



Host Hotels & Resorts (HST)

Updated January 4th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$16.4	5 Year CAGR Estimate:	10.8%	Volatility Percentile:	55.7%
Fair Value Price:	\$19.3	5 Year Growth Estimate:	2.7%	Momentum Percentile:	41.3%
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.2%	Growth Percentile:	10.2%
Dividend Yield:	4.9%	5 Year Price Target	\$22	Valuation Percentile:	62.7%
Dividend Risk Score:	C	Retirement Suitability Score:	B	Total Return Percentile:	47.0%

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. The company currently owns 88 properties in the U.S. and five properties internationally, which together have ~52,000 rooms. Its hotels are operated under highly respected brand names, such as Marriott (78% of revenues) and Hyatt (14% of revenues).

The company is currently reshuffling its portfolio of assets. More precisely, it is divesting the hotels with low revenue per room and high capital expenses and is purchasing assets with the opposite characteristics and high growth potential. To this end, the REIT is reducing its international and New York exposure and will use the proceeds from the asset sales to invest in more promising hotels and implement share repurchases.

In early November, Host Hotels & Resorts reported (11/1/18) its financial results for the third quarter of fiscal 2018. The company grew its comparable revenues by 2.8% and its adjusted funds-from-operations (FFO) per share by 12% thanks to strong performance in food and beverage and productivity gains. Thanks to strong business conditions, management raised its FFO guidance for the full year from \$1.71-\$1.76 to \$1.74-\$1.76.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
FFO	\$1.74	\$0.51	\$0.68	\$0.89	\$1.04	\$1.26	\$1.57	\$1.49	\$1.69	\$1.68	\$1.75	\$2.00
DPS	\$0.65	\$0.25	\$0.04	\$0.14	\$0.30	\$0.46	\$0.69	\$0.80	\$0.80	\$0.80	\$0.80	\$0.90
Shares	525.3	646.3	675.6	705.1	724.6	754.8	755.8	750.3	737.8	739.1	740.5	730.0

Host Hotels & Resorts has not grown its FFO per share during the last decade, as it was severely affected by the Great Recession. During the last four years, the REIT has grown its FFO per share at a 2.8% average annual rate. As a recession has not shown up for nine consecutive years and the REIT is highly vulnerable to recessions, the current phase of the economic cycle dictates a cautious evaluation of future growth prospects. It is thus prudent to expect the company to grow its FFO per share from \$1.75 this year to only \$2.00 in 2023 for a 2.7% average annual growth rate.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/FFO	7.9	16.4	21.2	17.4	15.0	14.1	13.7	13.0	9.6	11.1	9.4	11.0
Avg. Yld.	4.7%	3.0%	0.3%	0.9%	1.9%	2.6%	3.2%	4.1%	4.9%	4.3%	4.0%	4.1%

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 12.6 during the last decade. The REIT is now trading at a much lower multiple, of 9.4. Given the current phase of the economic cycle and our preference to have a margin of safety, we believe that a fair P/FFO ratio for this REIT is around 11.0. If the REIT approaches this valuation level over the next five years, it will enjoy a 3.2% annualized boost in its returns.



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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Payout	37.4%	49.0%	5.9%	15.7%	28.8%	36.5%	43.9%	53.7%	47.3%	47.6%	45.7%	45.0%

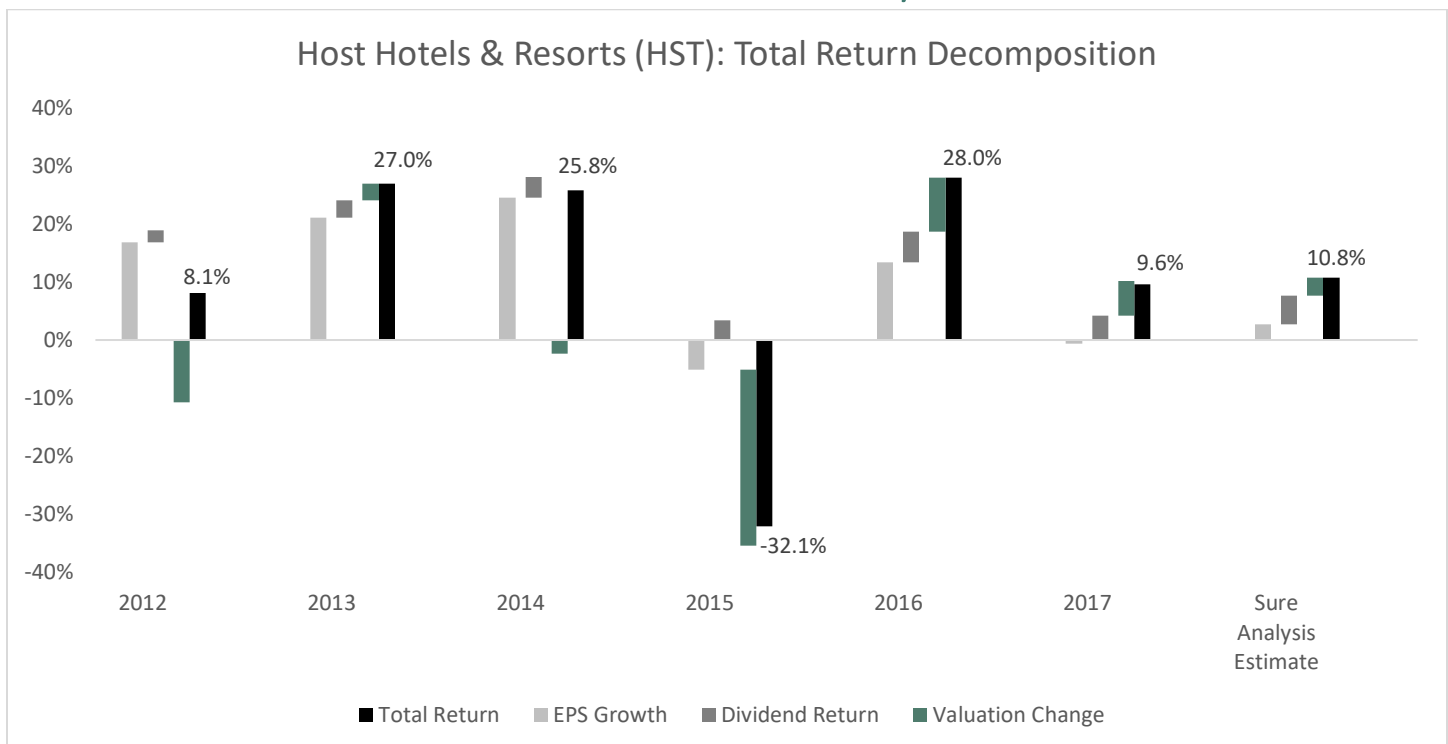
Due to the luxurious nature of its hotels, Host Hotels & Resorts is highly vulnerable to recessions. In the Great Recession, the company saw its FFO per share plunge 71%, from \$1.74 in 2008 to \$0.51 in 2009, and slashed its dividend. As a recession has not shown up for nine consecutive years and the Fed is raising interest rates aggressively, this is an important risk factor for the stock. Since late September, when the S&P peaked, Host Hotels & Resorts has underperformed the S&P by a wide margin (-25% vs. -16%). As long as the recently born bear market remains in place, the stock will likely continue to underperform.

