



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

Updated May 1st, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$37	5 Year CAGR Estimate:	14.8%	Market Cap:	\$2.62 B
Fair Value Price:	\$50	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	05/10/2022
% Fair Value:	74%	5 Year Valuation Multiple Estimate:	6.3%	Dividend Payment Date:	05/25/2022
Dividend Yield:	5.4%	5 Year Price Target	\$61	Years Of Dividend Growth:	6
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating	Buy

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 April 28th, 2022, M.D.C. Holdings posted its Q1-2022 results for the quarter ending March 31st, 2022. Home sale revenues grew 19% year-over-year, primarily driven by a 3% increase in unit closings and a 16% rise in average selling prices. Net income came in at \$148.4 million, or \$2.02 per diluted share, up 10% from \$110.6 million, or \$2.51 per diluted share, in the prior-year period. Net income was boosted by gross margin expanding by 380 basis points to 25.7% amid growth in home prices exceeding the increase in building material and labor costs. The company continues to see heightened demand for its homes, evidenced by the 2% year-over-year increase in unit orders to \$1.84 billion during the quarter. This is despite last year’s record demand levels. Strong demand and pricing power are driven by strong local economies in several markets, historically low inventory levels, 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 favorable trading environment, the company expects to achieve FY-2022 home deliveries between 10,500 and 11,000. For Q2-2022, the company also expects to achieve 2,400 to 2,600 deliveries at an average selling price of \$560,000 and \$570,000. Based on these estimates and management’s gross margin guidance of 26%, we project FY-2022 EPS of \$10.00.

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	\$10.00	\$12.17
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
Shares¹	63.0	64.1	64.3	64.5	64.6	64.9	65.4	66.5	68.5	70.1	70.9	85.0

M.D.C.’s earnings per share grown rapidly over the past several years, featuring a 5-year EPS CAGR of 35.7%. 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 26% to \$4.95 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. However, the rise in interest rates could suppress these catalysts. Overall, the underlying macro-economic events could easily sway home buying trends in the medium-term. Accordingly, we are slashing our EPS growth forecast from 8% to 4% through 2027

¹ 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.



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

Updated May 1st, 2022 by Nikolaos Sismanis

The dividend has also been growing rapidly following the company's bottom line expansion, at a 5-year CAGR of 18.9%. We forecast a humbler DPS growth of 8% in the medium-term, reflecting the possibility a slowdown in earnings growth.

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	3.7	5.0
Avg. Yld.	2.6%	2.9%	3.2%	3.3%	2.4%	2.8%	3.6%	3.7%	2.9%	3.3%	5.4%	4.8%

Investors have valued M.D.C. in single digits over the past few years. On the one hand, the company is currently riding a fantastic wave of new home buyers and home price growth. On the other, rising rates and reduced consumer purchasing power could easily reverse this trend, giving way to the low multiple. While we remain prudent, we expect a multiple expansion from 3.7 to a more reasonable 5.0 to reflect the company's healthy profitability. The stock's yield currently stands at 5.4%, which makes for a substantial tangible return and should provide a margin of safety to further downside.

