Host Hotels & Resorts (HST)

$10.89 (As of 07/21/20)

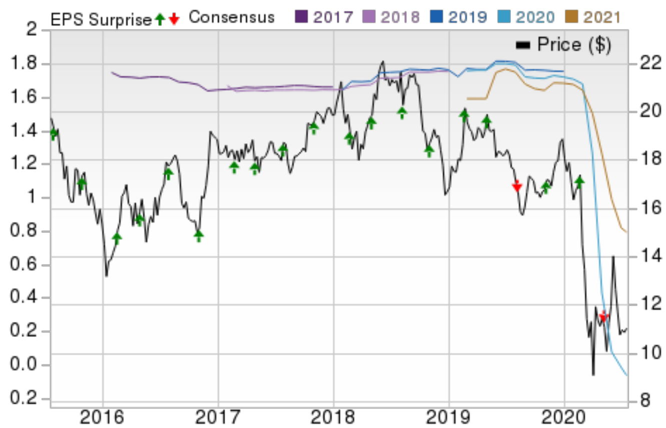
Price Target (6-12 Months): **$11.50**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/01/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:F
	Value: D | Growth: D | Momentum: F	

Summary

Host Hotels' efforts to enhance its portfolio quality by recycling capital out of low RevPAR assets to high RevPAR ones have enabled the company to enjoy a solid portfolio of upscale hotels. Further, it has secured waivers of financial covenants for $2.5-billion credit agreements. This will ease compliance in the near term and enhance its liquidity. Also, the use of revolver balance, reductions in corporate expenses and capital expenditure provide it sufficient liquidity to withstand even a complete shutdown of the entire portfolio until the 2021 end. Yet, the coronavirus outbreak and the related restrictions on travel are weakening group, business and leisure demand. With continued group cancellations through the second quarter, the company expects a further weakness in results. Its shares have underperformed the industry over the past year.

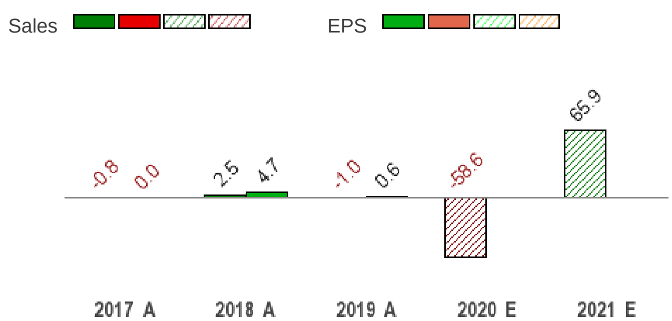
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$18.90 - $7.86**
20 Day Average Volume (sh)	**11,171,018**
Market Cap	**$7.7 B**
YTD Price Change	**-41.3%**
Beta	**1.27**
Dividend / Div Yld	**$0.80 / 7.3%**
Industry	**[REIT and Equity Trust - Other]**
Zacks Industry Rank	**Bottom 27% (184 out of 252)**
Last EPS Surprise	**-14.8%**
Last Sales Surprise	**0.2%**
EPS F1 Est- 4 week change	**-178.6%**
Expected Report Date	**07/30/2020**
Earnings ESP	**17.0%**
P/E TTM	**7.2**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**1.5**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	837 E	1,005 E	919 E	1,047 E	3,754 E
2020	1,052 A	121 E	388 E	672 E	2,263 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	$0.14 E	$0.24 E	$0.16 E	$0.23 E	$0.79 E
2020	$0.23 A	-$0.25 E	-$0.09 E	$0.04 E	-$0.07 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 07/21/2020. The reports text is as of 07/22/2020.

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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.

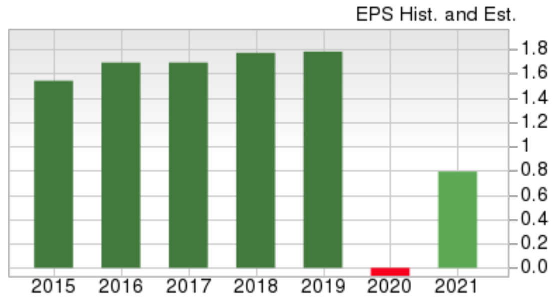
In operating its properties, positioned mainly in growing markets in the United States and globally, the company teams up with premium brands such as Marriott, Westin, Ritz-Carlton, Hyatt and Hilton. Moreover, in certain select submarkets, the company has several unbranded or soft-branded properties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

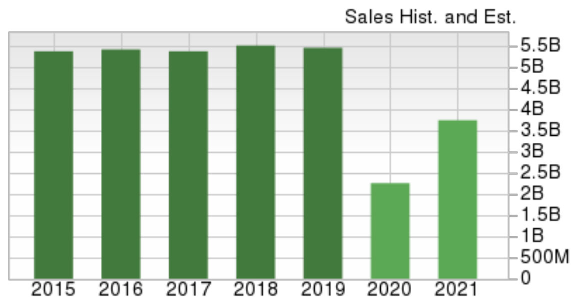
Host Hotels currently enjoys ownership of 75 U.S. and five international properties in Brazil and Canada — aggregating around 46,700 rooms.

