



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

Updated July 28th, 2022 by Nikolaos Sismanis

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|------------|
| Current Price: | \$36 | 5 Year CAGR Estimate: | 8.7% | Market Cap: | \$2.59 B |
| Fair Value Price: | \$55 | 5 Year Growth Estimate: | -5.0% | Ex-Dividend Date: | 08/09/2022 |
| % Fair Value: | 65% | 5 Year Valuation Multiple Estimate: | 8.8% | Dividend Payment Date: | 08/24/2022 |
| Dividend Yield: | 5.6% | 5 Year Price Target | \$43 | Years Of Dividend Growth: | 6 |
| Dividend Risk Score: | C | Retirement Suitability Score: | B | Rating | Hold |

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 July 28th, 2022, M.D.C. Holdings posted its Q2-2022 results for the quarter ending June 30th, 2022. Home sale revenues grew 6% year-over-year, primarily driven by a 7% decrease in unit closings and a 14% rise in average selling prices. Net income came in at \$189.5 million, or \$2.59 per diluted share, up 23% from \$154.4 million, or \$2.11 per diluted share, in the prior-year period. Net income was boosted by home sales gross margin expanding by 370 basis points to 26.8% amid growth in home prices exceeding the increase in building material and labor costs.

However, the company has started to see declining demand for its homes, with recession fears having grown amongst home buyers. This is evidenced by the 29% year-over-year decline in unit orders during the quarter. Cancellations as a percentage of beginning backlog increased 400 basis points to 9.7% from 5.7% year-over-year as well. Still, the average selling price of net orders remains 16% higher compared to Q2-2021, which means that supply/demand fundamentals remain somewhat favorable.

The company expects to achieve Q3 home deliveries between 2,200 to 2,500 at an average selling price of \$580,000 and \$590,000. Based on these estimates and the company’s performance during the first half of the year, 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 | \$7.74 |
| DPS | \$0.76 | \$0.76 | \$0.76 | \$0.75 | \$0.76 | \$0.84 | \$1.04 | \$1.14 | \$1.29 | \$1.67 | \$2.00 | \$2.68 |
| Shares¹ | 63.0 | 64.1 | 64.3 | 64.5 | 64.6 | 64.9 | 65.4 | 66.5 | 68.5 | 70.1 | 72.9 | 85.0 |

M.D.C.’s earnings-per-share grew rapidly over the past several years, featuring a 5-year EPS CAGR of 35.7%. The company’s most recent quarterly report started displaying strong signs of a slowdown in demand for new houses, with the dollar value of net new orders declining 40% to \$882.1 in Q2. The declining demand for homes is driven by a sharp increase in interest rates combined with a more uncertain economic outlook that has taken a toll on consumer confidence. We believe these challenges may persist for at least the remainder of the year and possibility over the next few years. Accordingly, we are slashing our EPS growth forecast from 4% to a negative 5% through 2027 off of what will likely be a base of record EPS this year.

The dividend has also snowballed following the company’s bottom line expansion, at a 5-year CAGR of 18.9%. We forecast a humbler DPS growth of 6% in the medium-term, which the company should be able to afford.

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.



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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 | 3.6 | 5.5 |
| Avg. Yld. | 2.6% | 2.9% | 3.2% | 3.3% | 2.4% | 2.8% | 3.6% | 3.7% | 2.9% | 3.3% | 5.6% | 6.3% |

Investors have valued M.D.C. in single digits over the past few years. On the one hand, the company is set to post record earnings this year. On the other, the home buying trend is clearly reversing. The current P/E of around 3.6 reflects the market's expectations of declining EPS from this year's inflated numbers. Still, we believe that once earnings normalize, the stock would be fairly valued at a P/E of around 5.5.

The stock's yield currently stands at 5.6%, which makes for a substantial tangible return and should provide a margin of safety to further downside.

Safety, Quality, Competitive Advantage, & Recession Resiliency

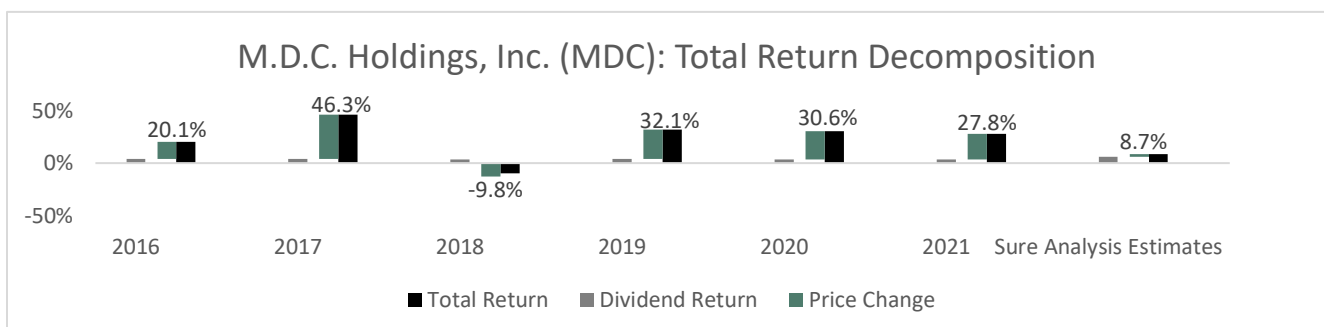
| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | --- | 16% | 78% | 74% | 48% | 39% | 33% | 32% | 24% | 21% | 20% | 35% |

