



Host Hotels & Resorts (HST)

Updated November 16th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$13	5 Year CAGR Estimate:	5.1%	Market Cap:	\$9.4 B
Fair Value Price:	\$17	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	N/A
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.1%	Dividend Payment Date:	N/A
Dividend Yield:	0.0% ¹	5 Year Price Target	\$17	Years Of Dividend Growth:	N/A
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Last Dividend Increase:	N/A

Overview & Current Events

Host Hotels & Resorts was incorporated in Maryland in 1998. It is the largest lodging REIT, the only lodging REIT in S&P 500, and one of the largest owners of luxury and upper-upscale hotels, with a market capitalization of \$9.4 billion. The company owns 74 properties in the U.S. and 5 properties internationally, which together have ~46,100 rooms. Its hotels are operated under highly respected brand names, such as Marriott (78% of revenues) and Hyatt (14% of revenues).

Before the pandemic, the company was reshuffling its portfolio of assets. More precisely, it was divesting the hotels with low revenue per room and high capital expenses and was purchasing assets with the opposite characteristics and high growth potential.

In early November, Host Hotels & Resorts reported (11/4/20) financial results for the third quarter of fiscal 2020. Due to the impact of the pandemic on travel, tourism and lodging, revenue plunged -84% over last year's quarter and the REIT switched from adjusted FFO per share of \$0.35 to -\$0.11. The REIT is going through an unprecedented downturn in its business. As of November 4th, the REIT has reopened 31 of the 35 hotels previously closed, with occupancy improving from 12.9% in July to 19.7% in September. However, occupancy remains daunting and management does not expect material improvement anytime soon. We agree, particularly given the ongoing second wave of the pandemic.

Fortunately, Host Hotels & Resorts has a strong balance sheet but the fact that it has drawn the entire \$1.5 billion available credit facility from Bank of America shows the great stress of its business and helps explain why management has suspended the dividend and share repurchases this year. Due to the continued impact of the pandemic, we now expect the REIT to lose -\$0.40 per share this year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
FFO	\$0.68	\$0.89	\$1.04	\$1.26	\$1.57	\$1.49	\$1.69	\$1.69	\$1.77	\$1.78	-\$0.40	\$1.39
DPS	\$0.04	\$0.14	\$0.30	\$0.46	\$0.69	\$0.80	\$0.85	\$0.85	\$0.85	\$0.85	\$0.20	\$0.50
Shares²	675.6	705.1	724.6	754.8	755.8	750.3	737.8	739.1	741.0	717.1	705.0	700.0

During the last five years, Host Hotels & Resorts has grown its FFO per share at a 2.5% average annual rate. The company is poised to report negative FFO this year for the first time in more than a decade due to social distancing but we expect it to recover from next year, along with the economy. Overall, we expect Host Hotels & Resorts to recover its mid-cycle (10-year average) FFO per share of \$1.39 in five years. The REIT may experience an even stronger recovery but we prefer to be somewhat conservative, given the fierce downturn in its business.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/FFO	21.2	17.4	15.0	14.1	13.7	13.0	9.6	11.1	11.3	10.1	9.4	12.0
Avg. Yld.	0.3%	0.9%	1.9%	2.6%	3.2%	4.1%	4.9%	4.3%	4.0%	4.7%	0.0%	2.9%

¹ Forward dividend yield.

² In millions.

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Excluding the outlier years 2010-2011, in which the depressed funds-from-operations resulted in abnormally high P/FFO ratios, Host Hotels & Resorts has traded at an average P/FFO ratio of 12.2 during the last decade. The REIT is now trading at 9.4 its mid-cycle FFO per share of \$1.39. We believe that a fair P/FFO ratio for this REIT is around 12.0. If the REIT approaches this valuation level over the next five years, it will enjoy a 5.1% annualized boost in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	5.9%	15.7%	28.8%	36.5%	43.9%	53.7%	47.3%	47.6%	45.2%	47.8%	---	36.0%