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:

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.

- 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, 19 of the company's top 22 markets are in locations that are in various reopening stages.

- As regulations related to the pandemic ease, the company continues to make progress on hotel reopening. In fact, as of Jun 29, it opened 51 hotels (63% of room count). By Jul 7, it expects to open total 59 hotels (71% of room count). Moreover, the company is witnessing gradual improvement in occupancy and average daily rate (ADR), and this is driving hotel revenues for the company. In fact, average occupancy in May (for 45 open hotels) was 15.3%, while ADR stood at $146.0. This resulted in total hotel revenue growth of 33% in May to $28,977 from $21,764 in April.

- 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 has a decent balance sheet and has been undertaking steps to preserve 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. During the quarter, it drew down the entire $1.5-billion capacity on its revolver in a bid to boost the cash position. Additional measures preserve financial flexibility includes reductions in corporate expenses by 10-15% and capital expenditure by $100-$125 million. In fact, hotel level expenses decreases in April and May also aided to protect liquidity. Further, Host Hotels has temporarily suspended stock repurchases and second-quarter 2020 dividends that are anticipated to preserve around $140 million of cash during the April-June period. Moreover, the company recently received waivers of financial covenants to ease compliance through second-quarter 2021. With $2.6 billion of cash position as of May 31, it has sufficient liquidity to withstand a complete shutdown of its entire portfolio until the 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.

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. Further, group travel, which accounts for 35% of the company's room revenues, has been significantly impacted. In fact, Host Hotels continues to witness an increase in group cancellations in the second half of 2020, with total cancelled group revenues of $888 million as of Jun 25.

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.

- 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 38.9% in the past year compared with the industry's decline of 7.1%. 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 significant downward revision over the past month. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential.

Last Earnings Report

Host Hotels Misses Q1 FFO Estimates, Issues Update

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

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.

Recent News

Host Hotels Obtains Covenant Waivers, Enhances Flexibility – Jun 29, 2020

Host Hotels has secured an amendment to its credit agreement for its $1.5-billion revolving credit facility, which is currently fully drawn, and two $500-million term loans.

The amendment allows certain financial waivers to prevent any violation of covenants and will help the company to preserves liquidity amid the COVID-19 outbreak-led setback to withstand any prolonged business disruption.

In fact, waivers of the existing quarterly-tested financial covenants have been granted through a relief period starting Jul 1, 2020, to second-quarter 2021. Moreover, Host Hotels may opt for terminating the covenant relief period.

The company has been allowed to finance encumbered or unencumbered buyouts of up to $1.5 billion through existing liquidity, provided it maintains the minimum liquidity of $500 million.

Moreover, during the relief period, the hotel REIT may fund capital expenditure of up to $500 million in ROI projects and complete other capital expenditure like emergency repairs, life safety repairs or maintenance repairs in ordinary course of business.

However, it has agreed to an increase in the LIBOR floor of 15 basis points (bps) for term of the revolving credit facility and term loans. Moreover, interest rate has been increased by 40 bps in the credit ratings-based interest rate grid for the relief period. Management expects this increase in interest rate to flare up the company's total interest expenses by $0.8 million per month.

Moreover, during this period, Host Hotels is prohibited from executing any dividend and distribution payments (other than payments necessary to maintain its REIT status), share buybacks, asset dispositions, and investments and borrowing additional debt (subject to various exceptions).

To further ease compliance post the relief period through first-quarter 2022, EBITDA calculation has been modified.

Moreover, the company has to maintain the maturity date of the credit facility and term loans. The revolving credit facility and one of the term loans have an initial maturity date of January 2024 that can be extended to January 2025 through options. The second term loan has the final maturity date of January 2025.

Further, it maintains the flexibility to dispose assets related to like kind exchanges of up to $750 million and other asset sales of up to $350 million before requiring any mandatory prepayment obligations under the credit facility.

Host Hotels Suspends Q2 Dividend to Preserve Liquidity – Jun 19, 2020

Host Hotels announced a temporary suspension of the quarterly cash dividend, starting with the June-end quarter dividend that would have been paid out in July 2020.

The company anticipates this to preserve around $140 million of cash during the April-June period.

Earlier, it paid out a dividend of 20 cents per share on Apr 15 to stockholders of record of Mar 31, 2020.

Per management, the decision to suspend the quarterly dividend comes as a measure to preserve liquidity and maintain balance sheet flexibility. Nonetheless, the board will continue to keep an eye on the company's financial performance and operating scenario to decide the correct time to restart dividend payments.

Valuation

Host Hotels' shares have plunged 38.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector declined 7.1% and 14.3%, respectively, over the past year.

The S&P 500 Index has been up 9% over the trailing 12-month period.

