



Home Depot (HD)

Updated February 24th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$314	5 Year CAGR Estimate:	11.6%	Market Cap:	\$327 B
Fair Value Price:	\$352	5 Year Growth Estimate:	7.0%	Ex-Dividend Date¹:	03/10/2022
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.3%	Payment Date²:	03/24/2022
Dividend Yield:	2.4%	5 Year Price Target	\$494	Years of Dividend Growth:	13
Dividend Risk Score:	B	Retirement Suitability Score:	C	Last Dividend Increase:	15.0%

Overview & Current Events

Home Depot was founded in 1978 and since that time has grown into a juggernaut home improvement retailer with over 2,300 stores in the US, Canada and Mexico that generate around \$327 billion in annual revenue. The stock has a market value of \$327 billion, making it one of the larger companies by market capitalization in the US. It trades under the ticker symbol HD on the NYSE.

Home Depot reported fourth quarter and full year results on February 22nd. The company reported fourth quarter sales of \$36 billion, a 10.7% year-over-year increase. Comparable sales in the quarter rose 8.1%. Net earnings equated to \$3.4 billion, or \$3.12 per share, compared to \$2.65 per share in Q4 2020.

For the full fiscal year, Home Depot had sales totaling \$151 billion, up 14.4% from 2020. Comparable sales rose 11.4% in the year, and comparable sales rose 10.7% in the US. Net earnings amounted to \$16.4 billion, or \$15.53 per share, 30% higher than \$11.94 per share earned in 2020.

The company spent \$14.8 billion in common stock repurchases during fiscal 2021, a massive increase from the \$791 million spent in 2020. Average ticket rose 11.7% compared to last year, from \$74.32 to \$83.04. Additionally, there was an 11.2% increase in sales per retail square foot, from \$543.74 to \$604.74.

As of the end fiscal 2021, Home Depot has cash and cash equivalents equal to \$2.3 billion. Leadership has resumed communicating guidance. For fiscal 2022, management expects sales growth and comparable sales growth to be slightly positive, with a flat operating margin compared to fiscal 2021. The company will also pay \$1.5 billion in net interest expense for 2022. Finally, diluted EPS growth is expected to be low single digits.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.10	\$3.76	\$4.56	\$5.34	\$6.45	\$7.46	\$9.73	\$10.25	\$11.94	\$15.53	\$16.02	\$22.47
DPS	\$1.16	\$1.56	\$1.88	\$2.36	\$2.76	\$3.56	\$4.12	\$5.44	\$6.00	\$6.60	\$7.60	\$11.69
Shares³	1484.0	1380	1307	1252	1203	1158	1121	1088.0	1078.0	1058.0	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. Then, in the depths of the COVID pandemic, business boomed as the demand for home remodeling and renovations surged. We see five-year annual earnings growth of 7.0%, consisting of comparable sales in the mid-single digits, a low single digit tailwind from buybacks and a steady, low single digit tailwind from operating margin improvements. Average ticket sales increases will also continue add to the top line.

In addition, the company's streak of meaningful dividend growth should continue as we see the payout rising a little above the rate of earnings, reaching \$11.69 per share in five years. Home Depot's 2.4% yield has surpassed its historic average as the share price has come down recently. The company has plenty of room to continue raising the payout in

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.



Home Depot (HD)

Updated February 24th, 2022 by Quinn Mohammed

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.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.9	20.2	19.1	22.1	20.3	21.6	19.4	21.0	23.5	24.2	19.6	22.0
Avg. Yld.	2.1%	2.1%	2.2%	2.0%	2.1%	2.2%	2.2%	2.3%	2.3%	2.0%	2.4%	2.4%

After a decline in share price since the beginning of 2021, the stock today trades below our estimated fair value. Shares trade for 19.6 times our earnings estimate for this year, while we see fair value at 22.0 times earnings.

As a result, we see a 2.3% annual gain due to the valuation multiple expansion 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 nearly congruent rates.

