



Host Hotels & Resorts (HST)

Updated February 24th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$17	5 Year CAGR Estimate:	6.0%	Market Cap:	\$11.8 B
Fair Value Price:	\$18	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	N/A
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.9%	Dividend Payment Date:	N/A
Dividend Yield:	N/A	5 Year Price Target	\$23	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 \$11.8 billion. The company owns 75 properties in the U.S. and 5 properties internationally, which together have ~46,300 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 mid-February, Host Hotels & Resorts reported (2/18/21) financial results for the fourth quarter of fiscal 2020. Due to the impact of the pandemic on travel, tourism and lodging, revenue plunged -80% over the prior year's quarter and the REIT switched from adjusted FFO per share of \$0.41 to a loss of -\$0.02. The REIT is going through an unprecedented downturn in its business. It has reduced its cash burn rate lately but occupancy remains at daunting levels.

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 since last year. Due to the continued impact of the pandemic, we expect the REIT to lose -\$0.10 per share this year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO	\$0.89	\$1.04	\$1.26	\$1.57	\$1.49	\$1.69	\$1.69	\$1.77	\$1.78	-\$0.17	-\$0.10	\$1.77
DPS	\$0.14	\$0.30	\$0.46	\$0.69	\$0.80	\$0.85	\$0.85	\$0.85	\$0.85	\$0.45	---	\$0.50
Shares¹	705.1	724.6	754.8	755.8	750.3	737.8	739.1	741.0	717.1	705.3	705.0	700.0

In the five years before the pandemic, Host Hotels & Resorts grew its FFO per share at a 2.5% average annual rate. The company reported negative FFO in 2020 for the first time in more than a decade due but we expect it to begin to recover in the second half of this year thanks to the massive vaccination program underway. We thus expect Host Hotels & Resorts to grow its FFO per share at a 5.0% average annual rate over the next five years off its mid-cycle (10-year average) level of \$1.39. 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/FFO	17.4	15.0	14.1	13.7	13.0	9.6	11.1	11.3	10.1	---	12.2	12.8
Avg. Yld.	0.9%	1.9%	2.6%	3.2%	4.1%	4.9%	4.3%	4.0%	4.7%	1.6%	---	2.2%

¹ In millions.

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Host Hotels & Resorts has traded at an average P/FFO ratio of 12.8 during the last decade. The REIT is now trading at 12.2 times its mid-cycle FFO per share of \$1.39. If the REIT trades at its average valuation level in five years, it will enjoy a modest 0.9% annualized boost in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	15.7%	28.8%	36.5%	43.9%	53.7%	47.3%	47.6%	45.2%	47.8%	---	---	28.2%

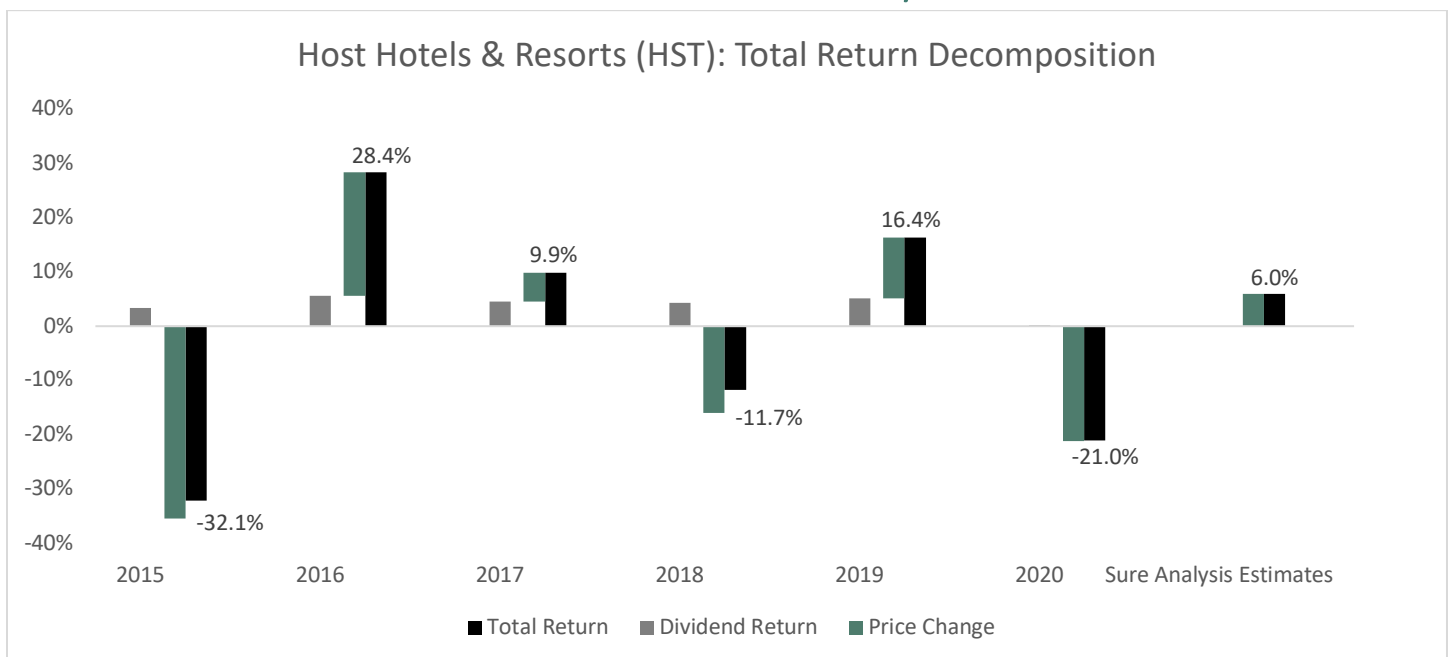
Due to the luxurious nature of its hotels, Host Hotels & Resorts is highly vulnerable to recessions. In the Great Recession, the company saw its FFO per share plunge -71%, from \$1.74 in 2008 to \$0.51 in 2009, and slashed its dividend. In the ongoing recession, which has been caused by the pandemic, the company has come under 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 in 2019. 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 has been 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