The stock is currently trading at 26.46X forward 12-month FFO, which compares with the 18.38X for the Zacks sub-industry, 16.51X for the Zacks sector and 23.02X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 28.62X and as low as 5.66X, with a 5-year median of 10.74X. Our neutral recommendation indicates that the stock will perform in line with the market. Our $11.5 price target reflects 27.94X FFO.

The table below shows summary valuation data for HST.

Valuation Multiples - HST

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	26.46	18.38	16.51	23.02
	5-Year High	28.62	18.43	16.51	23.02
	5-Year Low	5.66	14.32	11.59	15.25
	5-Year Median	10.74	16.08	14.16	17.52
P/S F12M	Current	2.48	7.89	6.04	3.61
	5-Year High	3.15	8.21	6.66	3.61
	5-Year Low	1.28	5.97	4.96	2.53
	5-Year Median	2.45	6.97	6.06	3.02
P/B TTM	Current	1.09	2.33	2.40	4.46
	5-Year High	2.29	3.03	2.91	4.56
	5-Year Low	0.91	1.81	1.72	2.83
	5-Year Median	1.85	2.51	2.53	3.71

As of 07/21/2020

Industry Analysis **Zacks Industry Rank:** Bottom 27% (184 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Ashford Hospitality Trust Inc **(AHT)**	Neutral	3
Chatham Lodging Trust REIT **(CLDT)**	Neutral	2
Diamondrock Hospitality Company **(DRH)**	Neutral	4
Pebblebrook Hotel Trust **(PEB)**	Neutral	4
Park HotelsResorts Inc. **(PK)**	Neutral	4
Ryman Hospitality Properties, Inc. **(RHP)**	Neutral	4
RLJ Lodging Trust **(RLJ)**	Neutral	3
Sunstone Hotel Investors, Inc. **(SHO)**	Neutral	3

Industry Comparison Industry: Reit And Equity Trust - Other

	HST	X Industry	S&P 500	PEB	PK	RHP
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	4	4
VGM Score	F	-	-	F	F	F
Market Cap	7.68 B	1.96 B	22.70 B	1.39 B	2.21 B	1.78 B
# of Analysts	10	4	14	5	5	3
Dividend Yield	7.35%	4.29%	1.81%	0.38%	19.21%	11.71%
Value Score	D	-	-	D	D	F
Cash/Price	0.36	0.07	0.06	0.53	0.62	0.41
EV/EBITDA	5.45	13.74	13.09	6.96	7.88	8.18
PEG Ratio	NA	3.70	3.03	NA	NA	NA
Price/Book (P/B)	1.10	1.23	3.12	0.38	0.40	3.18
Price/Cash Flow (P/CF)	4.88	10.30	12.23	3.78	3.90	4.81
P/E (F1)	NA	14.56	22.36	NA	NA	NA
Price/Sales (P/S)	1.50	4.75	2.42	0.92	0.79	1.15
Earnings Yield	-0.64%	6.06%	4.31%	-7.24%	-5.87%	-5.42%
Debt/Equity	0.75	0.92	0.75	0.75	0.92	5.46
Cash Flow ($/share)	2.23	2.05	6.94	2.81	2.40	6.75
Growth Score	D	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	2.38%	1.92%	10.82%	-0.69%	NA	7.45%
Proj. EPS Growth (F1/F0)	-103.65%	-3.43%	-9.08%	-129.13%	-119.17%	-125.61%
Curr. Cash Flow Growth	-21.39%	3.36%	5.51%	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	1.31	1.40	5.41	3.13
Debt/Capital	43.21%	48.50%	44.41%	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%	15.38%	4.40%	-7.95%	14.32%
Sales/Assets	0.40	0.13	0.54	0.23	0.26	0.38
Proj. Sales Growth (F1/F0)	-58.62%	0.00%	-2.40%	-63.84%	-53.22%	-57.88%
Momentum Score	F	-	-	D	F	F
Daily Price Chg	2.74%	0.90%	0.86%	1.62%	5.88%	3.97%
1 Week Price Chg	1.57%	0.90%	3.82%	-6.20%	-5.08%	2.99%
4 Week Price Chg	-3.11%	-3.36%	3.42%	-23.78%	-11.27%	-8.74%
12 Week Price Chg	-6.84%	2.47%	9.22%	-4.23%	5.28%	-0.28%
52 Week Price Chg	-38.99%	-21.27%	-3.38%	-60.85%	-64.20%	-56.92%
20 Day Average Volume	11,171,018	748,149	2,069,527	2,709,470	6,736,868	739,635
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-178.57%	0.00%	0.13%	-44.53%	-1,890.91%	-13.09%
(F1) EPS Est 12 week change	-108.51%	-2.38%	-3.85%	-180.21%	-144.33%	-222.42%
(Q1) EPS Est Mthly Chg	-13.26%	0.00%	0.00%	-58.95%	-725.00%	-4.93%

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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