Host Hotels & Resorts (HST)

$11.09 (As of 08/24/20)

Price Target (6-12 Months): **$12.00**

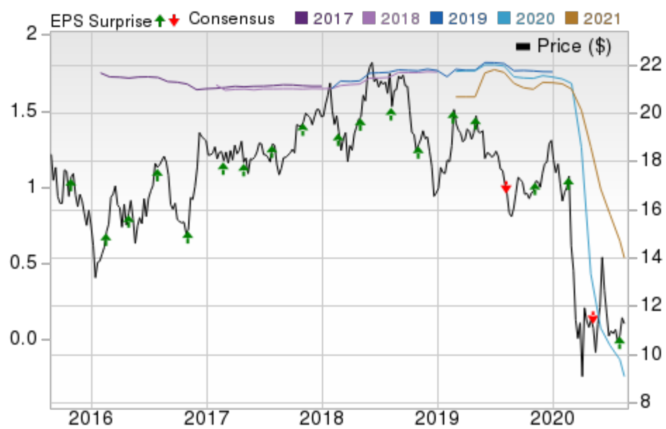
Long Term: 6-12 Months | **Zacks Recommendation:** **Neutral**
(Since: 06/01/20)
Prior Recommendation: Underperform

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **4-Sell**
Zacks Style Scores: VGM:F
Value: C | Growth: F | Momentum: F

Summary

Shares of Host Hotels have underperformed its industry in the past year. The company's dismal performance in the second quarter reflected significant declines in revenues and total RevPAR. Notably, the coronavirus outbreak and the related restrictions on travel are affecting group, business and leisure demand. In fact, continued group cancellations in the second half of 2020 are likely to hinder its performance. Nonetheless, the company's efforts to enhance its portfolio quality by recycling capital out of low RevPAR assets to high RevPAR ones have enabled it to enjoy a solid portfolio of upscale hotels. Amid a recovery in leisure demand, sizable exposure to drive-to resort markets bodes well. Also, it has a strong liquidity position that is sufficient until mid-2022, assuming hotel performance remains at the second-quarter 2020 levels.

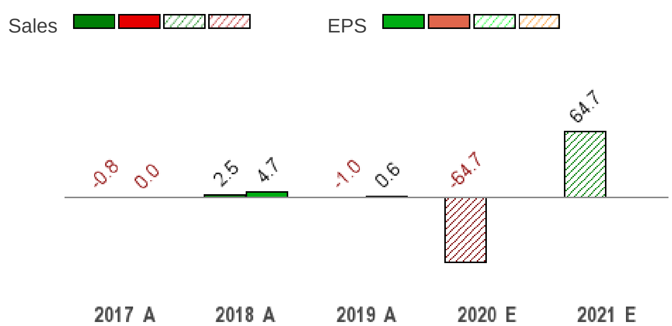
Price, Consensus & Surprise



Data Overview

52 Week High-Low	$18.90 - $7.86
20 Day Average Volume (sh)	10,180,301
Market Cap	$7.8 B
YTD Price Change	-40.2%
Beta	1.25
Dividend / Div Yld	$0.00 / 0.0%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 13% (218 out of 252)
Last EPS Surprise	0.0%
Last Sales Surprise	0.6%
EPS F1 Est- 4 week change	-87.6%
Expected Report Date	11/03/2020
Earnings ESP	-7.1%
P/E TTM	15.2
P/E F1	NA
PEG F1	NA
P/S TTM	2.1

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	640 E	788 E	793 E	948 E	3,176 E
2020	1,052 A	103 A	308 E	447 E	1,928 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	$0.01 E	$0.12 E	$0.10 E	$0.20 E	$0.48 E
2020	$0.23 A	-$0.26 A	-$0.15 E	-$0.08 E	-$0.26 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 08/24/2020. The reports text is as of 08/25/2020.

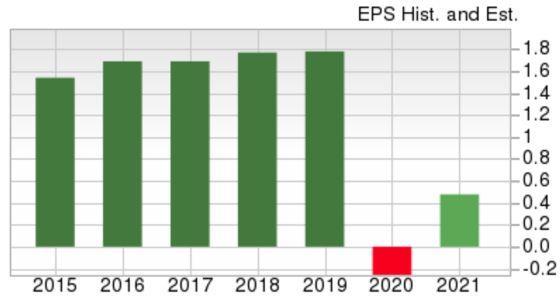
Overview

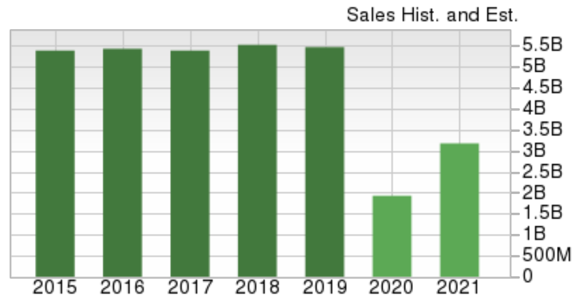
Bethesda, MD-based Host Hotels & Resorts Inc., one of the leading lodging real estate investment trusts (REITs), engages in the ownership, acquisition, and redevelopment of luxury and upper-upscale hotels in the United States and abroad.

