



M.D.C. Holdings, Inc. (MDC)

Updated November 1st, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$50	5 Year CAGR Estimate:	16.5%	Market Cap:	\$3.5B
Fair Value Price:	\$65	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	11/09/2021
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.2%	Dividend Payment Date:	11/24/2021
Dividend Yield:	4.0%	5 Year Price Target	\$95	Years Of Dividend Growth:	6
Dividend Risk Score:	C	Retirement Suitability Score:	C	Last Dividend Increase:	25% ¹

Overview & Current Events

MDC Holdings, Inc. is a Delaware corporation with two primary operations, homebuilding and financial services. Their homebuilding operation purchases finished lots or develop lots to the extent necessary for the construction and sale of single-family detached homes to first-time move-up homebuyers under the name “Richmond American Homes.” Their financial services operation originates mortgage loans primarily for M.D.C.’s homebuyers as well as insurance coverage. The company generates around \$5.5 billion in annual revenues and is based in Denver, Colorado.

On October 28th, 2021, MDC Holdings posted its Q3 results for the quarter ending September 30th, 2021. Home sale revenues grew 26% year-over-year, primarily powered by a 13% increase in unit closings and a 12% rise in average selling prices. Consequently, net income came in at \$146 million, or \$1.99 per diluted share, up 48% from \$98.9 million, or \$1.38 per diluted share, in the prior-year period. The company continues to see heightened demand for its homes, evidenced by the 21% year-over-year increase in unit orders to \$1.3 billion during the quarter.

The industry is benefiting from the ongoing imbalance between housing supply and demand, positioning M.D.C. to succeed thanks to its sustained focus on more affordable price points and its build-to-order model. As the company’s CEO commented on its Q2 results: “MDC is in a great position to close out 2021 with momentum thanks to our sizable backlog, great product profile, and excellent capital position. We have laid the foundation for a significant increase in community count next year [...] As a result, we believe the future is bright for MDC.” Amid a fantastic trading environment, the company expects Q3 unit deliveries between 2,700 and 3,000, at an average selling price of \$530,000 and \$540,000, 16% higher compared to last year. FY2021 EPS should land at ~ \$8.09 based on these estimates, which we have utilized in our calculations. Back by its impressive performance, M.D.C. hiked its quarterly dividend by 25% to \$0.50.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	(\$1.60)	\$0.98	\$4.83	\$0.98	\$1.02	\$1.59	\$2.17	\$3.20	\$3.56	\$5.33	\$8.09	\$11.89
DPS	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.84	\$1.04	\$1.14	\$1.35	\$2.00	\$2.94
Shares²	61.9	63.0	64.1	64.3	64.5	64.6	64.9	65.4	66.5	68.5	72.8	80.0

M.D.C. has been growing its earnings per share rapidly over the past several years, featuring a 5-year EPS CAGR of 38.5%. The company’s most recent quarterly report displayed no signs of a slowdown, with the backlog remaining strong.

The sky-high housing demand in the country is currently driven by people looking to buy their first home, with the majority of the company’s communities catering to these buyers. There is also a desire for new home customization among these buyers, which is another benefit that M.D.C.’s business model offers. These two trends should be in place for the foreseeable future, giving MDC a great runway for continued success. However, due to macro-economic events, which could easily sway these trends in the medium-term, we forecast EPS growth of around 8% in the medium-term.

¹ Refers to the company’s latest increase QoQ. Due to semi-annual increases, DPS has grown by 33.3% YoY

² Share count is 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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Rising rates, for example, could easily hurt the company's future backlog. Hence, we remain prudent. The dividend has also been growing rapidly following the company's bottom line expansion, at a 5-year CAGR of 21.4%. We forecast DPS growth of around 8% in the medium term to account for cash conservation upon a potential backlog growth slowdown.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	29.6	5.4	24.0	22.1	20.2	13.8	9.1	8.7	8.8	6.2	8.0
Avg. Yld.	3.6%	2.6%	2.9%	3.2%	3.3%	2.4%	2.8%	3.6%	3.7%	2.9%	4.0%	3.1%

Investors have valued M.D.C. in the high-single digits over the past few years. Despite the company currently riding a fantastic wave of new home buyers, multiple factors could reverse this trend, hence the low multiple. Suppose rising rates-related concerns fade and demographic trends continue strong moving forward. In that case, a substantial valuation expansion is likely, though we remain rational and expect a medium-term P/E of around 8. The stock's yield currently stands just around 4%, which makes for a decent tangible return considering how fast the company is currently expanding, providing a welcome margin of safety.

