



# Host Hotels & Resorts (HST)

Updated February 25<sup>th</sup>, 2020 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$16	<b>5 Year CAGR Estimate:</b>	9.3%	<b>Market Cap:</b>	\$11.8 B
<b>Fair Value Price:</b>	\$19	<b>5 Year Growth Estimate:</b>	2.0%	<b>Ex-Dividend Date:</b>	3/30/2020
<b>% Fair Value:</b>	86%	<b>5 Year Valuation Multiple Estimate:</b>	3.0%	<b>Dividend Payment Date:</b>	4/15/2020
<b>Dividend Yield:</b>	5.3%	<b>5 Year Price Target</b>	\$21	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	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 ~46,500 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 mid-February, Host Hotels & Resorts reported (2/19/20) financial results for the fourth quarter of fiscal 2019. Revenues decreased -2.0% for the quarter and -1.0% for the full year, mostly due to asset sales, while revenue per available room rose 1.9% and 1.0%, respectively. In the year, adjusted funds-from-operations (FFO) per share rose 0.6%, thanks to a 3.2% decrease in the share count. Management expects favorable trends in leisure travel to remain in place thanks to healthy labor market but expects business travel to remain subdued. It thus expects adjusted FFO per share of \$1.65-\$1.71 this year.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>FFO</b>	\$0.68	\$0.89	\$1.04	\$1.26	\$1.57	\$1.49	\$1.69	\$1.69	\$1.77	\$1.78	<b>\$1.69</b>	<b>\$1.87</b>
<b>DPS</b>	\$0.04	\$0.14	\$0.30	\$0.46	\$0.69	\$0.80	\$0.85	\$0.85	\$0.85	\$0.85	<b>\$0.85</b>	<b>\$0.90</b>
<b>Shares<sup>1</sup></b>	675.6	705.1	724.6	754.8	755.8	750.3	737.8	739.1	741.0	717.1	<b>710.0</b>	<b>670.0</b>

During the last five years, Host Hotels & Resorts has grown its FFO per share at a 2.5% 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 business momentum and guidance of the REIT. We still expect Host Hotels & Resorts to grow its FFO per share by 2.0% per year over the next five years.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
<b>Avg. P/FFO</b>	21.2	17.4	15.0	14.1	13.7	13.0	9.6	11.1	11.3	10.1	<b>9.5</b>	<b>11.0</b>
<b>Avg. Yld.</b>	0.3%	0.9%	1.9%	2.6%	3.2%	4.1%	4.9%	4.3%	4.0%	4.7%	<b>5.3%</b>	<b>4.4%</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 12.2 during the last decade. The REIT is now trading at a much lower multiple of 9.5. 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 3.0% 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%	<b>50.3%</b>	<b>48.1%</b>

