



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

Updated February 1st, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$51	5 Year CAGR Estimate:	15.9%	Market Cap:	\$3.5 B
Fair Value Price:	\$63	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	02/08/2022
% Fair Value:	80%	5 Year Valuation Multiple Estimate:	4.6%	Dividend Payment Date:	02/23/2022
Dividend Yield:	3.9%	5 Year Price Target	\$93	Years Of Dividend Growth:	6
Dividend Risk Score:	C	Retirement Suitability Score:	B	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 \$5.1 billion in annual revenues and is based in Denver, Colorado.

On February 1st, 2022, M.D.C. Holdings posted its Q4-2021 results for the quarter ending December 31st, 2021. Home sale revenues grew 22% year-over-year, primarily driven by a 4% increase in unit closings and a 14% rise in average selling prices. Consequently, net income came in at \$162.7 million, or \$2.21 per diluted share, up 10% from \$147.5 million, or \$2.03 per diluted share, in the prior-year period. The company continues to see heightened demand for its homes, evidenced by the 9% year-over-year increase in unit orders to \$1.4 billion during the quarter.

The company continues to experience strong demand and pricing power in many markets across the country, driven by strong local economies, rising incomes, and favorable demographics. Equally important has been the ongoing lack of existing home supply which has fueled the need for new home construction.

Following a fantastic trading environment, the company expects to achieve FY-2022 home deliveries between 10,500 and 11,000. For Q1-2022, the company also expects to achieve 2,000 to 2,300 deliveries at an average selling price of \$550,000 and \$560,000. Based on these estimates and management's gross margin guidance of 25%, we project FY-2022 EPS of \$9.75.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.98	\$4.83	\$0.98	\$1.02	\$1.59	\$2.17	\$3.20	\$3.56	\$5.33	\$8.13	\$9.75	\$14.33
DPS	\$0.76	\$0.76	\$0.76	\$0.75	\$0.76	\$0.84	\$1.04	\$1.14	\$1.29	\$1.67	\$2.00	\$2.94
Shares²	63	64.1	64.3	64.5	64.6	64.9	65.4	66.5	68.5	70.1	70.3	80.0

M.D.C.'s earnings per share grown rapidly over the past several years, featuring a 5-year EPS CAGR of 35.1%. The company's most recent quarterly report displayed no worrying signs of a slowdown, with the backlog remaining strong. In fact, backlog dollar value grew 32% to \$4.3 billion as of its latest report.

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. Rising rates, for example, could easily hurt the company's future backlog. Hence, we remain prudent. The dividend has

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.

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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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	29.6	5.4	24.0	22.1	20.2	13.8	9.1	8.7	8.8	6.1	5.2	6.5
Avg. Yld.	2.6%	2.9%	3.2%	3.3%	2.4%	2.8%	3.6%	3.7%	2.9%	3.3%	3.9%	3.2%

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, giving way to the low multiple. While we remain prudent, we expect a multiple expansion from 5.2 to a more reasonable 6.5 to reflect the company's growth prospects. The stock's yield currently stands close to 4%, which makes for a decent tangible return considering how fast the company is currently growing, providing a welcome margin of safety.

Safety, Quality, Competitive Advantage, & Recession Resiliency

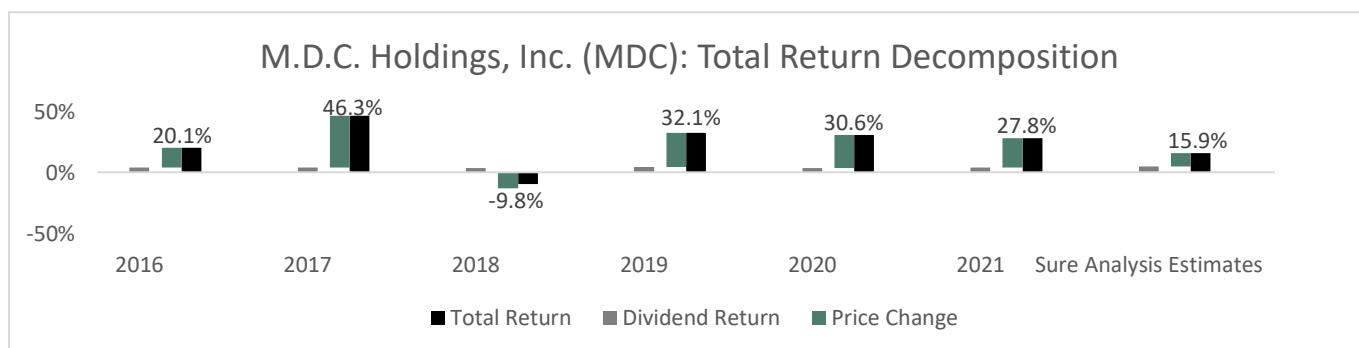
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	16%	78%	74%	48%	39%	33%	32%	24%	21%	21%	21%

Due to a very healthy payout ratio, currently at 21%, 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 cyclicity 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 > 2.0.

Final Thoughts & Recommendation

M.D.C. has had a great FY-2021, with its outlook for this year also very optimistic. 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 15.9%. 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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