

## Host Hotels & Resorts (HST)

**\$12.14** (As of 03/25/20)

Price Target (6-12 Months): **\$13.00**

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:D

Value: B

Growth: D

Momentum: F

### Summary

Host Hotels withdrew its outlook for the ongoing year and detailed impact on its business from the COVID-19 pandemic, which is weakening travel demand. Yet, the company's fourth-quarter 2019 results reflect improvement in total revenues on a comparable hotel basis, though net effect of acquisitions and dispositions partly offset the positives. It has a diversified portfolio of high-quality properties in key cities and is actively refining its portfolio by reducing exposure in high capex assets and international markets, which position it well for long-term growth. Also, decent balance sheet strength will likely help it beat the current market mayhem and support its growth endeavors over the long term, though weaker lodging demand and supply growth remain key concerns. Its shares have underperformed its industry over the past year.

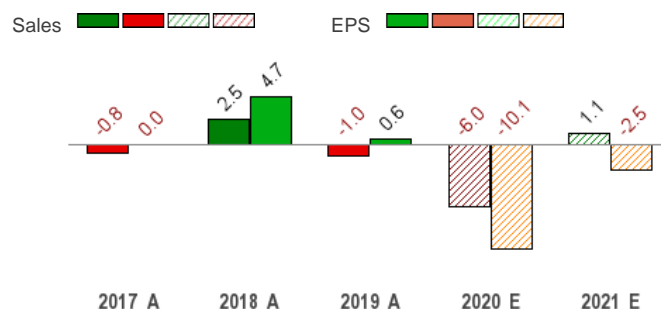
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$19.99 - \$7.86
20 Day Average Volume (sh)	20,234,060
Market Cap	\$8.7 B
YTD Price Change	-34.6%
Beta	1.27
Dividend / Div Yld	\$0.80 / 6.6%
Industry	<a href="#">REIT and Equity Trust - Other</a>
Zacks Industry Rank	Top 36% (91 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.5%
Last Sales Surprise	0.8%
EPS F1 Est- 4 week change	-4.5%
Expected Report Date	05/06/2020
Earnings ESP	-5.4%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,309 E	1,314 E	1,216 E	1,338 E	5,197 E
2020	1,317 E	1,297 E	1,201 E	1,321 E	5,141 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	\$0.42 E	\$0.45 E	\$0.31 E	\$0.39 E	\$1.56 E
2020	\$0.42 E	\$0.44 E	\$0.32 E	\$0.39 E	\$1.60 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.

P/E TTM	6.9
P/E F1	7.6
PEG F1	1.5
P/S TTM	1.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/25/2020. The reports text is as of 03/26/2020.

## 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.

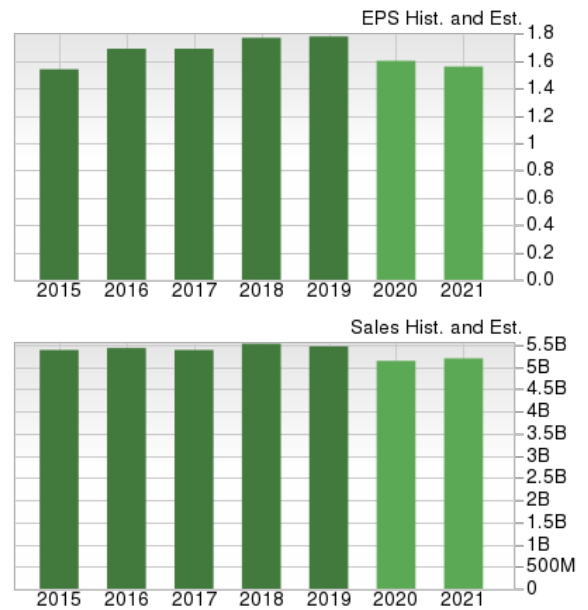
In operating its properties, positioned mainly in growing markets in the United States and globally, the company teams up with premium brands such as Marriott, Westin, Ritz-Carlton, Hyatt and Hilton. Moreover, in certain select submarkets, the company has several unbranded or soft-branded properties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

Host Hotels currently enjoys ownership of 75 U.S. and five international properties in Brazil and Canada — aggregating around 46,500 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.*



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## 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 RevPAR.
- ▲ 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, the company projects capital expenditures of \$550-\$650 million for the year. This includes \$310-\$360 million in ROI projects, and \$240-\$290 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 to withstand any market mayhem. The company exited fourth-quarter 2019 with \$1.6 billion of unrestricted cash, not including \$176 million in the FF&E escrow reserve and \$1.5 billion of available balance under its credit facility's revolver. Further, in 2019, the company strengthened its balance sheet by refinancing \$650 million of existing senior notes and expanded the borrowing capacity to \$1.5 billion under its revolving credit facility. Moreover, the company has no significant debt maturities until 2023 and a weighted average interest rate of 3.8%. Therefore, in addition to disposition proceed, 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. During fourth-quarter 2019, the company repurchased 4.7 million shares at an average price of \$17.39 per share, aggregating \$82 million. As of Feb 19, 2020, the company has \$391 million of capacity available under its repurchase program. Further, solid dividend payouts remain arguably the biggest attraction for REIT investors and last 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.