Due to a very healthy payout ratio, currently at 20%, and enough room for payouts to grow further in the medium-term, we consider M.D.C.'s dividend to be relatively 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, a debt-to-capital ratio of just 34%, total available liquidity of \$1.74 billion, and no senior note maturities due until 2030.

Final Thoughts & Recommendation

M.D.C.'s momentum appears to be fading as tough macroeconomic conditions become increasingly vibrant. While we expect the company's earnings to decline over the medium-term, the dividend should remain covered, while the 5.6% yield should provide a margin of safety against any stock price losses. These factors, combined with a medium-term fair multiple of 5.5, point toward annualized returns of 8.7% through 2027. This earns the stock a hold rating. Still, there are multiple factors that could easily sway the company's performance notably. Thus its overall investment case is relatively speculative as well. Income-oriented investors should not blindly trust the dividend, despite indeed appearing well-covered. M.D.C. could still cut it during a recession to preserve liquidity.

Total Return Breakdown by Year



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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 | 5,255 |
| Gross Profit | 202 | 315 | 302 | 325 | 396 | 455 | 590 | 647 | 866 | 1,264 |
| Gross Margin | 16.8% | 18.8% | 17.8% | 17.0% | 17.0% | 17.6% | 19.2% | 19.6% | 22.2% | 24.1% |
| SG&A Exp. | 167 | 213 | 203 | 226 | 251 | 287 | 330 | 363 | 403 | 494 |
| D&A Exp. | 5 | 4 | 4 | 4 | 5 | 5 | 21 | 23 | 27 | 32 |
| Operating Profit | 35 | 102 | 99 | 99 | 146 | 167 | 260 | 284 | 463 | 771 |
| Operating Margin | 2.9% | 6.1% | 5.8% | 5.2% | 6.3% | 6.5% | 8.5% | 8.6% | 11.9% | 14.7% |
| Net Profit | 63 | 314 | 63 | 66 | 103 | 142 | 211 | 238 | 368 | 574 |
| Net Margin | 5.2% | 18.7% | 3.7% | 3.4% | 4.4% | 5.5% | 6.9% | 7.2% | 9.4% | 10.9% |
| Free Cash Flow | (110) | (271) | (167) | (1) | 111 | 68 | (35) | 33 | (50) | (238) |
| Income Tax | (2) | (185) | 37 | 36 | 49 | 88 | 53 | 67 | 90 | 178 |

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 | 4,964 |
| Cash & Equivalents | 160 | 199 | 154 | 181 | 283 | 505 | 464 | 460 | 489 | 591 |
| Accounts Receivable | 28 | 23 | 29 | 23 | 42 | 53 | 53 | 66 | 72 | 99 |
| Inventories | 1,003 | 1,412 | 1,668 | 1,764 | 1,759 | 1,830 | 2,133 | 2,367 | 2,832 | 3,761 |
| Goodwill & Int. Ass. | 6 | 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 | 2,366 |
| Accounts Payable | 77 | 21 | 42 | 40 | 51 | 48 | 62 | 104 | 133 | 174 |
| Long-Term Debt | 821 | 1,159 | 915 | 944 | 971 | 1,114 | 1,120 | 1,154 | 1,250 | 1,748 |
| Shareholder's Equity | 881 | 1,213 | 1,228 | 1,256 | 1,320 | 1,407 | 1,576 | 1,782 | 2,120 | 2,597 |
| LTD/E Ratio | 0.93 | 0.96 | 0.75 | 0.75 | 0.74 | 0.79 | 0.71 | 0.65 | 0.59 | 0.67 |

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% | 13.0% |
| Return on Equity | 7.2% | 30.0% | 5.2% | 5.3% | 8.0% | 10.4% | 14.1% | 14.2% | 18.8% | 24.3% |
| ROIC | 3.7% | 15.4% | 2.8% | 3.0% | 4.6% | 5.9% | 8.1% | 8.5% | 11.7% | 14.9% |
| Shares Out. | 63.0 | 64.1 | 64.3 | 64.5 | 64.6 | 64.9 | 65.4 | 66.5 | 68.5 | 72.9 |
| Revenue/Share | 19.01 | 26.02 | 26.24 | 29.47 | 35.90 | 38.84 | 45.90 | 47.87 | 55.20 | 72.13 |
| FCF/Share | (1.74) | (4.20) | (2.58) | (0.02) | 1.72 | 1.02 | (0.53) | 0.48 | (0.71) | (3.26) |

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

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