



Home Depot (HD)

Updated February 23rd, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$270	5 Year CAGR Estimate:	11.2%	Market Cap:	\$280B
Fair Value Price:	\$270	5 Year Growth Estimate:	9.0%	Ex-Dividend Date¹:	03/09/2021
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.1%	Payment Date²:	03/25/2021
Dividend Yield:	2.4%	5 Year Price Target	\$416	Years of Dividend Growth:	12
Dividend Risk Score:	C	Retirement Suitability Score:	C	Last Dividend Increase:	10.0%

Overview & Current Events

Home Depot was founded in 1978 and since that time has grown into a juggernaut home improvement retailer with almost 2,300 stores in the US, Canada and Mexico that generate around \$132 billion in annual revenue. The stock has a market value of \$280 billion, making it one of the larger companies by market capitalization in the US.

Home Depot reported fourth quarter and full year results on February 23rd. The company recorded fourth quarter sales of \$32.3 billion, a 25.1% increase year-over-year. Comparable sales increased 24.5%, and 25% specifically in the U.S. Net earnings of \$2.9 billion for the quarter were up 15% from \$2.5 billion YoY. On a per diluted share basis, \$2.65 for the quarter increased 16% from the same period a year ago.

For the full fiscal year, sales grew 20% to \$132.1 billion. Comparable sales grew 19.7%. Net earnings of \$12.9 billion compared favorably to \$11.2 billion in 2019. On a per diluted share basis, \$11.94 for 2020 increased 16.5% from \$10.25 in 2019.

The company announced a 10% dividend increase to the annual dividend to \$6.60 for 2021. The company repurchased \$791 million worth of shares in 2020, compared to \$7 billion worth in 2019. Additionally, sales per retail square foot increased by 20% to \$543 from \$455 last year.

As of the end of Q4, Home Depot has cash and cash equivalents equal to \$8 billion. While the company is doing well, management still is not communicating specific guidance for 2021, but is expecting flat to minor comparable sales growth.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.47	\$3.10	\$3.76	\$4.56	\$5.34	\$6.45	\$7.46	\$9.73	\$10.25	\$11.94	\$12.59	\$19.37
DPS	\$1.04	\$1.16	\$1.56	\$1.88	\$2.36	\$2.76	\$3.56	\$4.12	\$5.44	\$6.00	\$6.60	\$10.15
Shares³	1537.0	1484.0	1380	1307	1252	1203	1158	1121	1088.0	1078.0	1050.0	1000.0

Home Depot's earnings momentum has been enormous in the past decade as it has been able to fully capitalize on the housing and construction boom that ensued following the Great Recession. We see five-year annual earnings growth of 9.0%, consisting of comp sales in the high-single digits, a low single digit tailwind from buybacks and a steady, low single digit tailwind from operating margin improvements.

In addition, the company's streak of meaningful dividend growth should continue as we see the payout rising at the rate of earnings, reaching \$10.15 per share in five years. Home Depot's small 2.4% yield is in-line historically as the share price has kept up with their enormous dividend growth. The company has plenty of room to continue raising the payout in the years to come. Further, as it matures it may institute a higher payout ratio target for the dividend, further boosting its dividend growth prospects.

¹ Estimate based on last year

² Estimate based on last year

³ In millions

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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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	15	17.9	20.2	19.1	22.1	20.3	21.6	19.4	21.0	23.5	21.4	21.5
Avg. Yld.	2.8%	2.1%	2.1%	2.2%	2.0%	2.1%	2.2%	2.2%	2.3%	2.3%	2.4%	2.4%

Share price benefited greatly due to increased earnings in 2020, and the stock today trades in-line with our estimated fair value. Shares trade for 21.4 times our earnings estimate for this year, while we see fair value at 21.5 times earnings.

As a result, we see a minor no change in the valuation multiple over the next five years. The yield should remain about where it is in the years to come given that earnings and the dividend should expand at roughly congruent rates.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	42%	37%	41%	41%	44%	43%	48%	42%	53%	50%	52%	52%