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## Reasons To Sell:

- ▼ The rampant coronavirus (COVID-19) outbreak is weakening travel demand and compelling lodging REITs to withdraw their 2020 guidance. Particularly, Host Hotels withdrew its outlook for the ongoing year and 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. In fact, given the adverse impact on economy and the uncertainty about its magnitude from the coronavirus pandemic, lodging demand is likely to remain affected in the near-to-medium term.
- ▼ 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.
- ▼ Though supply growth has been tepid in the past, it has gathered momentum in recent times. Amid elevated supply, 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.
- ▼ 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, 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.
- ▼ As of Dec 31, 2019, the company has a total debt of \$3.8 billion. 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.
- ▼ Shares of Host Hotels have underperformed its industry over the past year. The company's shares have plummeted 36.1% in the past year compared with the industry's decline of 25.1%. 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 4.2% downward revision over the past month. Therefore, given the above-mentioned concerns and negative estimate revisions, the stock has limited upside potential.

Weakened travel demand due to the coronavirus outbreak is a major concern. Also, rising supply in a number of markets and dilutive impact of asset dispositions on earnings add to its woes.

## Last Earnings Report

### Host Hotels' Q4 FFO and Revenues Trump Estimates

Host Hotels reported fourth-quarter 2019 adjusted FFO per share of 41 cents, outpacing the Zacks Consensus Estimate of 40 cents. However, the reported figure fell 4.7% from the year-ago tally of 43 cents.

Results reflect improvement in total revenues on a comparable hotel basis. However, the net effect of acquisitions and dispositions partly offset the positives.

The company generated total revenues of \$1.3 billion, surpassing the Zacks Consensus Estimate by 0.8%. However, the top line declined nearly 2% year over year.

For full-year 2019, Host Hotels reported an adjusted FFO per share of \$1.78, up 0.6% from the prior-year figure of \$1.77. Revenues for the full year came in at \$5.5 billion, reflecting a decline of 1% year on year.

### Behind the Headlines

During the fourth quarter of 2019, comparable hotel revenues inched up 1.9% year over year to \$1.1 billion. Moreover, comparable hotel total RevPAR (on a constant-dollar basis) went up 1.9% year over year to \$292.4 million. This upside resulted from improvement in food and beverage revenues as well as growth in other revenues.

For domestic properties, comparable hotel total RevPAR (on a nominal-dollar basis) inched up 1.7%, while the same for International properties increased 6.9%.

For the December-end quarter, comparable hotel EBITDA moved up 1.3% to \$312 million, while comparable hotel EBITDA margin shrunk 10 basis points (bps) to 28.1%.

Finally, the company exited fourth-quarter 2019 with \$1.6 billion of unrestricted cash, not including \$176 million in the FF&E escrow reserve and \$1.5 billion of available balance under its credit facility's revolver. In addition, as of Dec 31, 2019, total debt was \$3.8 billion, with average maturity of 5.4 years and average interest rate of 3.8%.

Host Hotels repurchased 4.7 million shares at an average price of \$17.39 per share, aggregating \$82 million in the reported quarter. At present, the company has \$391 million of capacity available under its repurchase program.

In October, the company sold the Hyatt Regency Cambridge and the Sheraton San Diego Hotel & Marina for a total of \$297 million.

During the October-December period, the company invested around \$166 million in capital expenditures. Of this, \$125 million were return on investment (ROI) capital projects, and \$41 million were renewal and replacement projects.

Quarter Ending **12/2019**

Report Date	Feb 19, 2020
Sales Surprise	<b>0.80%</b>
EPS Surprise	<b>2.50%</b>
Quarterly EPS	<b>0.41</b>
Annual EPS (TTM)	<b>1.77</b>

## 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 will be paid on Apr 15, to stockholders of record on Mar 31, 2020.

## Valuation

Host Hotels' shares have plunged 36.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 25.1% and 26.3%, over the past year, respectively.

The S&P 500 Index has been down 13.4% over the past year.

The stock is currently trading at 7.38X forward 12-month FFO, which compares to 13.41X for the Zacks sub-industry, 10.67X for the Zacks sector and 14.93X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 13.04X and as low as 5.66X, with a 5-year median of 10.81X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$13 price target reflects 7.90X FFO.

The table below shows summary valuation data for HST.

