



# Host Hotels & Resorts (HST)

Updated November 14<sup>th</sup>, 2019 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$17	<b>5 Year CAGR Estimate:</b>	8.6%	<b>Volatility Percentile:</b>	38.3%
<b>Fair Value Price:</b>	\$19	<b>5 Year Growth Estimate:</b>	2.0%	<b>Momentum Percentile:</b>	20.0%
<b>% Fair Value:</b>	88%	<b>5 Year Valuation Multiple Estimate:</b>	2.6%	<b>Growth Percentile:</b>	10.4%
<b>Dividend Yield:</b>	4.7%	<b>5 Year Price Target</b>	\$21	<b>Valuation Percentile:</b>	83.6%
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	63.6%

## 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 \$12 billion. The company owns 75 properties in the U.S. and 5 properties internationally, which together have ~46,500 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. The REIT 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 (11/5/19) financial results for the third quarter of fiscal 2019. Revenues decreased -2.8%, mostly due to asset sales, while revenue per available room rose 1.2%. Adjusted funds-from-operations (FFO) per share decreased -5.4%, from \$0.37 to \$0.35, but exceeded analysts' consensus by \$0.01 thanks to a reduced share count. As per previous guidance, during the quarter, the company sold 8 non-core properties for \$565 million. Management slightly improved its FFO guidance for the full year, from \$1.73-\$1.78 to \$1.75-\$1.78 per share.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>FFO</b>	\$0.51	\$0.68	\$0.89	\$1.04	\$1.26	\$1.57	\$1.49	\$1.69	\$1.69	\$1.77	<b>\$1.76</b>	<b>\$1.94</b>
<b>DPS</b>	\$0.25	\$0.04	\$0.14	\$0.30	\$0.46	\$0.69	\$0.80	\$0.80	\$0.80	\$0.80	<b>\$0.80</b>	<b>\$0.90</b>
<b>Shares<sup>1</sup></b>	646.3	675.6	705.1	724.6	754.8	755.8	750.3	737.8	739.1	741.0	<b>720.0</b>	<b>680.0</b>

During the last four years, Host Hotels & Resorts has grown its FFO per share at a 3.0% average annual rate. The company is trying to accelerate its growth by selling low-return assets and investing in more promising hotels. Nevertheless, as a recession has not shown up for a whole decade, the current phase of the economic cycle dictates a cautious evaluation of future growth prospects, particularly given the lackluster performance of the REIT this year. We continue to expect Host Hotels & Resorts to grow its FFO per share by about 2.0% per year over the next five years.

## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
<b>Avg. P/FFO</b>	16.4	21.2	17.4	15.0	14.1	13.7	13.0	9.6	11.1	11.3	<b>9.7</b>	<b>11.0</b>
<b>Avg. Yld.</b>	3.0%	0.3%	0.9%	1.9%	2.6%	3.2%	4.1%	4.9%	4.3%	4.0%	<b>4.7%</b>	<b>4.2%</b>

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 12.9 during the last decade. The REIT is now trading at a much lower multiple of 9.7. Given the current phase of the economic cycle and our preference to have a margin of

<sup>1</sup> In millions.

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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 2.6% annualized boost in its returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	49.0%	5.9%	15.7%	28.8%	36.5%	43.9%	53.7%	47.3%	47.6%	45.2%	45.5%	46.1%

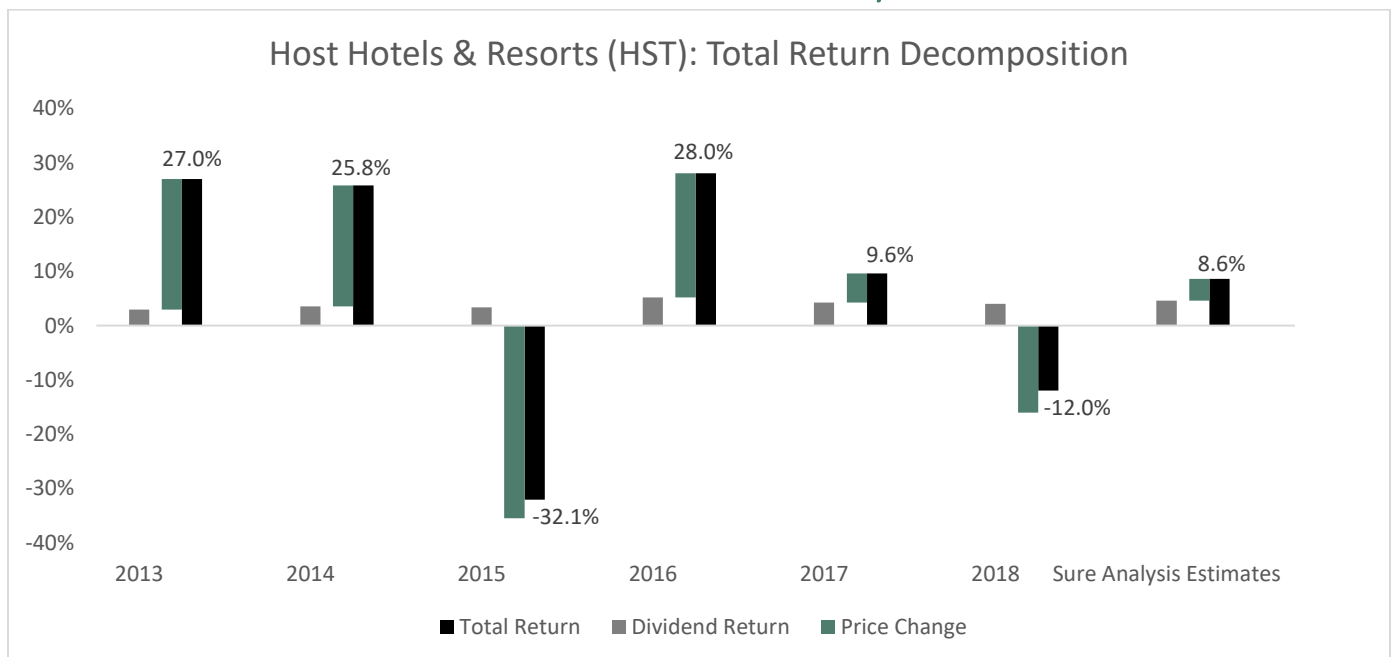
Due to the luxurious nature of its hotels, Host Hotels & Resorts is highly vulnerable to recessions. In the Great Recession, the company saw its FFO per share plunge -71%, from \$1.74 in 2008 to \$0.51 in 2009, and slashed its dividend. As a recession has not shown up for a whole decade, this is an important risk factor for the stock. On the bright side, the Fed has adopted a more flexible stance in reference to interest rates this year and thus the risk of an upcoming recession has somewhat decreased. Nevertheless, investors should keep this risk factor in mind.