In operating its properties that are 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 in markets with strong demand generators like central business districts of main cities, close to airports and in resort/conference destinations as well as locations 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.

- As regulations related to the pandemic ease, the company continues to make progress on hotel reopening. In fact, as of Jul 30, it opened 64 hotels (78% of room count). By Aug 31, it expects to open total 70 hotels (90% 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 improved 380 basis points from 6.9% in April to 10.7% in June 2020. Moreover, the average room rate rose more than 50% from $129 to $194 during the same period, which is encouraging.

- 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 $475-$520 million for the year. This includes $325-$345 million in return on investment (ROI) projects, and $150-$175 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 Jun 30, 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-/Baa3 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 second quarter with $2.5 billion of liquidity consisting of $1.6 billion of cash balance $154 million in FF&E escrow reserves, and $750 million of available capacity under its credit revolver. If the company's hotel performance remains at second-quarter 2020 levels, this amount of liquidity is sufficient until mid-2022. Continued cost-containment and prudent expense-management efforts have also helped to preserve liquidity. Such efforts include the reduction of hotel operating costs, suspension of dividend payments and stock repurchases. Moreover, in June, Host Hotels received waivers of financial covenants related to its revolving credit facility and term loans to ease compliance through second-quarter 2021. Therefore, the financial flexibility provides the company ample scope for deploying capital for long-term growth opportunities and at the same time, carrying out redevelopment initiatives.

Reasons To Sell:

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.

- The rampant coronavirus outbreak is weakening travel demand and has compelled the company to withdraw its 2020 guidance. The 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 significant declines in second-quarter revenues and total RevPAR. Additionally, Host Hotels expects to witness continued increase in group cancellations in the second half of 2020, with total cancelled group revenues of $1 billion as of Jul 30.

- 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 29.6% in the past year compared with the industry's decline of 7.8%. Additionally, the trend in estimate revisions of the current-year FFO per share does not indicate a favorable outlook for the company as it is witnessing significant downward revisions. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential.

Last Earnings Report

Host Hotels Q2 FFO Misses Estimates, Revenues Beat

Quarter Ending	06/2020
Report Date	**Jul 30, 2020**
Sales Surprise	**0.64%**
EPS Surprise	**0.00%**
Quarterly EPS	**-0.26**
Annual EPS (TTM)	**0.73**

Host Hotels reported second-quarter 2020 loss in terms of adjusted FFO per share of 26 cents, meeting the Zacks Consensus Estimate. Notably, the company reported adjusted FFO per share of 53 cents in the prior-year quarter.

It generated total revenues of $103 million, surpassing the Zacks Consensus Estimate of 102 million. The top line, however, declined 93.1% year over year.

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

Behind the Headlines

During the second quarter, all owned hotel RevPAR (on a constant-dollar basis) fell 93% year over year to $14.31. Second-quarter EBITDA was negative $160 million. The company reported EBITDA of $446 million in the prior-year quarter.

Demand during the June-end quarter was primarily driven by drive-to and resort destinations. As of the second-quarter end, room revenues from the transient business were $37 million, indicating a year-over-year plunge of 92.8%. Room revenues from group and contract businesses declined 94.3% and 83.3% year over year, to $18 million and $6 million, respectively.

Moreover, room nights for its transient, group and contract business declined 90%, 90% and 74.1%, respectively, from the prior-year quarter. Notably, the company's transient, group and contract businesses accounted for roughly 61%, 35%, and 4%, respectively, of its 2019 room sales.

Balance Sheet Position

Host Hotels exited the second quarter with a cash balance of $1.6 billion and FF&E escrow reserves of $154 million and $750 million of capacity available under its credit revolver. As of the same date, its debt balance amounted to $4.5 billion. The company has no significant maturities until 2023.

Moreover, it secured waivers for the quarterly-tested financial covenants in its credit facility, starting Jul 1, 2020, through the second quarter of 2021.

Capital Expenditure

During the January-June period, the company invested around $300 million in capital expenditure. Of this, $206 million was ROI capital projects spend, and $94 million was renewal and replacement project expenditure.

Remarkably, for 2020, the company now guided capital expenditure spending of $475-$520 million, as compared with $450-$525 million mentioned earlier.

Key capital projects in those assets and markets, which are expected to recover faster, have been prioritized like leisure and drive-to destinations as well as the previously-announced major ROI 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 lost 29.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector declined 7.8% and 5.4% over the past year, respectively.

The S&P 500 Index has been up 19.5% over the trailing 12-month period.

The stock is currently trading at 50.50X forward 12-month FFO, which compares with the 19.24X for the Zacks sub-industry, 16.65X for the Zacks sector and 22.83X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 51.65X 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 $12 price target reflects 54.64X FFO.

The table below shows summary valuation data for HST.

