D.R. Horton Inc. (DHI)

Updated July 27th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$78	**5 Year CAGR Estimate:**	9.0%	**Market Cap:**	$26 B
Fair Value Price:	$136	**5 Year Growth Estimate:**	-3.5%	**Ex-Dividend Date[1]:**	08/03/2022
% Fair Value:	57%	**5 Year Valuation Multiple Estimate:**	11.8%	**Dividend Payment Date[2]:**	08/11/2022
Dividend Yield:	1.2%	**5 Year Price Target**	$114	**Years Of Dividend Growth:**	7
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

D.R. Horton was founded in 1978 in Fort Worth, Texas. The company has been the largest homebuilder by volume since 2002. The company operates in 105 markets in 33 states across the U.S. The company's brand portfolio includes D.R. Horton (quality & value brand), Express Homes (first-time homebuyer), Freedom Homes (active adult) and Emerald Homes (luxury), which constructs and sells high-quality homes with sales prices ranging from $150,000 to over $1 million. The corporation also provides mortgage financing, title services and insurance agency services for homebuyers through their mortgage, title, and insurance subsidiaries. D.R. Horton trades on the NYSE under the ticker symbol DHI and boasts a $26 billion market capitalization. In the trailing twelve months, D.R. Horton closed 81,469 homes.

D.R. Horton reported third quarter fiscal 2022 results July 21st. Homebuilding revenue increased 18% year-over-year to $8.3 billion. Net income increased 48% to $1.6 billion and net income per share increased 53% to $4.67 compared to $3.06 in Q3 2021.

Net sales orders decreased 7% in the third quarter over last year, to 16,693 homes, and the value increased 8% to $6.9 billion. Consolidated pre-tax profit margin improved 540 basis points to 24.8%. Additionally, the corporation repurchased 4.7 million shares of common stock for $310 million. Return on equity was 35.1% for the trailing twelve months, quite strong.

Leadership downgraded guidance for fiscal 2022 to achieve consolidated revenue of $33.8 billion to $34.6 billion (down from $35.3 billion to $36.1 billion previously), and to close between 83,000 and 85,000 homes (down from 88,000 and 90,000 homes).

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.73	$1.33	$1.50	$2.03	$2.36	$2.74	$4.09	$4.29	$6.41	$11.41	***$17.00***	***$14.23***
DPS	$0.15	$0.19	$0.14	$0.25	$0.32	$0.40	$0.50	$0.60	$0.70	$0.83	***$0.90***	***$1.45***
Shares[3]	320.9	322.9	364.6	368.7	372.9	375.0	376.3	368.4	364.0	356.0	***345.0***	***315.0***

D. R. Horton's earnings have grown very consistently since 2011, once the company recovered from the financial crisis. Still, the corporation has grown earnings by 36% on average per year over the last nine years. In the past five years, this growth rate has been 37% on average per year. The strong demand for housing does not look like it will let up soon, however the business is cyclical and appears to be near its peak. As a result, we are estimating earnings growth to turn, and for earnings per share to shrink by 3.5% per year over the next five years. Earnings could come in stronger if the housing boom continues, but interest rates are currently soaring, which is likely to drag down results. The company has a large backlog of homes under contract, currently at 29,244 homes with an 8% year-over-year increase in value to $11.9 billion. The company's share count has grown over the long term, however since 2018 the company has made efforts to

[1] Estimate
[2] Estimate
[3] In millions

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reduce its share count and we see this as another minor tailwind to earnings in the coming years. Rising interest rates will wear on the company's results, as the demand for homes and the average sale price could stagnate or drop.

The corporation's dividend has grown by 20% on average over the past nine years, and we estimate it will grow at around 10% in the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	20.8	16.3	14.4	13.0	12.9	11.8	11.0	9.7	8.6	7.7	***4.6***	***8.0***
Avg. Yld.	1.0%	0.9%	0.6%	0.9%	1.1%	1.2%	1.1%	1.4%	1.3%	0.9%	***1.2%***	***1.3%***

D.R. Horton's price-to-earnings multiple appears to be undervalued at 4.6 based on 2022 forecasted earnings, and we believe the valuation will grow to meet our estimated valuation of 8.0 times earnings. We see an 11.8% tailwind to total annual returns from an expanding valuation over time. DHI yields just above 1% and we expect the yield to remain around here.