Safety, Quality, Competitive Advantage, & Recession Resiliency

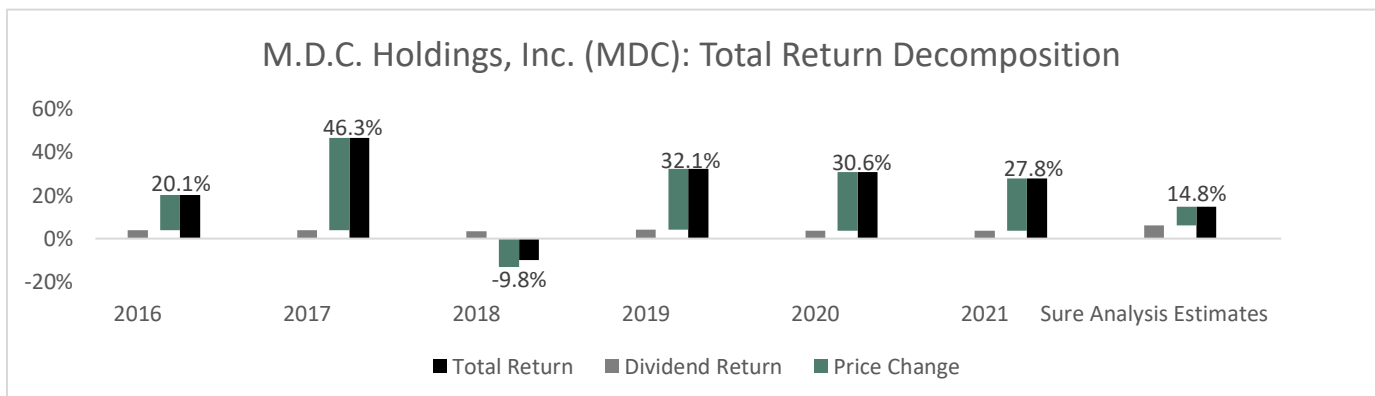
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	16%	78%	74%	48%	39%	33%	32%	24%	21%	20%	24%

Due to a very healthy payout ratio, currently at 20%, 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 1.49.

Final Thoughts & Recommendation

M.D.C. has retained a strong performance momentum over the past several quarters. Moving forward, we forecast annualized returns of 14.8% in the medium-term, supported by M.D.C.'s dividend yield, modest growth assumptions, and the possibility for a valuation expansion. While this earns the stock a buy rating, it's speculative. Numerous catalysts could affect M.D.C.'s revenues and backlog, resulting in declining numbers. Income-oriented investors should not blindly trust the dividend, despite indeed appearing well-covered. M.D.C. could cut it during a recession to preserve liquidity.

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.



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

Updated May 1st, 2022 by Nikolaos Sismanis

Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,203	1,680	1,695	1,909	2,327	2,578	3,065	3,293	3,901	
Gross Profit	202	315	302	325	396	455	590	647	866	
Gross Margin	16.8%	18.8%	17.8%	17.0%	17.0%	17.6%	19.2%	19.6%	22.2%	
SG&A Exp.	167	213	203	226	251	287	330	363	403	
D&A Exp.	5	4	4	4	5	5	21	23	27	
Operating Profit	35	102	99	99	146	167	260	284	463	
Operating Margin	2.9%	6.1%	5.8%	5.2%	6.3%	6.5%	8.5%	8.6%	11.9%	
Net Profit	63	314	63	66	103	142	211	238	368	
Net Margin	5.2%	18.7%	3.7%	3.4%	4.4%	5.5%	6.9%	7.2%	9.4%	
Free Cash Flow	(110)	(271)	(167)	(1)	111	68	(35)	33	(50)	
Income Tax	(2)	(185)	37	36	49	88	53	67	90	

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,945	2,595	2,351	2,416	2,529	2,780	3,001	3,338	3,865	
Cash & Equivalents	160	199	154	181	283	505	464	460	489	
Accounts Receivable	28	23	29	23	42	53	53	66	72	
Inventories	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	
Total Liabilities	1,065	1,382	1,123	1,160	1,209	1,373	1,425	1,556	1,745	
Accounts Payable	77	21	42	40	51	48	62	104	133	
Long-Term Debt	821	1,159	915	944	971	1,114	1,120	1,154	1,250	
Shareholder's Equity	881	1,213	1,228	1,256	1,320	1,407	1,576	1,782	2,120	
LTD/E Ratio	0.93	0.96	0.75	0.75	0.74	0.79	0.71	0.65	0.59	

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.3%	13.8%	2.6%	2.8%	4.2%	5.3%	7.3%	7.5%	10.2%	
Return on Equity	7.2%	30.0%	5.2%	5.3%	8.0%	10.4%	14.1%	14.2%	18.8%	
ROIC	3.7%	15.4%	2.8%	3.0%	4.6%	5.9%	8.1%	8.5%	11.7%	
Shares Out.	63.0	64.1	64.3	64.5	64.6	64.9	65.4	66.5	68.5	
Revenue/Share	19.01	26.02	26.24	29.47	35.90	38.84	45.90	47.87	55.20	
FCF/Share	(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.

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.