
- ▼ 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 October 2019, the company completed \$3.3 billion in asset sale, marking its exit from low-growth markets. 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.
- ▼ Although interest rate levels are low at present, any hike in future is likely to 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. Moreover, the dividend payout might become less attractive than the yields on fixed income and money-market accounts.
- ▼ Majority of Host Hotels' properties are concentrated in the luxury and upper-upscale segments. However, during any 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, 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.
- ▼ Shares of Host Hotels have underperformed its industry over the past year. The company's shares have declined 9.3% in the past year compared with the industry's rally of 17.5%. Moreover, the trend in estimate revisions of the current-year FFO per share does not indicate an upbeat outlook for the company as it witnessed 1.8% downward revision over the past month. Therefore, given the above-mentioned concerns and negative estimate revisions, the stock has limited upside potential.

Rising supply in a number of markets is a major concern for Host Hotels. Further, weaker demand from transient business and dilutive impact of asset dispositions on earnings add to its woes.

Last Earnings Report

Host Hotels' Q3 FFO Beats Estimates, Revenues Down Y/Y

Host Hotels reported third-quarter 2019 adjusted FFO of 35 cents per share, outpacing the Zacks Consensus Estimate of 34 cents. However, adjusted FFO per share fell 5.4% from the year-ago tally of 37 cents.

The company generated total revenues of \$1.26 billion, surpassing the Zacks Consensus Estimate by 0.3%. However, the top line declined 2.8% year over year.

Results were supported by comparable hotel revenues growth. However, the dismal year-over-year performance resulted from a decline in comparable RevPAR, on a constant dollar, as well as 0.2% fall in average room rate.

Quarter Ending **09/2019**

Report Date	Nov 05, 2019
Sales Surprise	0.30%
EPS Surprise	2.94%
Quarterly EPS	0.35
Annual EPS (TTM)	1.79

Behind the Headlines

During the quarter, comparable hotel revenues inched up 1.2% year over year to \$1.1 billion. Moreover, comparable hotel total RevPAR (on a constant-dollar basis) went up 1.2% year over year to \$272.9 million. This upside resulted from improvement in food and beverage revenues as well as growth in other revenues.

For domestic properties, comparable hotel RevPAR (on a nominal-dollar basis) edged down 0.3%, while the same for International properties was up 3.1%.

For the September-end quarter, comparable hotel EBITDA edged down 1.7% to \$289 million, while comparable hotel EBITDA margin shrunk 85 basis points (bps) to 26.5%.

Finally, the company exited third-quarter 2019 with \$2 billion of unrestricted cash, not including \$1.5 billion of available balance under its credit facility's revolver and \$184 million in the FF&E escrow reserve. In addition, as of Sep 30, 2019, total debt was \$4.4 billion, with average maturity of 5.2 years and average interest rate of 4.1%.

Host Hotels repurchased 12.1 million shares, aggregating \$200 million in third-quarter 2019. After taking into account the repurchase executed in the quarter, Host Hotels has \$600 million of capacity available under its current repurchase program.

Portfolio Activity

During the reported quarter, the company sold eight non-core assets for \$565 million.

Capital Investments

During the July-September period, the company witnessed around \$152 million in capital expenditures, of which \$89 million was ROI capital projects, and \$63 million for renewal and replacement projects.

Outlook

Host Hotels has revised its adjusted FFO guidance for full-year 2019 by a cent at the mid-point. The company expects 2019 adjusted FFO per share of \$1.75-\$1.78, up from the \$1.73-\$1.78 guided earlier.

The company's full-year projection includes comparable hotel RevPAR (constant U.S. dollar basis) growth of -1% to -0.25%. This reflects an estimated 50 bps of disruption impact due to the incremental capital expenditures associated with the Marriott transformational capital program. However, with operating profit guarantees provided by Marriott, the impact on earnings caused by these expenditures is compensated.

Additionally, the company projects capital expenditures of \$550-\$590 million for the year. This comprises \$315-\$335 million in ROI projects, and \$235-\$255 million in renewal and replacement projects.

Recent News

Host Hotels Announces Special Dividend – Dec 13, 2019

Host Hotels announced a special dividend of 5 cents per share. This is in addition to the fourth-quarter cash dividend of 20 cents per share, reaching the total dividend figure for the year to 85 cents. The dividend was paid out on Jan 15, 2020, to stockholders of record as on Dec 31, 2019.

Host Hotels Closes Sale of 6 Non-Core Hotels For \$415M - Sep 5, 2019

Host Hotels has completed the previously-announced sale of all six non-core hotels for a combined price of roughly \$415 million. The six properties consist of Scottsdale Marriott Suites Old Town, Scottsdale Marriott at McDowell Mountains, The Westin Indianapolis, Costa Mesa Marriott, Atlanta Marriott Suites Midtown and Chicago Marriott Suites O'Hare. The transactions were completed in August 2019.

The lucrative transaction market has likely enabled Host Hotels to opportunistically monetize these low RevPAR assets at attractive valuations. Further, since these properties entailed high capital expenditure needs, the latest move reduces the company's capex requirements.

Per management, sale proceeds from the latest deal will further strengthen the company's investment-grade balance sheet as well as offer additional scope to make strategic investments and execute share buybacks. Through these efforts, Host Hotels remains committed to drive near- and long-term value creation for its shareholders.