Valuation Multiples - HST

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	50.50	19.24	16.65	22.83
	5-Year High	51.65	19.28	16.65	22.83
	5-Year Low	5.66	14.32	11.60	15.25
	5-Year Median	10.75	16.11	14.26	17.58
P/S F12M	Current	2.86	8.35	6.23	3.70
	5-Year High	3.15	8.37	6.67	3.70
	5-Year Low	1.28	5.97	4.97	2.53
	5-Year Median	2.45	7.00	6.06	3.05
P/B TTM	Current	1.16	2.46	2.51	4.64
	5-Year High	2.29	3.03	2.91	4.64
	5-Year Low	0.91	1.81	1.72	2.83
	5-Year Median	1.83	2.51	2.53	3.76

As of 08/24/2020

Industry Analysis **Zacks Industry Rank:** Bottom 13% (218 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Sunstone Hotel Investors, Inc. **(SHO)**	Neutral	4
Ashford Hospitality Trust Inc **(AHT)**	Underperform	5
Chatham Lodging Trust REIT **(CLDT)**	Underperform	4
Diamondrock Hospitality Company **(DRH)**	Underperform	5
Pebblebrook Hotel Trust **(PEB)**	Underperform	5
Park HotelsResorts Inc. **(PK)**	Underperform	5
Ryman Hospitality Properties, Inc. **(RHP)**	Underperform	5
RLJ Lodging Trust **(RLJ)**	Underperform	5

Industry Comparison Industry: Reit And Equity Trust - Other

	HST	X Industry	S&P 500	PEB	PK	RHP
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Underperform
Zacks Rank (Short Term)	4	-	-	5	5	5
VGM Score	F	-	-	F	F	F
Market Cap	7.82 B	2.00 B	23.81 B	1.63 B	2.19 B	2.05 B
# of Analysts	10	4	14	5	6	4
Dividend Yield	0.00%	3.74%	1.64%	0.32%	0.00%	0.00%
Value Score	C	-	-	D	C	D
Cash/Price	0.21	0.06	0.07	0.23	0.63	0.07
EV/EBITDA	5.78	14.22	13.37	7.76	8.23	9.14
PEG Ratio	NA	3.98	3.02	NA	NA	NA
Price/Book (P/B)	1.16	1.34	3.17	0.47	0.41	5.21
Price/Cash Flow (P/CF)	4.96	11.12	12.77	4.44	3.88	5.53
P/E (F1)	NA	15.55	21.72	NA	NA	NA
Price/Sales (P/S)	2.09	5.02	2.48	1.49	1.03	1.78
Earnings Yield	-2.34%	5.82%	4.44%	-9.93%	-12.67%	-6.35%
Debt/Equity	0.68	0.92	0.76	0.70	1.01	6.82
Cash Flow ($/share)	2.23	2.05	6.93	2.81	2.40	6.75
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	-2.86%	0.73%	10.41%	-7.77%	-20.58%	0.52%
Proj. EPS Growth (F1/F0)	-114.44%	-2.49%	-5.05%	-147.00%	-141.03%	-134.48%
Curr. Cash Flow Growth	-21.39%	3.36%	5.20%	162.39%	-23.64%	-5.79%
Hist. Cash Flow Growth (3-5 yrs)	2.03%	12.74%	8.50%	20.82%	5.40%	8.35%
Current Ratio	23.29	1.62	1.33	1.44	7.04	1.66
Debt/Capital	40.33%	48.09%	44.50%	41.28%	50.21%	87.77%
Net Margin	2.48%	10.49%	10.13%	-3.57%	-38.58%	-13.26%
Return on Equity	1.30%	3.32%	14.66%	-0.84%	-13.76%	-32.04%
Sales/Assets	0.29	0.13	0.51	0.17	0.19	0.29
Proj. Sales Growth (F1/F0)	-64.75%	0.00%	-1.45%	-69.16%	-63.24%	-67.22%
Momentum Score	F	-	-	F	F	C
Daily Price Chg	4.62%	1.24%	1.32%	4.52%	6.04%	6.35%
1 Week Price Chg	-5.78%	-1.15%	-1.45%	0.17%	-7.19%	-6.12%
4 Week Price Chg	7.46%	4.67%	3.38%	23.79%	12.03%	19.95%
12 Week Price Chg	-9.47%	1.26%	7.69%	-10.72%	-10.74%	4.89%
52 Week Price Chg	-29.68%	-21.10%	3.85%	-52.33%	-59.96%	-52.95%
20 Day Average Volume	10,180,301	608,143	1,873,293	1,707,005	6,001,608	603,733
(F1) EPS Est 1 week change	-0.78%	0.00%	0.00%	-0.98%	0.00%	0.00%
(F1) EPS Est 4 week change	-87.59%	0.00%	1.00%	-22.13%	-39.83%	-34.63%
(F1) EPS Est 12 week change	-442.67%	-0.07%	3.40%	-207.72%	-478.74%	-52.25%
(Q1) EPS Est Mthly Chg	-37.23%	0.00%	0.00%	-6.26%	-42.97%	-75.30%

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	C
Growth Score	F
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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