On the other hand, this REIT has not diluted its shareholders in the last five years. Instead it is now repurchasing its shares. 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 \$3.5 billion, which is about four times its annual free cash flows. Furthermore, the REIT has a leverage ratio of 1.7, which is much lower than the leverage of most REITs, and no debt maturities until 2023. 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 lackluster business performance this year, Host Hotels & Resorts is trading around its 2-year lows. Thanks to its suppressed stock price and its resultant 4.7% dividend yield, the stock could offer an 8.6% average annual return over the next five years, in the absence of a recession. In addition, thanks to its strong balance sheet and its healthy payout ratio, its 4.7% dividend can be considered safe in the absence of a major downturn. However, as Host Hotels & Resorts is highly vulnerable to recessions and it is growing at a lackluster pace, we maintain our hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	4144	4361	4714	5059	5166	5321	5350	5430	5387	5524
<b>Gross Profit</b>	1424	1079	1208	1379	1552	1647	1657	1735	1750	1814
<b>Gross Margin</b>	34.4%	24.7%	25.6%	27.3%	30.0%	31.0%	31.0%	32.0%	32.5%	32.8%
<b>SG&amp;A Exp.</b>	660	277	292	298	327	331	324	342	337	347
<b>D&amp;A Exp.</b>	703	582	609	722	697	693	708	724	751	944
<b>Operating Profit</b>	149	220	307	359	528	623	625	669	662	523
<b>Operating Margin</b>	3.6%	5.0%	6.5%	7.1%	10.2%	11.7%	11.7%	12.3%	12.3%	9.5%
<b>Net Profit</b>	-252	-130	-15	61	317	732	558	762	564	1087
<b>Net Margin</b>	-6.1%	-3.0%	-0.3%	1.2%	6.1%	13.8%	10.4%	14.0%	10.5%	19.7%
<b>Free Cash Flow</b>	206	194	120	143	560	712	502	783	953	826
<b>Income Tax</b>	-39	-31	-1	31	21	14	9	40	80	150

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	12555	12411	13090	12994	12814	12172	11656	11408	11693	12090
<b>Cash &amp; Equivalents</b>	1642	1113	826	417	861	684	221	372	913	1542
<b>Total Liabilities</b>	6344	6079	6377	6135	5552	4804	4552	4375	4691	4524
<b>Long-Term Debt</b>	5837	5477	5753	5411	4759	3957	3867	3648	3953	3836
<b>Total Equity</b>	6092	6303	6677	6825	7228	7336	7064	6994	6973	7494
<b>D/E Ratio</b>	0.94	0.87	0.86	0.79	0.66	0.54	0.55	0.52	0.57	0.51

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	-2.1%	-1.0%	-0.1%	0.5%	2.5%	5.9%	4.7%	6.6%	4.9%	9.1%
<b>Return on Equity</b>	-4.4%	-2.1%	-0.2%	0.9%	4.5%	10.1%	7.8%	10.8%	8.1%	15.0%
<b>ROIC</b>	-2.1%	-1.1%	-0.1%	0.5%	2.6%	6.3%	5.0%	7.0%	5.2%	9.7%
<b>Shares Out.</b>	646.3	675.6	705.1	724.6	754.8	755.8	750.3	737.8	739.1	741.0
<b>Revenue/Share</b>	7.06	6.65	6.80	7.03	6.91	6.76	7.11	7.30	7.29	7.46
<b>FCF/Share</b>	0.35	0.30	0.17	0.20	0.75	0.90	0.67	1.05	1.29	1.12

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

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