American Homes 4 Rent (AMH)

Updated October 5th, 2021 by Nathan Parsh

Key Metrics

Current Price:	$38	**5 Year CAGR Estimate:**	-2.1%	**Market Cap:**	$14.4 billion
Fair Value Price:	$28	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	12/30/2021[1]
% Fair Value:	137%	**5 Year Valuation Multiple Estimate:**	-6.1%	**Dividend Payment Date:**	1/11/2022[2]
Dividend Yield:	1.1%	**5 Year Price Target**	$32	**Years Of Dividend Growth:**	1
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	100%

Overview & Current Events

Based in Maryland, American Homes 4 Rent is an internally managed real estate investment trust which focuses on acquiring, developing, renovating, operating and leasing single-family homes as rental properties. The trust holds nearly 54,000 single-family properties in sub-markets of metropolitan statistical areas in 22 states. AMH formed in August of 2013 and has a market capitalization of more than $14 billion and generates annual revenues of $1.3 billion.

AMH reported second quarter earnings results on 8/5/2021. Revenue grew nearly 11% to $313.7 million, but was slightly below what analysts had anticipated. Funds-from-operation of $0.33 compared to funds-from-operation of $0.27 in the prior period and was $0.03 ahead of expectations.

AMH saw a same-home average occupied day percentage of 97.9%, a new record for the trust. New leases signed had rate growth of almost 14%. Rent from single-family properties increased 6.6% to $242.2 million. Much of this growth came from a 4.1% improvement in average monthly rents per property. Expenses did rise 2.2% to $87 million, but this was offset by lower uncollectable rents and higher fees. For the first half of the year, rents grew 10.2% and occupied homes stood at 51,980. Demand from the second quarter carried over into the third quarter as AMH had a same-home average occupied days percentage of 97.4% in the month of July with new leases have a rate growth of 16.5%.

AMH offered revised guidance for 2021. The trust now expects core FFO of $1.32 per share, which would be a 13.8% improvement from 2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO	---	---	$0.15	$0.57	$0.72	$0.97	$1.02	$1.06	$1.11	$1.16	***$1.32***	***$1.53***
DPS	---	---	$0.05	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	***$0.40***	***$0.40***
Shares[3]	---	---	186	211	208	243	287	297	301	317	***323***	***326***

AMH has a young history as a publicly traded REIT, but funds-from-operation growth was extensive at the beginning of the trust's existence. AMH's funds-from-operation grew at a rate of 29% from 2013 through 2020. That said, growth has slowed dramatically in the recent years. Funds-from-operation growth since 2016 is 3.6%. We forecast a 3% funds-from-operation growth annually through 2026.

AMH's quarterly dividend has amounted to $0.05 per share since the trust's inception. That changed when the trust doubled its dividend for the 3/31/2021 payment date. We don't anticipate that AMH will grow its dividend in the near-term given its history, however. Investors looking for dividend growth will likely be disappointed in the name.

[1] Estimated ex-dividend date
[2] Estimated dividend payment date
[3] Share count 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	2021	2026
Avg. P/FFO	---	---	---	30.1	22.9	19.3	21.8	19.6	21.9	23.5	***28.8***	***21.0***
Avg. Yld.	---	---	0.3%	1.2%	1.2%	1.1%	0.9%	1.0%	0.8%	0.7%	***1.1%***	***1.2%***

AMH has enjoyed a rich valuation since the beginning of its existence. With a multiple trading at almost 29 times funds-from-operations, AMH's valuation is close to an all-time for the stock. We have a target price-to-funds-from-operations of 21, slightly below the long-term average. Reverting to this valuation by 2026 would reduce annual returns by 6.1%.

Investors often hold shares of REITs for the high yields. AMH is the rare name in the sector that has a very low yield. At 1.1%, the current yield is not only below the typical REIT stock, but also the average yield of the S&P 500 index.

