D.R. Horton Inc. (DHI)

Updated July 26th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$92	**5 Year CAGR Estimate:**	11.0%	**Market Cap:**	$32.9 B
Fair Value Price:	$106	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	08/09/2021
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	3.0%	**Dividend Payment Date[2]:**	08/17/2021
Dividend Yield:	0.9%	**5 Year Price Target**	$149	**Years Of Dividend Growth:**	7
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	14%

Overview & Current Events

D.R. Horton was founded in 1978 in Fort Worth, Texas. The company has been the largest homebuilder by volume since 2002. The company operates in 91 markets in 29 states across the U.S. The company's brand portfolio includes D.R. Horton (quality & value brand), Express Homes (first-time homebuyer), Freedom Homes (active adult) and Emerald Homes (luxury), which constructs and sells high-quality homes with sales prices ranging from $150,000 to over $1 million. The corporation also provides mortgage financing, title services and insurance agency services for homebuyers through their mortgage, title, and insurance subsidiaries. D.R. Horton trades on the NYSE under the ticker symbol DHI and boasts a $32.9 billion market capitalization. In the trailing twelve months, D.R. Horton closed 80,267 homes.

D.R. Horton reported third quarter results on July 22nd. Homebuilding revenue increased 35% year-over-year to $7.1 billion from $5.2 billion in the same quarter of 2020. Consolidated revenue increased 35% to $7.3 billion. The company generated net income of $1.1 billion, a 77% increase over the same prior year period. Net income per diluted share rose $78% to $3.06. For the nine months ended June 30th, net income per share 85% to $7.73 from $4.17.

Net sales orders decreased 17% to 17,952 homes and increased 2% in value to $6.4 billion. Net sales orders for the first nine months of 2021 increased 20% to 65,429 homes and 33% in value to $21.7 billion compared to the prior year period. Consolidated pre-tax margin improved 490 basis points to 19.4%. Additionally, the corporation repurchased 2.6 million shares of common stock for $241.2 million. Return on equity was 29.5% for the trailing twelve months, quite strong. At the quarter end, the company had $1.7 billion of cash and $2.0 billion of available capacity on its revolving credit facilities for homebuilding liquidity of $3.7 billion.

Leadership expects consolidated revenue of $27.6 billion to $28.1 billion, and to close between 83,000 homes and 84,500 homes. The company also expects it will reduce its share count by 2% at the end of fiscal 2021 compared to the fiscal end of 2020. By all accounts, the updated guidance is higher than guidance provided at the last quarterly report.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$0.23	$0.73	$1.33	$1.50	$2.03	$2.36	$2.74	$4.09	$4.29	$6.41	**$11.20**	**$15.71**
DPS	$0.15	$0.15	$0.19	$0.14	$0.25	$0.32	$0.40	$0.50	$0.60	$0.70	**$0.80**	**$1.29**
Shares[3]	316.0	320.9	322.9	364.6	368.7	372.9	375.0	376.3	368.4	364.0	**357.0**	**335.0**

D. R. Horton's earnings have grown very consistently since 2011, once the company recovered from the financial crisis. Still, the corporation has grown earnings by 44.7% on average per year over the last nine years. In the past five years, this growth rate has been 25.9% on average per year. The strong demand for housing does not look like it will let up soon, however the business is cyclical, so we estimate an earnings growth rate of roughly 7%. Earnings could come in even stronger if the housing boom continues and interest rates stay as low as they are. The company has a large backlog of homes under contract, and it increased 39% compared to last year, to 32,209 homes with a 57% increase in value to

[1] Estimate
[2] Estimate
[3] In millions

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$11.0 billion. The company's share count has grown over the long term, however since 2018 the company has made efforts to reduce its share count and we see this as another minor tailwind to earnings in the coming years. The threat of rising interest rates could wear on the company's results, as the demand for homes and the average sale price could stagnate or drop.

The corporation's dividend has grown by 20% on average over the past five years, and we estimate it will grow at around 10% in the next five years.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	49.3	20.8	16.3	14.4	13.0	12.9	11.8	11.0	9.7	8.6	**8.2**	**9.5**
Avg. Yld.	1.3%	1.0%	0.9%	0.6%	0.9%	1.1%	1.2%	1.1%	1.4%	1.3%	**0.9%**	**0.9%**

D.R. Horton's price-to-earnings multiple appears to be undervalued at 8.2 based on 2021 forecasted earnings, and we believe the valuation will grow to meet our estimated valuation of 9.5 times earnings. We see a 3.0% tailwind to total annual returns from an expanding valuation over time. DHI yields less than 1% and we expect the yield to remain around here despite the significant dividend growth, since the share price has kept up with the growing earnings and dividend.