Safety, Quality, Competitive Advantage, & Recession Resiliency

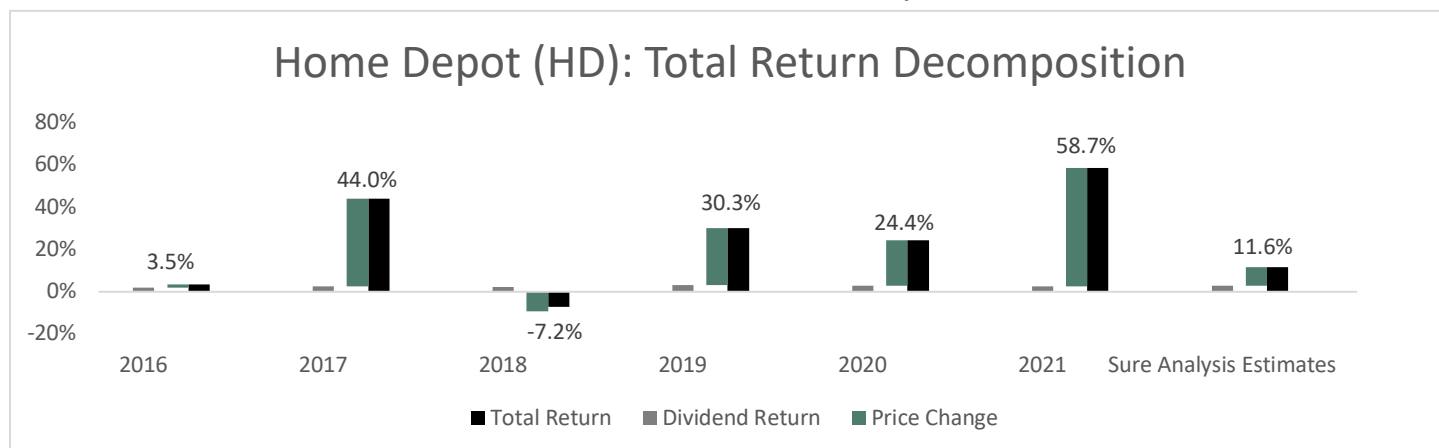
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	37%	41%	41%	44%	43%	48%	42%	53%	50%	42%	47%	52%

Home Depot's payout ratio is almost half of earnings, and we expect it will remain in this range for the foreseeable future. That means the dividend is not only safe, but it has a lot 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 and 58.7% in 2021.

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. Due to a year-to-date decline in share price, HD is trading at 89% of our fair value, which is cheaper than it has traded in the past. We expect total annual returns of 11.6% going forward, consisting of the current 2.4% yield, and 7.0% earnings-per-share growth. With excellent total returns and a strong track record, we rate HD a Buy at the current price.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Home Depot (HD)

Updated February 24th, 2022 by Quinn Mohammed

Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue (\$B)	70.4	74.75	78.81	83.18	88.52	94.60	100.90	108.20	110.23	132.11
Gross Profit	24,262	25,842	26,915	28,389	30,265	32,313	34,356	37,160	37,572	44,853
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.	16,028	16,508	16,122	16,280	16,801	17,132	17,864	19,513	19,740	24,447
D&A Exp.	1,682	1,684	1,757	1,786	1,863	1,973	2,062	2,152	2,296	2,519
Operating Profit	6,661	7,766	9,166	10,469	11,774	13,427	14,681	15,777	15,843	18,278
Op. Margin	9.5%	10.4%	11.6%	12.6%	13.3%	14.2%	14.5%	14.6%	14.4%	13.8%
Net Profit	3,883	4,535	5,385	6,345	7,009	7,957	8,630	11,121	11,242	12,866
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	5,430	5,663	6,239	6,800	7,870	8,162	10,134	10,723	11,009	16,376
Income Tax	2,185	2,686	3,082	3,631	4,012	4,534	5,068	3,435	3,473	4,112

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	40,518	41,084	40,518	39,946	41,973	42,966	44,529	44,003	51,236	70,581
Cash & Equivalents	1,987	2,494	1,929	1,723	2,216	2,538	3,595	1,778	2,133	7,895
Acc. Receivable	1,245	1,395	1,398	1,484	1,890	1,570	1,604	1,640	1,738	2,550
Inventories	10,325	10,710	11,057	11,079	11,809	12,549	12,748	13,925	14,531	16,627
Goodwill & Int.	1,120	1,170	1,289	1,353	2,102	2,093	2,275	2,252	2,254	7,126
Total Liabilities	22,620	23,307	27,996	30,624	35,657	38,633	43,075	45,881	54,352	67,282
Accounts Payable	4,856	5,376	5,797	5,807	6,565	7,000	7,244	7,755	7,787	11,606
Long-Term Debt	10,788	10,796	14,724	17,197	21,216	23,601	27,028	29,202	31,483	37,238
Total Equity	17,898	17,777	12,522	9,322	6,316	4,333	1,454	-1,878	-3,116	3,299
LTD/E Ratio	0.60	0.61	1.18	1.84	3.36	5.45	18.59	-15.55	-10.10	11.29

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
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%	149.4%	298.3%			14061.2%
ROIC	13.5%	15.8%	19.3%	23.6%	25.9%	28.7%	30.6%	39.9%	40.4%	37.3%
Shares Out.	1484.0	1380	1307	1252	1203	1158	1121	1088.0	1078.0	1058.0
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	9.38	10.04	15.19

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.