Safety, Quality, Competitive Advantage, & Recession Resiliency

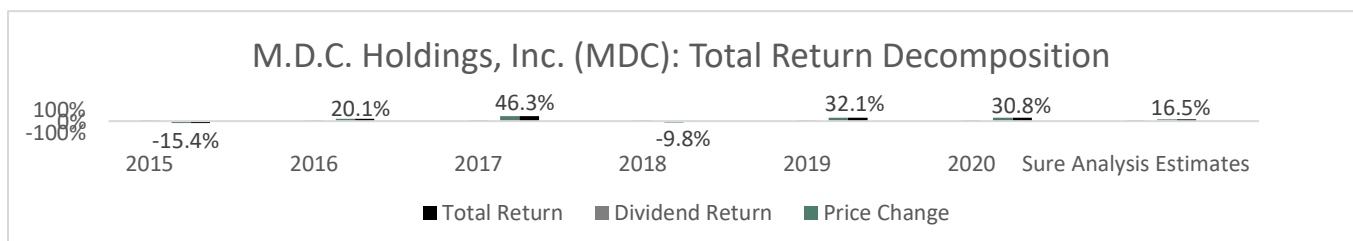
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	78%	16%	78%	74%	48%	39%	33%	32%	25%	25%	25%

Due to a very healthy payout ratio, currently at 25%, and prospects for payouts to grow rapidly in the medium-term, we consider M.D.C.'s dividend quite safe. That being said, there are multiple risks that could damage the company's financials in the medium term. These include employment levels, interest rates, consumer confidence, wage growth, and the overall demand for housing, adding a great element of cyclical to the business over the long term. Consequently, we believe that a prolonged recession could hurt M.D.C. The company suffered massively during the great financial crisis, seeing its quarterly revenues plummet from \$1.74 billion to \$147 million in the span of a few years. While such levels of disaster may not repeat, the point is that M.D.C.'s future revenues could be very volatile, driven by a myriad of market-related determinants. Still, the company seems to be enjoying robust qualities such as an experienced management team and adequate liquidity, featuring a quick ratio of 2.22.

Final Thoughts & Recommendation

M.D.C. has rallied quite consistently over the past few years, as the stock constantly catches up to the company's growing EPS levels. Combining our prudent growth estimates, which imply the possibility of significant headwinds in the medium-term due to higher rates and fewer first-time home buyers, with our assumption of a valuation expansion, we forecast double-digit total returns at an annualized rate of around 16.5%. On the one hand, total returns could be much higher if M.D.C. retains its current trajectory. On the other hand, numerous catalysts could affect M.D.C.'s future revenues and backlog. Hence, while shares earn a buy retaining, investors should pay close attention to the company's operating metrics regularly.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	843	1,203	1,680	1,695	1,909	2,327	2,578	3,065	3,293	3,901
Gross Profit	106	202	315	302	325	396	455	590	647	866
Gross Margin	12.6%	16.8%	18.8%	17.8%	17.0%	17.0%	17.6%	19.2%	19.6%	22.2%
SG&A Exp.	179	167	213	203	226	251	287	330	363	403
D&A Exp.	6	5	4	4	4	5	5	21	23	27
Operating Profit	(73)	35	102	99	99	146	167	260	284	463
Operating Margin	-8.6%	2.9%	6.1%	5.8%	5.2%	6.3%	6.5%	8.5%	8.6%	11.9%
Net Profit	(98)	63	314	63	66	103	142	211	238	368
Net Margin	-12%	5.2%	18.7%	3.7%	3.4%	4.4%	5.5%	6.9%	7.2%	9.4%
Free Cash Flow	(112)	(110)	(271)	(167)	(1)	111	68	(35)	33	(50)
Income Tax	(9)	(2)	(185)	37	36	49	88	53	67	90

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1,859	1,945	2,595	2,351	2,416	2,529	2,780	3,001	3,338	3,865
Cash & Equivalents	343	160	199	154	181	283	505	464	460	489
Accounts Receivable	22	28	23	29	23	42	53	53	66	72
Inventories	806	1,003	1,412	1,668	1,764	1,759	1,830	2,133	2,367	2,832
Goodwill & Int. Ass.	6	6	6	6	6	6	6	6	6	6
Total Liabilities	990	1,065	1,382	1,123	1,160	1,209	1,373	1,425	1,556	1,745
Accounts Payable	26	77	21	42	40	51	48	62	104	133
Long-Term Debt	793	821	1,159	915	944	971	1,114	1,120	1,154	1,250
Shareholder's Equity	869	881	1,213	1,228	1,256	1,320	1,407	1,576	1,782	2,120
D/E Ratio	0.91	0.93	0.96	0.75	0.75	0.74	0.79	0.71	0.65	0.59

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-4.5%	3.3%	13.8%	2.6%	2.8%	4.2%	5.3%	7.3%	7.5%	10.2%
Return on Equity	-11%	7.2%	30.0%	5.2%	5.3%	8.0%	10.4%	14.1%	14.2%	18.8%
ROIC	-5.0%	3.7%	15.4%	2.8%	3.0%	4.6%	5.9%	8.1%	8.5%	11.7%
Shares Out.	61.9	63.0	64.1	64.3	64.5	64.6	64.9	65.4	66.5	68.5
Revenue/Share	13.62	19.01	26.02	26.24	29.47	35.90	38.84	45.90	47.87	55.20
FCF/Share	(1.8)	(1.74)	(4.20)	(2.58)	(0.02)	1.72	1.02	(0.53)	0.48	(0.71)

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

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