Safety, Quality, Competitive Advantage, & Recession Resiliency

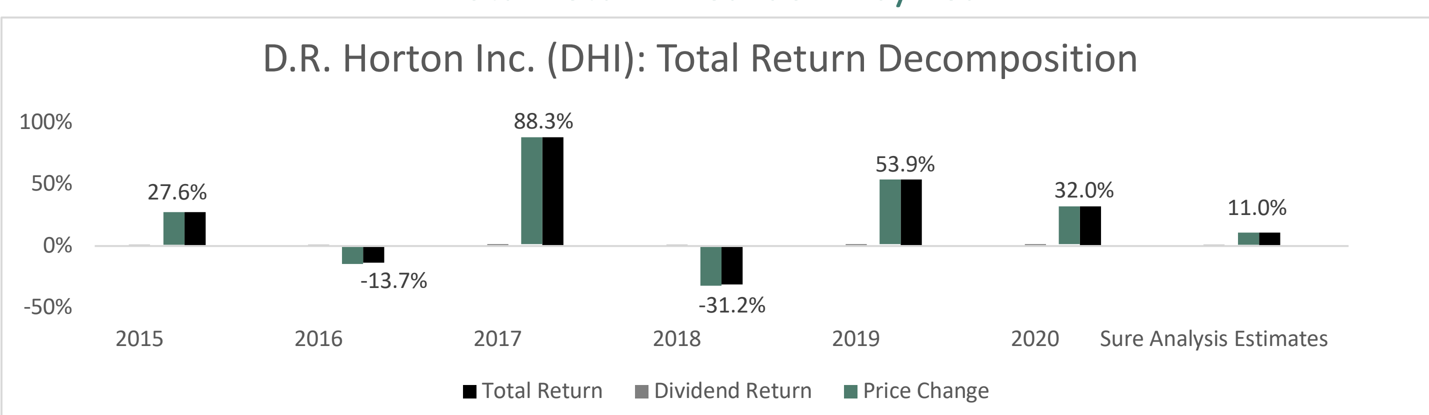
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	65%	21%	14%	9%	12%	14%	15%	12%	14%	11%	**7%**	**8%**

Today the payout ratio is quite low at only 7% of net income, and we estimate that the company has a long runway of dividend growth ahead of it. However, it must be noted that DHI faced many hardships in the Great Financial Crisis, which caused it to report losses from 2007 to 2009 and caused the dividend to be cut significantly. The company only eclipsed their 2005 per share earnings in 2020. This demonstrates that D.R. Horton is not recession resistant. While the company is benefiting from strong demand today, interest rates and housing demand can cause volatile earnings in a recession. DHI's competitive advantage lies in its industry leading position in homebuilding, which it has dominated in since 2002.

Final Thoughts & Recommendation

D. R. Horton is the US' largest homebuilder by volume for nearly 20 years. Since the Great Financial Crisis, the corporation has compounded earnings and the dividend at strong double digits, and we see this continuing. DHI earns a Buy rating on estimated total returns of 14.0%.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	3637	4354	6259	8025	10824	12157	14091	16068	17593	20311
Gross Profit	614	862	1406	1756	2288	2655	3048	3670	3872	4938
Gross Margin	16.9%	19.8%	22.5%	21.9%	21.1%	21.8%	21.6%	22.8%	22.0%	24.3%
SG&A Exp.	556	614	766	965	1186	1320	1472	1677	1833	2048
D&A Exp.	20	19	23	38	54	61	55	62	72	80
Operating Profit	57	247	640	791	1102	1335	1577	1993	2040	2890
Operating Margin	1.6%	5.7%	10.2%	9.9%	10.2%	11.0%	11.2%	12.4%	11.6%	14.2%
Net Profit	72	956	463	534	751	886	1038	1460	1619	2374
Net Margin	2.0%	22.0%	7.4%	6.6%	6.9%	7.3%	7.4%	9.1%	9.2%	11.7%
Free Cash Flow	3	(326)	(1287)	(762)	644	546	283	407	668	1135
Income Tax	(60)	(713)	195	281	373	467	564	598	507	603

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	5358	7248	8856	10185	11151	11559	12185	14115	15607	18912
Cash & Equivalents	733	1048	977	662	1384	1303	1008	1473	1494	3019
Inventories	3450	4165	6197	7701	7807	8341	9237	10395	11282	12237
Goodwill & Int. Ass.	16	39	39	95	87	80	80	109	164	181
Total Liabilities	2735	3654	4795	5066	5256	4766	4437	4956	5312	6791
Accounts Payable	201	267	400	525	517	578	580	625	634	901
Long-Term Debt	1705	2493	3509	3666	3812	3271	2872	3204	3399	4283
Shareholder's Equity	2621	3592	4059	5116	5894	6793	7747	8984	10021	11840
D/E Ratio	0.65	0.69	0.86	0.72	0.65	0.48	0.37	0.36	0.34	0.36

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.3%	15.2%	5.7%	5.6%	7.0%	7.8%	8.7%	11.1%	10.9%	13.8%
Return on Equity	2.7%	30.8%	12.1%	11.6%	13.6%	14.0%	14.3%	17.5%	17.0%	21.7%
ROIC	1.6%	18.4%	6.8%	6.5%	8.1%	9.0%	10.0%	12.7%	12.4%	15.8%
Shares Out.	316.0	320.9	322.9	364.6	368.7	372.9	375.0	376.3	368.4	364.0
Revenue/Share	11.42	12.13	17.15	21.89	29.27	32.41	37.19	41.91	46.62	54.87
FCF/Share	0.01	(0.91)	(3.53)	(2.08)	1.74	1.46	0.75	1.06	1.77	3.07

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