Safety, Quality, Competitive Advantage, & Recession Resiliency

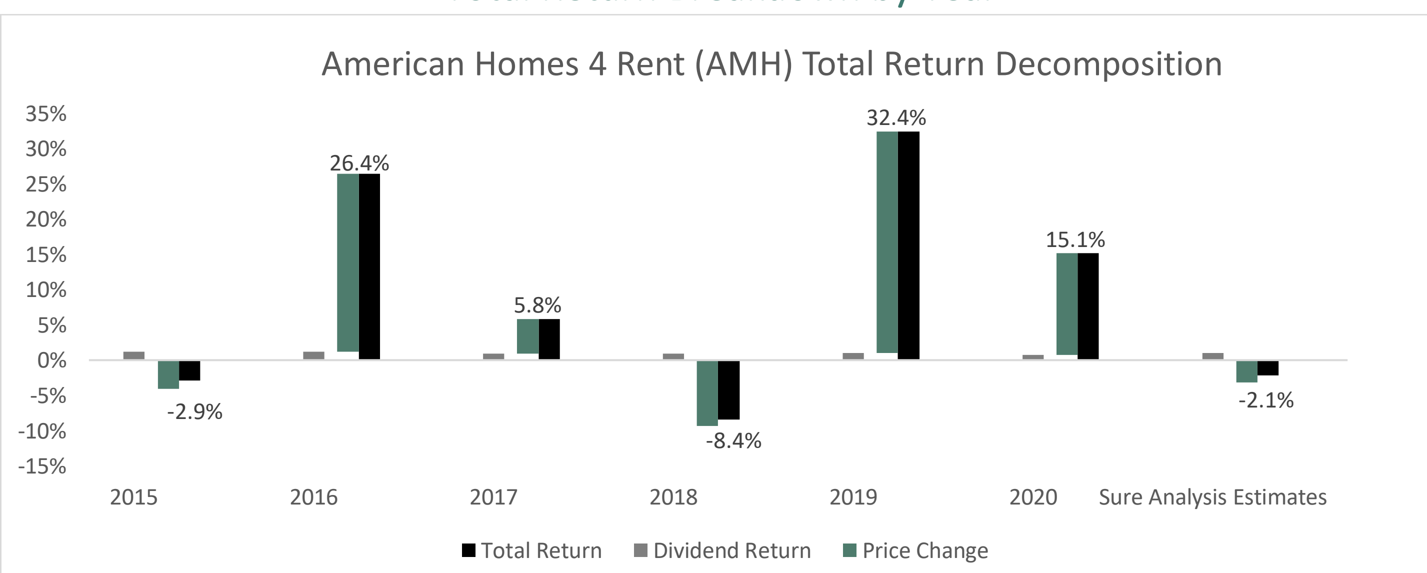
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	33%	35%	28%	21%	20%	19%	18%	17%	***30%***	***26%***

AMH was not publicly traded during the 2007 to 2009 recession so understanding the trust's ability to withstand an economic downturn is not possible. Even so, we believe that the trust would encounter some difficulty. Consumers would still need places to live, so occupancy rates could well remain high. We fear that rental rates would probably decline. AMH is one of the largest operators of single-family in the U.S., giving it a size and scale that is above most of its peer group.

Final Thoughts & Recommendation

American Homes 4 Rent is expected to lose 2.1% per year through 2026. Our projected return stems from a 3% funds-from-operation growth rate and a starting yield of 1.1%, offset by a mid-single-digit headwind from multiple reversion. AMH had a solid second quarter and a record occupancy rate. Year-over-year rental growth rates have been excellent. However, shares trade at a premium valuation. And with most who purchase REITs doing so for income, we feel that the usual investor class might avoid AMH because of its low yield. We initiate coverage of AMH with a 2026 price target of $32 and a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue		5	139	399	631	879	960	1,073	1,143	1,183
Gross Profit		1	65	214	337	491	536	585	623	643
Gross Margin		20.9%	47.0%	53.7%	53.5%	55.8%	55.8%	54.6%	54.5%	54.3%
SG&A Exp.		8	16	25	27	33	35	37	43	49
Operating Profit		(9)	(22)	24	68	159	204	230	250	251
Op. Margin		-206%	-15.8%	6.0%	10.7%	18.1%	21.2%	21.4%	21.9%	21.2%
Net Profit		(10)	(32)	(48)	(62)	7	81	108	141	140
Net Margin		-226%	-23.2%	-12.0%	-9.9%	0.8%	8.4%	10.1%	12.3%	11.9%
Free Cash Flow		(7)	16	176	185	251	348	356	386	369

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets		921	4,224	6,227	6,751	8,107	8,609	9,001	9,100	9,594
Cash & Equivalents		397	149	109	58	119	46	30	38	137
Acc. Receivable		7	7	11	14	18	30	29	30	42
Goodwill & Int.		-	117	104	110	118	115	110	112	110
Total Liabilities		16	573	2,058	2,816	3,170	2,733	3,028	3,081	3,121
Accounts Payable		0	1	5	1	0	2	0	5	0
Long-Term Debt		-	442	1,850	2,594	2,923	2,476	2,804	2,833	2,817
Total Equity		905	2,935	3,450	3,259	4,193	5,149	5,252	5,335	5,789
D/E Ratio		-	0.15	0.54	0.80	0.70	0.48	0.53	0.53	0.49

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets			-1.3%	-0.9%	-1.0%	0.1%	1.0%	1.2%	1.6%	1.5%
Return on Equity		-2.3%	-1.7%	-1.5%	-1.9%	0.2%	1.7%	2.1%	2.7%	2.5%
ROIC			-1.3%	-1.0%	-1.0%	0.1%	1.0%	1.3%	1.6%	1.5%
Shares Out.			186	211	208	243	287	297	301	317
Revenue/Share		0.06	1.12	2.03	2.99	3.76	3.63	3.65	3.81	3.85
FCF/Share		(0.09)	0.13	0.89	0.88	1.07	1.32	1.21	1.29	1.20

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