Safety, Quality, Competitive Advantage, & Recession Resiliency

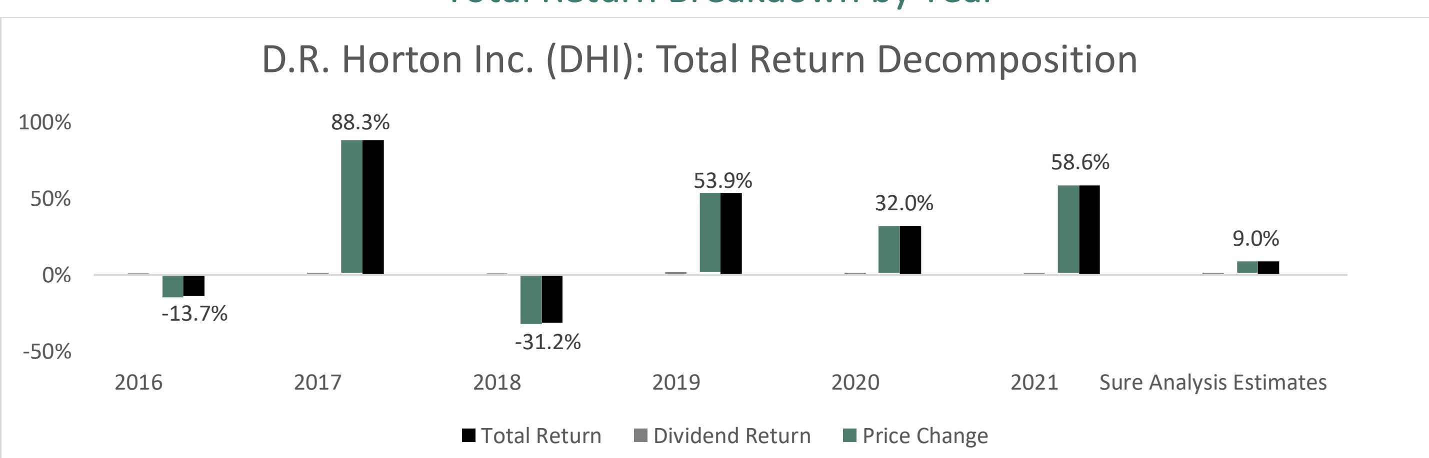
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	21%	14%	9%	12%	14%	15%	12%	14%	11%	7%	***5%***	***10%***

Today the payout ratio is quite low at only 5% of net income, and we estimate that the company has a long runway of dividend growth ahead of it. However, it must be noted that DHI faced many hardships in the Great Financial Crisis, which caused it to report losses from 2007 to 2009 and caused the dividend to be cut significantly. The company only eclipsed their 2005 per share earnings in 2020. This demonstrates that D.R. Horton is not recession resistant. While the company is benefiting from strong demand today, interest rates and housing demand can cause volatile earnings in a recession. DHI's competitive advantage lies in its industry leading position in homebuilding, which it has dominated in since 2002.

Final Thoughts & Recommendation

D. R. Horton is the US' largest homebuilder by volume for about 20 years. Since the Great Financial Crisis, the corporation has compounded earnings and the dividend at strong double digits, and we see this continuing for the dividend. We are downgrading DHI from a buy to a hold as total return prospects have fallen to 9.0% annualized total returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4354	6259	8025	10824	12157	14091	16068	17593	20311	27774
Gross Profit	862	1406	1756	2288	2655	3048	3670	3872	4938	7875
Gross Margin	19.8%	22.5%	21.9%	21.1%	21.8%	21.6%	22.8%	22.0%	24.3%	28.4%
SG&A Exp.	614	766	965	1186	1320	1472	1677	1833	2048	2556
D&A Exp.	19	23	38	54	61	55	62	72	80	74
Operating Profit	247	640	791	1102	1335	1577	1993	2040	2890	5319
Operating Margin	5.7%	10.2%	9.9%	10.2%	11.0%	11.2%	12.4%	11.6%	14.2%	19.2%
Net Profit	956	463	534	751	886	1038	1460	1619	2374	4176
Net Margin	22.0%	7.4%	6.6%	6.9%	7.3%	7.4%	9.1%	9.2%	11.7%	15.0%
Free Cash Flow	-326	-1287	-762	644	546	283	407	668	1135	267
Income Tax	-713	195	281	373	467	564	598	507	603	1165

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	7248	8856	10185	11151	11559	12185	14115	15607	18912	24016
Cash & Equivalents	1048	977	662	1384	1303	1008	1473	1494	3019	3210
Inventories	4165	6197	7701	7807	8341	9237	10395	11282	12237	16479
Goodwill & Int. Ass.	39	39	95	87	80	80	109	164	181	164
Total Liabilities	3654	4795	5066	5256	4766	4437	4956	5312	6791	8800
Accounts Payable	267	400	525	517	578	580	625	634	901	1177
Long-Term Debt	2493	3509	3666	3812	3271	2872	3204	3399	4283	5412
Shareholder's Equity	3592	4059	5116	5894	6793	7747	8984	10021	11840	14887
D/E Ratio	0.69	0.86	0.72	0.65	0.48	0.37	0.36	0.34	0.36	0.36

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	15.2%	5.7%	5.6%	7.0%	7.8%	8.7%	11.1%	10.9%	13.8%	19.5%
Return on Equity	30.8%	12.1%	11.6%	13.6%	14.0%	14.3%	17.5%	17.0%	21.7%	31.2%
ROIC	18.4%	6.8%	6.5%	8.1%	9.0%	10.0%	12.7%	12.4%	15.8%	22.6%
Shares Out.	320.9	322.9	364.6	368.7	372.9	375.0	376.3	368.4	364.0	356.0
Revenue/Share	12.13	17.15	21.89	29.27	32.41	37.19	41.91	46.62	54.87	75.93
FCF/Share	-0.91	-3.53	-2.08	1.74	1.46	0.75	1.06	1.77	3.07	0.73

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