Thanks to its strong balance sheet and the massive vaccination program underway, Host Hotels & Resorts could begin to recover in the second half of the year. However, the stock has rallied 60% in less than four months. As a result, it may offer a 6.0% average annual return over the next five years and thus receives a hold rating. Investors should be aware that the stock will have great short-term upside if the pandemic subsides soon but it will be vulnerable due to the nature of its business if the pandemic lasts much longer than currently expected. Overall, the stock is extremely sensitive to the outlook of the pandemic

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	4714	5059	5166	5321	5350	5430	5387	5524	5469	1,620
Gross Profit	1208	1379	1552	1647	1657	1735	1750	1814	1816	(160)
Gross Margin	25.6%	27.3%	30.0%	31.0%	31.0%	32.0%	32.5%	32.8%	33.2%	-9.9%
SG&A Exp.	292	298	327	331	324	342	337	347	346	128
D&A Exp.	609	722	697	693	708	724	751	944	676	---
Operating Profit	307	359	528	623	625	669	662	523	794	(953)
Operating Margin	6.5%	7.1%	10.2%	11.7%	11.7%	12.3%	12.3%	9.5%	14.5%	-58.8%
Net Profit	-15	61	317	732	558	762	564	1087	920	(732)
Net Margin	-0.3%	1.2%	6.1%	13.8%	10.4%	14.0%	10.5%	19.7%	16.8%	-45.2%
Free Cash Flow	120	143	560	712	502	783	953	826	692	---
Income Tax	-1	31	21	14	9	40	80	150	30	(220)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	13090	12994	12814	12172	11656	11408	11693	12090	12305	12890
Cash & Equivalents	826	417	861	684	221	372	913	1542	1573	2335
Total Liabilities	6377	6135	5552	4804	4552	4375	4691	4524	4980	6,564
Long-Term Debt	5753	5411	4759	3957	3867	3648	3953	3836	3794	71
Total Equity	6677	6825	7228	7336	7064	6994	6973	7494	7319	5,541
D/E Ratio	0.86	0.79	0.66	0.54	0.55	0.52	0.57	0.51	0.52	6,321

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-0.1%	0.5%	2.5%	5.9%	4.7%	6.6%	4.9%	9.1%	7.5%	-5.8%
Return on Equity	-0.2%	0.9%	4.5%	10.1%	7.8%	10.8%	8.1%	15.0%	12.4%	-10.7%
ROIC	-0.1%	0.5%	2.6%	6.3%	5.0%	7.0%	5.2%	9.7%	8.2%	-6.4%
Shares Out.	705.1	724.6	754.8	755.8	750.3	737.8	739.1	741.0	717.1	705.3
Revenue/Share	6.80	7.03	6.91	6.76	7.11	7.30	7.29	7.46	7.48	2.29
FCF/Share	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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