Valuation Multiples - HST					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.38	13.41	10.67	14.93
	5-Year High	13.04	18.7	16.21	19.34
	5-Year Low	5.66	13.41	10.67	14.93
	5-Year Median	10.81	16.08	13.97	17.42
P/S F12M	Current	1.67	5.96	5.99	2.68
	5-Year High	2.97	8.14	6.64	3.43
	5-Year Low	1.28	5.91	5.39	2.54
	5-Year Median	2.47	6.87	6.04	3
P/B TTM	Current	1.19	2.06	1.92	3.33
	5-Year High	2.29	3.01	2.89	4.56
	5-Year Low	0.91	1.8	1.68	2.85
	5-Year Median	1.88	2.52	2.52	3.63

As of 03/25/2020

## Industry Analysis Zacks Industry Rank: Top 36% (91 out of 253)



## Top Peers

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

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	HST Neutral	X Industry	S&P 500	PEB Underperform	PK Neutral	RHP Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>D</b>	<b>D</b>	<b>B</b>
Market Cap	8.71 B	1.75 B	17.53 B	1.39 B	2.15 B	1.77 B
# of Analysts	9	4	13	5	5	4
Dividend Yield	6.59%	6.00%	2.47%	14.34%	24.55%	11.20%
<b>Value Score</b>	<b>B</b>	-	-	<b>C</b>	<b>B</b>	<b>B</b>
Cash/Price	0.21	0.04	0.07	0.05	0.24	0.36
EV/EBITDA	5.86	12.63	10.68	7.39	7.76	7.97
PEG Ratio	1.67	2.82	1.64	0.35	NA	NA
Price/Book (P/B)	1.19	1.08	2.32	0.38	0.33	2.74
Price/Cash Flow (P/CF)	5.43	8.94	9.40	3.77	3.73	4.77
P/E (F1)	8.34	10.38	14.14	4.94	4.59	4.57
Price/Sales (P/S)	1.59	3.91	1.82	0.86	0.76	1.10
Earnings Yield	13.18%	9.64%	7.02%	20.28%	21.76%	21.87%
Debt/Equity	0.52	0.87	0.70	0.61	0.64	4.14
Cash Flow (\$/share)	2.23	2.02	7.01	2.81	2.40	6.75
<b>Growth Score</b>	<b>D</b>	-	-	<b>D</b>	<b>F</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	3.61%	2.75%	10.85%	1.58%	NA	9.26%
Proj. EPS Growth (F1/F0)	-9.99%	2.19%	3.53%	-18.40%	-32.29%	2.48%
Curr. Cash Flow Growth	-21.39%	4.77%	5.93%	162.39%	-23.64%	-5.79%
Hist. Cash Flow Growth (3-5 yrs)	2.03%	12.64%	8.55%	20.82%	5.40%	8.35%
Current Ratio	6.22	1.26	1.23	0.20	1.83	2.03
Debt/Capital	34.95%	46.57%	42.57%	38.03%	39.04%	81.75%
Net Margin	16.82%	13.67%	11.64%	7.16%	10.76%	9.09%
Return on Equity	12.34%	4.42%	16.74%	3.39%	5.09%	31.84%
Sales/Assets	0.43	0.13	0.54	0.24	0.27	0.41
Proj. Sales Growth (F1/F0)	-6.00%	3.63%	2.51%	-7.46%	-1.35%	4.50%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>D</b>	<b>C</b>	<b>F</b>
Daily Price Chg	9.27%	4.94%	2.41%	6.64%	18.36%	-1.68%
1 Week Price Chg	-6.75%	-21.66%	-16.96%	-23.24%	-28.03%	-43.07%
4 Week Price Chg	-18.47%	-32.54%	-23.98%	-51.02%	-54.26%	-56.51%
12 Week Price Chg	-34.56%	-32.97%	-27.80%	-60.46%	-65.37%	-62.90%
52 Week Price Chg	-36.11%	-30.50%	-18.55%	-65.81%	-71.36%	-61.55%
20 Day Average Volume	20,234,060	1,194,053	4,285,848	5,062,368	8,207,259	1,471,089
(F1) EPS Est 1 week change	-0.61%	0.00%	0.00%	-0.03%	17.01%	0.00%
(F1) EPS Est 4 week change	-4.46%	-0.71%	-1.83%	-8.49%	-2.73%	-3.07%
(F1) EPS Est 12 week change	-6.85%	-1.34%	-2.90%	-13.76%	-5.23%	-6.14%
(Q1) EPS Est Mthly Chg	-5.91%	0.00%	-1.37%	-13.72%	-13.42%	-5.44%

## 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>B</b>
Growth Score	<b>D</b>
Momentum Score	<b>F</b>
VGM Score	<b>D</b>

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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