On the other hand, this REIT has not diluted its shareholders for five consecutive 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 \$3.4 billion, which is less than four times its annual free cash flows. Moreover, the REIT does not have debt maturities until 2020 and has a leverage ratio of 2.0, which is much lower than the leverage of most REITs. Thanks to its strong balance sheet and its remarkably low payout ratio for a REIT, its dividend can be considered fairly safe for the foreseeable future. Nevertheless, past experience has shown that the dividend may be cut in the event of a recession.

Final Thoughts & Recommendation

Due to its recent underperformance, Host Hotels & Resorts is attractively valued right now. In the absence of a recession, the REIT can offer a 10.8% average annual return over the next five years. In addition, thanks to its strong balance sheet and its healthy payout ratio, its 4.9% dividend can be considered safe in the absence of a major downturn. However, as Host Hotels & Resorts is highly vulnerable to recessions and the risk of a recession at some point within the next two years has increased, we recommend avoiding the stock right now. We rate the stock as a hold.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	5139	4144	4361	4714	5059	5166	5321	5350	5430	5387
Gross Profit	1975	1424	1079	1208	1379	1552	1647	1657	1735	1750
Gross Margin	38.4%	34.4%	24.7%	25.6%	27.3%	30.0%	31.0%	31.0%	32.0%	32.5%
SG&A Exp.	686	660	274	290	287	327	321	322	328	322
D&A Exp.	582	703	582	609	722	697	693	708	724	751
Operating Profit	739	149	223	309	370	528	633	627	683	677
Operating Margin	14.4%	3.6%	5.1%	6.6%	7.3%	10.2%	11.9%	11.7%	12.6%	12.6%
Net Profit	395	-252	-130	-15	61	317	732	558	762	564
Net Margin	7.7%	-6.1%	-3.0%	-0.3%	1.2%	6.1%	13.8%	10.4%	14.0%	10.5%
Free Cash Flow	348	206	194	120	143	560	712	502	783	953
Income Tax	-3	-39	-31	-1	31	21	14	9	40	80

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	11950	12555	12411	13090	12994	12814	12172	11656	11408	11693
Cash & Equivalents	508	1642	1113	826	417	861	684	221	372	913
Total Liabilities	6336	6344	6079	6377	6135	5552	4804	4552	4375	4691
Long-Term Debt	5876	5837	5477	5753	5411	4759	3957	3867	3648	3953
Total Equity	5493	6092	6303	6677	6825	7228	7336	7064	6994	6973
D/E Ratio	1.05	0.94	0.87	0.86	0.79	0.66	0.54	0.55	0.52	0.57

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	3.3%	-2.1%	-1.0%	-0.1%	0.5%	2.5%	5.9%	4.7%	6.6%	4.9%
Return on Equity	7.3%	-4.4%	-2.1%	-0.2%	0.9%	4.5%	10.1%	7.8%	10.8%	8.1%
ROIC	3.5%	-2.1%	-1.1%	-0.1%	0.5%	2.6%	6.3%	5.0%	7.0%	5.2%
Shares Out.	525.3	646.3	675.6	705.1	724.6	754.8	755.8	750.3	737.8	739.1
Revenue/Share	9.74	7.06	6.65	6.80	7.03	6.91	6.76	7.11	7.30	7.29
FCF/Share	0.66	0.35	0.30	0.17	0.20	0.75	0.90	0.67	1.05	1.29

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

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