Valuation

Host Hotels' shares have declined 9.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 17.5% and 9.3%, over the past year, respectively.

The S&P 500 Index has been up 21% over the past year.

The stock is currently trading at 10.09X forward 12-month FFO, which compares to 19.25X for the Zacks sub-industry, 15.02X for the Zacks sector and 19.35X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 14.21X and as low as 7.76X, with a 5-year median of 10.84X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$18 price target reflects 10.74X FFO.

The table below shows summary valuation data for HST.

Valuation Multiples - HST					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.09	19.25	15.02	19.35
	5-Year High	14.21	19.25	16.21	19.35
	5-Year Low	7.76	14.32	12.01	15.18
	5-Year Median	10.84	16.11	14.15	17.47
P/S F12M	Current	2.32	8.69	6.55	3.58
	5-Year High	3.13	8.69	6.65	3.58
	5-Year Low	1.7	5.91	5.39	2.54
	5-Year Median	2.47	6.88	6.04	3
P/B TTM	Current	1.62	3.02	2.86	4.68
	5-Year High	2.42	3.02	2.89	4.68
	5-Year Low	1.36	2.07	1.83	2.85
	5-Year Median	1.88	2.52	2.51	3.62

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Bottom 37% (160 out of 255)



Top Peers

Ashford Hospitality Trust Inc (AHT)	Neutral
Chatham Lodging Trust (REIT) (CLDT)	Neutral
Diamondrock Hospitality Company (DRH)	Neutral
Pebblebrook Hotel Trust (PEB)	Neutral
Ryman Hospitality Properties, Inc. (RHP)	Neutral
RLJ Lodging Trust (RLJ)	Neutral
Sunstone Hotel Investors, Inc. (SHO)	Neutral
Park Hotels & Resorts Inc. (PK)	Underperform

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	HST Neutral	X Industry	S&P 500	PEB Neutral	PK Underperform	RHP Neutral
VGM Score	C	-	-	B	C	C
Market Cap	12.13 B	3.04 B	24.61 B	3.29 B	5.66 B	5.01 B
# of Analysts	9	4	13	6	5	3
Dividend Yield	4.73%	3.89%	1.78%	6.04%	9.31%	3.94%
Value Score	B	-	-	C	B	C
Cash/Price	0.17	0.02	0.04	0.02	0.07	0.03
EV/EBITDA	5.99	18.38	14.06	27.89	10.66	15.78
PEG Ratio	2.01	3.60	2.09	NA	2.21	2.48
Price/Book (P/B)	1.64	1.81	3.29	0.90	0.74	15.08
Price/Cash Flow (P/CF)	6.16	15.07	13.65	23.40	6.31	11.98
P/E (F1)	10.07	15.78	19.21	10.49	8.67	12.42
Price/Sales (P/S)	2.21	7.10	2.70	2.24	2.08	3.30
Earnings Yield	9.93%	6.33%	5.19%	9.54%	11.55%	8.05%
Debt/Equity	0.59	0.89	0.71	0.61	0.68	8.63
Cash Flow (\$/share)	2.75	2.26	6.92	1.08	3.74	7.62
Growth Score	D	-	-	A	D	C
Hist. EPS Growth (3-5 yrs)	3.92%	2.91%	10.85%	3.21%	NA	10.58%
Proj. EPS Growth (F1/F0)	-5.03%	3.77%	7.17%	-7.40%	-4.35%	7.14%
Curr. Cash Flow Growth	54.16%	12.17%	8.56%	-31.39%	29.16%	33.32%
Hist. Cash Flow Growth (3-5 yrs)	16.89%	16.89%	8.36%	6.69%	NA	9.25%
Current Ratio	7.70	1.26	1.23	0.24	1.32	1.23
Debt/Capital	37.18%	46.90%	42.91%	37.88%	40.45%	90.50%
Net Margin	20.80%	13.74%	11.81%	-0.21%	8.71%	17.14%
Return on Equity	15.21%	4.52%	16.86%	0.16%	4.09%	62.86%
Sales/Assets	0.44	0.13	0.54	0.22	0.27	0.39
Proj. Sales Growth (F1/F0)	-3.98%	4.76%	3.85%	-3.73%	10.23%	5.22%
Momentum Score	D	-	-	C	B	D
Daily Price Chg	0.24%	0.40%	0.06%	-0.08%	0.04%	1.23%
1 Week Price Chg	2.20%	1.85%	2.47%	5.27%	6.38%	2.14%
4 Week Price Chg	-5.43%	2.84%	0.59%	-2.56%	-4.95%	5.41%
12 Week Price Chg	0.89%	7.31%	6.98%	0.80%	7.31%	4.28%
52 Week Price Chg	-7.80%	12.71%	16.62%	-21.89%	-20.76%	10.66%
20 Day Average Volume	7,243,108	466,077	2,020,569	1,000,584	1,843,530	241,485
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.58%	0.00%	-0.05%	-2.11%	-0.84%	-1.38%
(F1) EPS Est 12 week change	-3.09%	-0.09%	-0.17%	-5.47%	-3.37%	-1.58%
(Q1) EPS Est Mthly Chg	-1.60%	0.00%	-0.24%	-1.96%	-1.20%	-2.40%

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	B
Growth Score	D
Momentum Score	D
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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