PulteGroup Inc. (PHM)

Updated October 29th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$49	**5 Year CAGR Estimate:**	11.7%	**Market Cap:**	$12.3 B
Fair Value Price:	$61	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date[1]:**	12/15/2021
% Fair Value:	80%	**5 Year Valuation Multiple Estimate:**	4.5%	**Dividend Payment Date[2]:**	01/05/2022
Dividend Yield:	1.2%	**5 Year Price Target**	$81	**Years Of Dividend Growth:**	4
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	12%

Overview & Current Events

PulteGroup was founded in 1950 by Bill Pulte. The company has delivered nearly 750,000 homes across the United States. It is the nation's third largest homebuilders and has operations in over 40 major cities. The company is marketed under the following brands: Pulte, Centex, Del Webb, DiVosta, American West, and John Wieland Homes and Neighborhoods. The company caters to the needs of first-time, move-up, luxury and active adult homebuyers. The company trades on the NYSE under the ticker PHM and is based in Georgia, Atlanta. In 2020, PulteGroup recorded $10.6 billion in home sale revenues.

PulteGroup reported third quarter results on October 26th. Home sale revenues for the fourth quarter was $3.3 billion, an 18% increase over Q3 2020. The company generated adjusted net income of $476 million, a 31% improvement over the same prior year period. Pulte's adjusted earnings per share grew 35.8% from $1.34 to $1.82.

Net new orders decreased 17% to 6,796 homes. The net new order value increased 4% to $3.8 billion. The favorable demand environment allowed for an operating margin improvement of 200 basis points. The quarter-end backlog increased 33% to 19,845 homes and has a value of $10.3 billion, which increased 56%. Average sales price in backlog increased 8% from the prior year, to $474,000.

The company repurchased $261 million worth of its common shares, which account for 2% of outstanding common shares. At quarter-end, the company had $1.6 billion of cash and a net debt-to-capital of 5.7%. Additionally, the company invested $1.1 billion into land acquisition and development during the quarter.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	($0.55)	$0.54	$1.49	$1.26	$1.36	$1.67	$2.24	$3.41	$3.66	$5.18	**$7.13**	**$9.54**
DPS	$0.00	$0.00	$0.15	$0.23	$0.33	$0.36	$0.36	$0.38	$0.45	$0.50	**$0.56**	**$0.71**
Shares[3]	382.6	386.6	381.3	369.5	349.2	319.1	286.8	277.1	270.2	266.5	**265.0**	**250.0**

PulteGroup has grown it's earnings per share strongly in the last five years, at a 5-year average annual growth rate of 30.7%. Even dating back from 2013 to 2020, PHM has grown earnings by 19.5% over the seven year period.

The housing market which PulteGroup operates in is red hot, as demand is high, and the supply is limited. PHM has many brands which allow for them to sell to a variety of clientele interested in purchasing housing. The company has a backlog of home orders to construct, and we anticipate the increased demand to continue as net new orders and the value of these orders grow at double digits annually. The increasing average sale price will also add to the company's earnings growth. Finally, the company's share count has been reduced by 32% since the share repurchase program was reinstated eight years ago, which significantly increases the earnings per share as earnings are spread across fewer outstanding shares. The current $1 billion share authorization accounts for 8% of the company's current market cap of

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[1] Estimate

[2] Estimate

[3] In millions

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$12.3 billion. We conservatively forecast the company can grow earnings per share by 6% into 2026. The threat of rising interest rates could wear on the company, as the demand for homes and the average sale price could hit a snag.

The corporation's dividend has grown by 9.2% on average over the past five years, and we estimate it will grow at around 5% in the next five years.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	-	21.9	12.7	15.4	14.9	11.3	11.3	8.4	9.0	7.5	**6.8**	**8.5**
Avg. Yld.	0.0%	0.0%	0.8%	1.2%	1.6%	1.9%	1.4%	1.3%	1.4%	1.3%	**1.2%**	**0.9%**

Pulte's price-to-earnings multiple is undervalued today at 6.8 based on 2021 forecasted earnings, and we believe the valuation will grow to meet our estimated valuation of 8.5 times earnings. We see a tailwind of 4.5% to total annual returns from an expanding valuation over time. PHM is not an income stock with its yield of 1.2%, and we expect the yield to remain around here as the company prefers to repurchase shares and invest in the business.