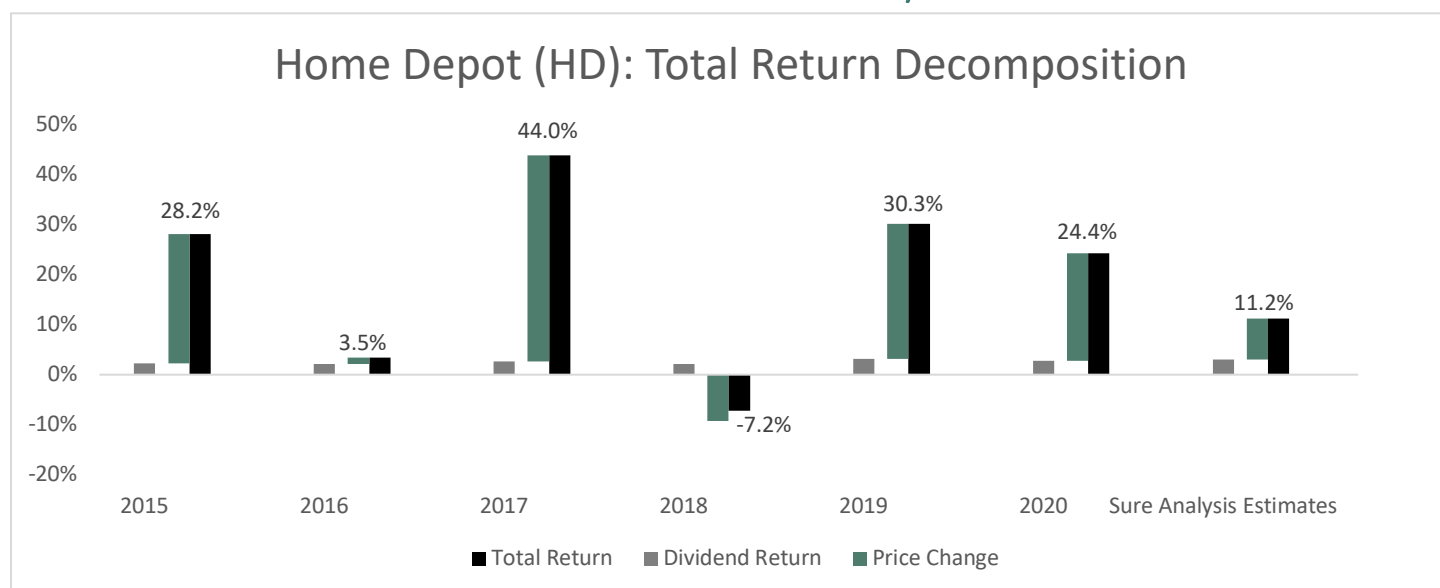
Home Depot's payout ratio is just over half of earnings and we expect it will stay there for the foreseeable future. That means the dividend is not only safe, but it has lots of room to grow in the future as well as earnings expand.

Home Depot's competitive advantage is in its enormous footprint, strong brand recognition and inventory variety. Supplanting its dominant position in home improvement will be extremely difficult for all comers, including rival Lowe's. The company is likely to suffer during a recession, but weakness would be a buying opportunity for long-term investors. With the coronavirus pandemic forcing many to stay home, home renovations have been a good use of this time and it shows as HD generated total returns of 24.4% in 2020.

Final Thoughts & Recommendation

Home Depot offers investors the chance to own a stock that is dominant in its industry with terrific earnings and dividend growth outlooks, however the stock is currently fully valued. We expect total annual returns of 11.2% going forward, consisting of the current 2.4% yield, and 9.0% earnings-per-share growth. Home Depot's fundamentals and growth catalysts are intact, but we rate the shares a hold due to the lack of margin of safety.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue (\$B)	70.40	74.75	78.81	83.18	88.52	94.60	100.90	108.20	110.2	132.11
Gross Profit	24262	25842	26915	28389	30265	32313	34356	37160	37572	44853
Gross Margin	34.5%	34.6%	34.2%	34.1%	34.2%	34.2%	34.0%	34.3%	34.1%	34.0%
SG&A Exp.	16028	16508	16122	16280	16801	17132	17864	19513	19740	24447
D&A Exp.	1682	1684	1757	1786	1863	1973	2062	2152	2296	2519
Operating Profit	6661	7766	9166	10469	11774	13427	14681	15777	15843	18278
Op. Margin	9.5%	10.4%	11.6%	12.6%	13.3%	14.2%	14.5%	14.6%	14.4%	13.8%
Net Profit	3883	4535	5385	6345	7009	7957	8630	11121	11242	12866
Net Margin	5.5%	6.1%	6.8%	7.6%	7.9%	8.4%	8.6%	10.3%	10.2%	9.7%
Free Cash Flow	5430	5663	6239	6800	7870	8162	10134	10596	11045	16376
Income Tax	2185	2686	3082	3631	4012	4534	5068	3435	3473	4112

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	40518	41084	40518	39946	41973	42966	44529	44003	51236	70581
Cash & Equivalents	1987	2494	1929	1723	2216	2538	3595	1778	2133	7895
Acc. Receivable	1245	1395	1398	1484	1890	1570	1604	1936	1738	2992
Inventories	10325	10710	11057	11079	11809	12549	12748	13925	14531	16627
Goodwill & Int.	1120	1170	1289	1353	2102	2093	2275	2252	2254	7126
Total Liabilities	22620	23307	27996	30624	35657	38633	43075	45881	54352	67282
Accounts Payable	4856	5376	5797	5807	6565	7000	7244	7755	7787	11606
Long-Term Debt	10788	10796	14724	17197	21216	23601	27028	29202	31483	37238
Total Equity	17898	17777	12522	9322	6316	4333	1454	N/A	-3116	3299
D/E Ratio	0.60	0.61	1.18	1.84	3.36	5.45	18.59	N/A	-10.10	11.29

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	9.6%	11.1%	13.2%	15.8%	17.1%	18.7%	19.7%	25.1%	23.6%	21.1%
Return on Equity	21.1%	25.4%	35.5%	58.1%	89.6%	149%	298%	N/A	N/A	14061%
ROIC	13.5%	15.8%	19.3%	23.6%	25.9%	28.7%	30.6%	39.9%	40.4%	37.3%
Shares Out.	1,537	1,484	1,380	1,307	1,252	1,203	1,158	1,121	1,088	1,078
Revenue/Share	44.84	49.47	54.96	61.79	68.99	76.66	85.22	94.67	100.48	122.55
FCF/Share	3.46	3.75	4.35	5.05	6.13	6.61	8.56	9.27	10.07	15.19

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

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