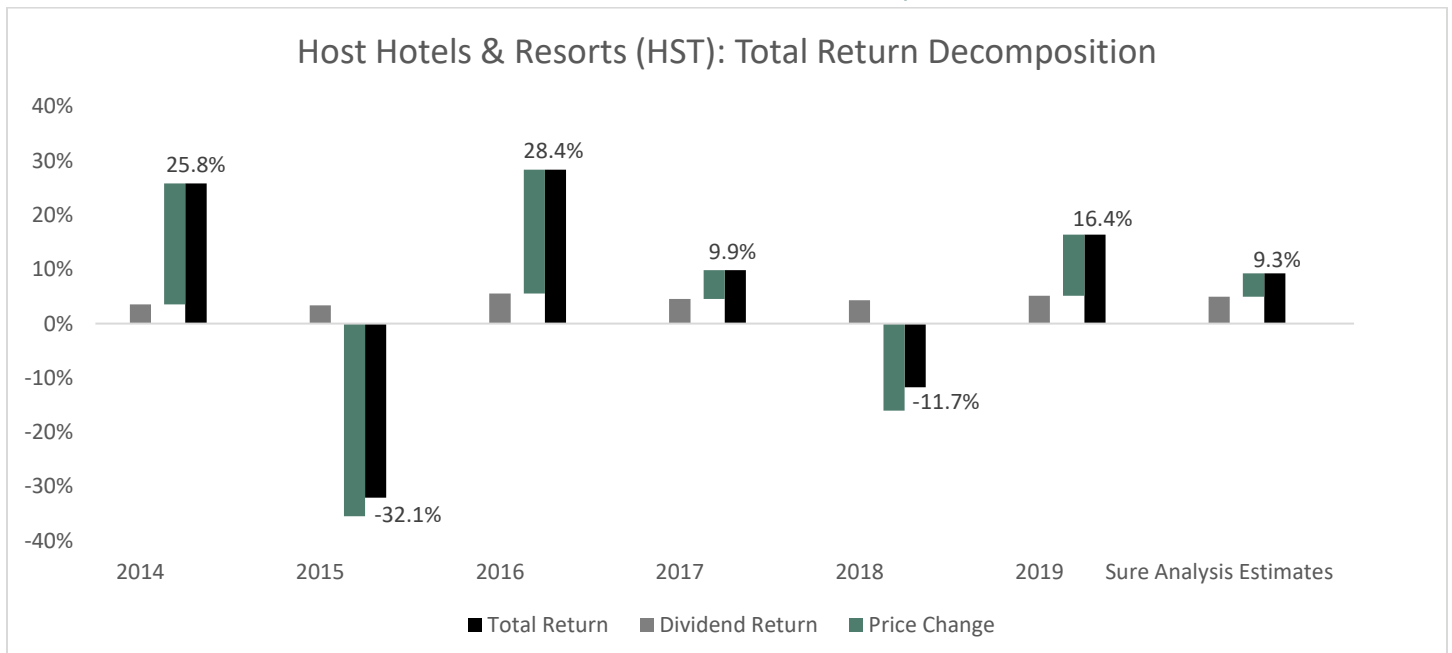
Due to the luxurious nature of its hotels, Host Hotels & Resorts is highly vulnerable to recessions. In the Great Recession, the company saw its FFO per share plunge -71%, from \$1.74 in 2008 to \$0.51 in 2009, and slashed its dividend. As a recession has not shown up for a whole decade, this is an important risk factor for the stock. On the bright side, the Fed has adopted a more flexible stance in reference to interest rates since last 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 \$3.2 billion, which is about three times its annual free cash flows. 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. 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 momentum, Host Hotels & Resorts is trading around its 2-year lows. Thanks to its suppressed stock price and its resultant 5.3% dividend yield, the stock could offer a 9.3% 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 5.3% dividend can be considered safe in the absence of a major downturn. However, as Host Hotels & Resorts is highly vulnerable to recessions and it has lackluster growth prospects, we maintain our hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	12411	13090	12994	12814	12172	11656	11408	11693	12090	12305
<b>Cash &amp; Equivalents</b>	1113	826	417	861	684	221	372	913	1542	1573
<b>Total Liabilities</b>	6079	6377	6135	5552	4804	4552	4375	4691	4524	4980
<b>Long-Term Debt</b>	5477	5753	5411	4759	3957	3867	3648	3953	3836	3794
<b>Total Equity</b>	6303	6677	6825	7228	7336	7064	6994	6973	7494	7319
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	-1.0%	-0.1%	0.5%	2.5%	5.9%	4.7%	6.6%	4.9%	9.1%	7.5%
<b>Return on Equity</b>	-2.1%	-0.2%	0.9%	4.5%	10.1%	7.8%	10.8%	8.1%	15.0%	12.4%
<b>ROIC</b>	-1.1%	-0.1%	0.5%	2.6%	6.3%	5.0%	7.0%	5.2%	9.7%	8.2%
<b>Shares Out.</b>	675.6	705.1	724.6	754.8	755.8	750.3	737.8	739.1	741.0	717.1
<b>Revenue/Share</b>	6.65	6.80	7.03	6.91	6.76	7.11	7.30	7.29	7.46	7.48
<b>FCF/Share</b>	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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