Safety, Quality, Competitive Advantage, & Recession Resiliency

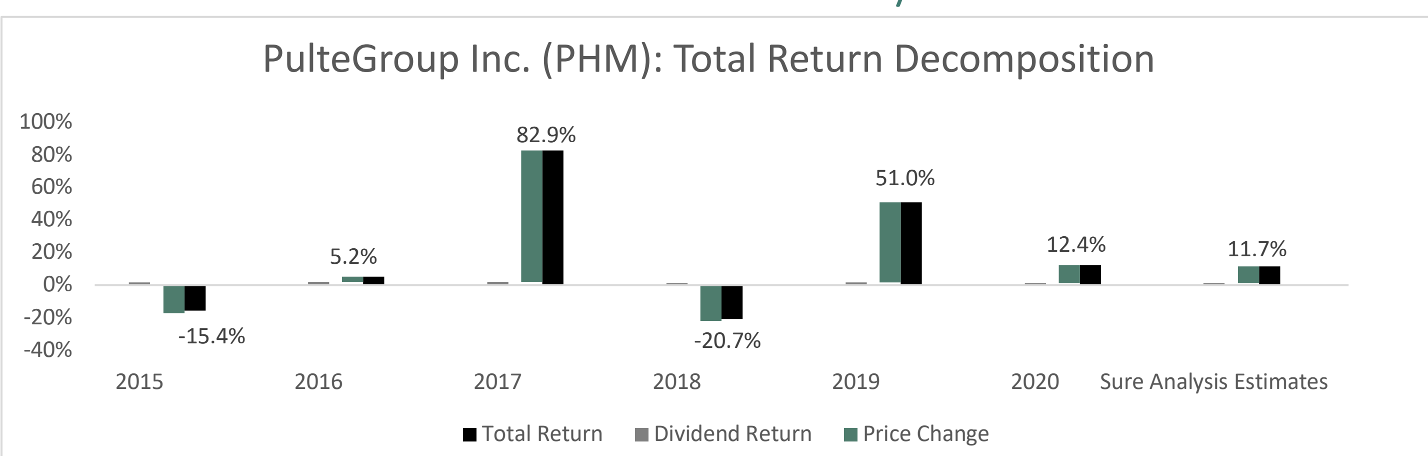
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	0%	0%	10%	18%	24%	22%	16%	11%	12%	10%	**8%**	**7%**

The payout ratio remains exceptionally low so the dividend is safe and should continue to grow in the years to come at roughly the rate of earnings. However, PulteGroup is more interested in investing for growth than it is in becoming an income stock. PulteGroup is not recession resistant and was clobbered in the Great Financial Crisis. In fact, the corporation reported higher net income per share in 2005 than it did in 2020. From 2007 to 2011, the company reported net losses and slashed its dividend to zero. While the company is benefiting from strong demand today, interest rates and housing demand can cause volatile earnings in a recession. We don't see any significant competitive advantage over its peers, but we like the fact that PHM has different banners catering to a variety of client types.

Final Thoughts & Recommendation

We see PulteGroup as attractive for those seeking growth and to invest in the homebuilding market, and PHM is forecasted to earn 11.7% in total annual returns. We estimate the company will fire on all cylinders, with 6% earnings growth, 4.5% in valuation expansion and a 1.2% yield. Our earnings estimate were conservative, and it's possible that returns could come in even stronger if supply remains limited for the huge demand. Today we rate PHM a Buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	4137	4820	5680	5822	5982	7677	8578	10188	10213	11036
Gross Profit	495	756	1172	1578	1628	1948	1863	2373	2397	2778
Gross Margin	12.0%	15.7%	20.6%	27.1%	27.2%	25.4%	21.7%	23.3%	23.5%	25.2%
SG&A Exp.	520	514	569	861	795	957	892	1012	1044	1011
D&A Exp.	32	30	32	40	46	54	51	49	54	66
Operating Profit	(37)	229	591	703	820	977	957	1348	1339	1747
Operating Margin	-0.9%	4.7%	10.4%	12.1%	13.7%	12.7%	11.2%	13.2%	13.1%	15.8%
Net Profit	(210)	206	2620	474	494	603	447	1022	1017	1407
Net Margin	-5.1%	4.3%	46.1%	8.1%	8.3%	7.9%	5.2%	10.0%	10.0%	12.7%
Free Cash Flow	(4)	746	852	259	(383)	29	631	1389	1018	1726
Income Tax	(100)	(23)	(2092)	215	322	331	492	326	323	322

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	6886	6734	8734	8569	9189	10178	9687	10173	10716	12205
Cash & Equivalents	1083	1405	1580	1293	754	699	273	1110	1218	2582
Accounts Receivable	145	123	52	61	363	307	213	153	118	69
Inventories	4636	4214	3979	4392	5450	6771	7147	7253	7681	7722
Goodwill & Int. Ass.	162	149	136	123	110	155	141	127	125	163
Total Liabilities	4947	4545	4085	3764	4430	5519	5533	5355	5257	5636
Accounts Payable	196	178	203	271	328	405	394	352	436	511
Long-Term Debt	3217	2813	2296	2039	2424	3496	3479	3427	3117	3176
Shareholder's Equity	1939	2190	4649	4805	4759	4659	4154	4818	5458	6570
D/E Ratio	1.66	1.28	0.49	0.42	0.51	0.75	0.84	0.71	0.57	0.48

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-2.9%	3.0%	33.9%	5.5%	5.6%	6.2%	4.5%	10.3%	9.7%	12.3%
Return on Equity	-10.3%	10.0%	76.6%	10.0%	10.3%	12.8%	10.1%	22.8%	19.8%	23.4%
ROIC	-3.9%	4.1%	43.9%	6.9%	7.0%	7.9%	5.7%	12.9%	12.1%	15.4%
Shares Out.	382.6	386.6	381.3	369.5	349.2	319.1	286.8	277.1	270.2	266.5
Revenue/Share	10.89	12.53	14.68	15.56	16.63	22.44	27.96	35.77	37.10	40.96
FCF/Share	(0.01)	1.94	2.20	0.69	(1.06)	0.08	2.06	4.88	3.70	6.41

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