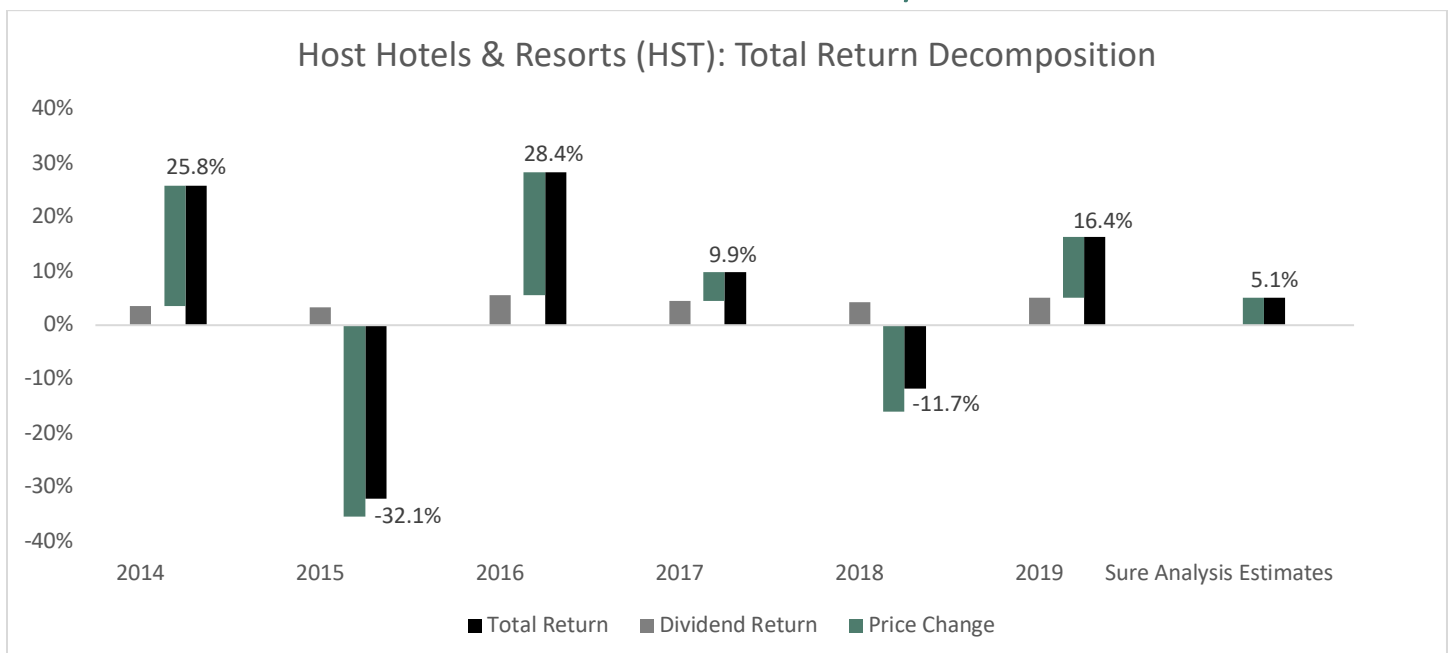
Due to the luxurious nature of its hotels, Host Hotels & Resorts is highly vulnerable to recessions. In the Great Recession, the company saw its FFO per share plunge -71%, from \$1.74 in 2008 to \$0.51 in 2009, and slashed its dividend. In the ongoing recession, which has been caused by the pandemic, the company is likely to come under even greater pressure due to the unprecedented impact of the downturn on this business.

On the other hand, this REIT has not diluted its shareholders in the last five years. Instead it has repurchased its shares in the last two years. This is a rare achievement for a REIT. Moreover, Host Hotels & Resorts has one of the strongest balance sheets in the REIT universe. Its net debt is \$4.1 billion, which is about three times the free cash flows of last year. Furthermore, the REIT has a leverage ratio of 1.6, which is much lower than the leverage of most REITs, and no debt maturities until 2023. The dividend was suspended due to the severity of the downturn, but we expect the REIT to resume paying meaningful dividends as soon as the pandemic subsides thanks to its strong balance sheet.

Final Thoughts & Recommendation

Due to the impact of the pandemic on its business, Host Hotels & Resorts has plunged -30% this year. Thanks to its strong balance sheet, the REIT could endure the current downturn and begin to recover from next year, along with the economy. However, the stock has rallied 20% since our last research report, in August. As a result, it may offer a 5.1% average annual return over the next five years and thus receives a hold rating. Investors should be aware that the REIT will be vulnerable due to the nature of its business if the pandemic lasts much longer than currently expected.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	4361	4714	5059	5166	5321	5350	5430	5387	5524	5469
Gross Profit	1079	1208	1379	1552	1647	1657	1735	1750	1814	1816
Gross Margin	24.7%	25.6%	27.3%	30.0%	31.0%	31.0%	32.0%	32.5%	32.8%	33.2%
SG&A Exp.	277	292	298	327	331	324	342	337	347	346
D&A Exp.	582	609	722	697	693	708	724	751	944	676
Operating Profit	220	307	359	528	623	625	669	662	523	794
Operating Margin	5.0%	6.5%	7.1%	10.2%	11.7%	11.7%	12.3%	12.3%	9.5%	14.5%
Net Profit	-130	-15	61	317	732	558	762	564	1087	920
Net Margin	-3.0%	-0.3%	1.2%	6.1%	13.8%	10.4%	14.0%	10.5%	19.7%	16.8%
Free Cash Flow	194	120	143	560	712	502	783	953	826	692
Income Tax	-31	-1	31	21	14	9	40	80	150	30

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	12411	13090	12994	12814	12172	11656	11408	11693	12090	12305
Cash & Equivalents	1113	826	417	861	684	221	372	913	1542	1573
Total Liabilities	6079	6377	6135	5552	4804	4552	4375	4691	4524	4980
Long-Term Debt	5477	5753	5411	4759	3957	3867	3648	3953	3836	3794
Total Equity	6303	6677	6825	7228	7336	7064	6994	6973	7494	7319
D/E Ratio	0.87	0.86	0.79	0.66	0.54	0.55	0.52	0.57	0.51	0.52

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	-1.0%	-0.1%	0.5%	2.5%	5.9%	4.7%	6.6%	4.9%	9.1%	7.5%
Return on Equity	-2.1%	-0.2%	0.9%	4.5%	10.1%	7.8%	10.8%	8.1%	15.0%	12.4%
ROIC	-1.1%	-0.1%	0.5%	2.6%	6.3%	5.0%	7.0%	5.2%	9.7%	8.2%
Shares Out.	675.6	705.1	724.6	754.8	755.8	750.3	737.8	739.1	741.0	717.1
Revenue/Share	6.65	6.80	7.03	6.91	6.76	7.11	7.30	7.29	7.46	7.48
FCF/Share	0.30	0.17	0.20	0.75	0.90	0.67	1.05	1.29	1.12	0.95

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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