PulteGroup Inc. (PHM)

Updated July 27th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$42	**5 Year CAGR Estimate:**	8.9%	**Market Cap:**	$10.2 B
Fair Value Price:	$78	**5 Year Growth Estimate:**	-5.0%	**Ex-Dividend Date[1]:**	09/16/2022
% Fair Value:	53%	**5 Year Valuation Multiple Estimate:**	13.4%	**Dividend Payment Date[2]:**	10/05/2022
Dividend Yield:	1.4%	**5 Year Price Target**	$61	**Years Of Dividend Growth:**	4
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

PulteGroup was founded in 1950 by Bill Pulte. The company has delivered nearly 750,000 homes across the United States. It is the nation's third largest homebuilders and has operations in over 40 major cities. The company is marketed under the following brands: Pulte, Centex, Del Webb, DiVosta, American West, and John Wieland Homes and Neighborhoods. The company caters to the needs of first-time, move-up, luxury and active adult homebuyers. The company trades on the NYSE under the ticker PHM and is based in Georgia, Atlanta. In 2021, PulteGroup recorded $13.9 billion in home sale revenues.

PulteGroup reported second quarter results on July 26th. Home sale revenue for the second quarter was $3.8 billion, an 18% year-over-year increase. The company generated net income and adjusted net income of $652 million, or $2.73 per share.

Net new orders decreased 23% to 6,418 homes. This decrease was a result of higher mortgage rates, reduced affordability and more buyers canceling their contracts. The net new order value decreased 8% to $3.9 billion. The still-favorable demand environment allowed for a homebuilding gross margin improvement of 430 basis points to 30.9%. The quarter-end backlog decreased 4% to 19,176 homes and has a value of $11.6 billion, which is 18% higher than the prior year. Average sales price increased 19% from the prior year, to $531,000.

The company repurchased 7.1 million worth of its common shares in the second quarter for $294 million. At quarter-end, the company had $737 million of cash and a debt-to-capital of 20.8%.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.54	$1.49	$1.26	$1.36	$1.67	$2.24	$3.41	$3.66	$5.18	$7.43	***$11.20***	***$8.67***
DPS	$0.00	$0.15	$0.23	$0.33	$0.36	$0.36	$0.38	$0.45	$0.50	$0.57	***$0.60***	***$0.77***
Shares[3]	386.6	381.3	369.5	349.2	319.1	286.8	277.1	270.2	266.5	259.9	***235.0***	***180.0***

PulteGroup has grown it's earnings per share strongly in the last five years, at a 5-year average annual growth rate of 35%. Even dating back from 2014 to 2021, PHM has grown earnings by 29% over the seven year period.

The housing market which PulteGroup operates in is red hot, as demand is high, and the supply is limited. PHM has many brands which allow for them to sell to a variety of clientele interested in purchasing housing. The company has a backlog of home orders to construct, and we anticipate the increased demand to continue as net new orders and the value of these orders grow annually. The increasing average sale price will also add to the company's earnings growth. Finally, the company's share count has been reduced by 32% since 2012, which significantly increases the earnings per share as earnings are spread across fewer outstanding shares. The current $1.5 billion share buyback authorization accounts for nearly 15% of the company's current market cap of $10.2 billion. We estimate the company's earnings will decrease by 5.0% off this high point into 2027, due to the cyclicality of the business and the current relative high point.

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[1] Estimate

[2] Estimate

[3] In millions

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The increase in interest rates and resultant mortgage rates have already begun to affect new order levels, and are causing an increase in order cancellations.

The corporation's dividend has grown by 11% on average over the past five years, and we estimate it will grow at around 5% in the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	21.9	12.7	15.4	14.9	11.3	11.3	8.4	9.0	7.5	8.8	***3.7***	***7.0***
Avg. Yld.	0.0%	0.8%	1.2%	1.6%	1.9%	1.4%	1.3%	1.4%	1.3%	1.0%	***1.4%***	***1.3%***

Pulte's price-to-earnings multiple is undervalued today at 3.7 based on 2022 forecasted earnings, and we believe the valuation will grow to meet our estimated valuation of 7.0 times earnings. We see a massive tailwind of 13.4% to total annual returns from an expanding valuation over time. PHM is not an income stock with its yield of 1.4%, and we expect the yield to remain around here as the company prefers to repurchase shares and invest in the business.

Safety, Quality, Competitive Advantage, & Recession Resiliency

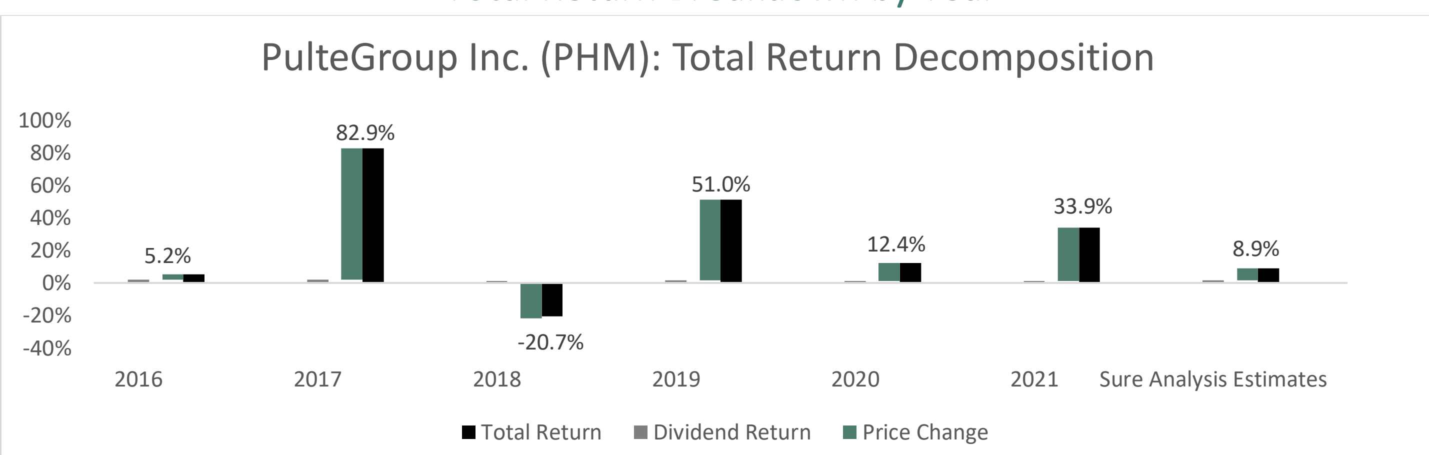
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	0%	10%	18%	24%	22%	16%	11%	12%	10%	8%	*5%*	*9%*

The payout ratio remains exceptionally low so the dividend is safe and should continue to grow in the years to come at roughly the rate of earnings. However, PulteGroup is more interested in investing for growth than it is in becoming an income stock. PulteGroup is not recession resistant and was clobbered in the Great Financial Crisis. In fact, the corporation reported higher net income per share in 2005 than it did in 2020. From 2007 to 2011, the company reported net losses and slashed its dividend to zero. While the company is benefiting from strong demand today, interest rates and housing demand can cause volatile earnings in a recession. We don't see any significant competitive advantage over its peers, but we like the fact that PHM has different banners catering to a variety of client types.

Final Thoughts & Recommendation

We see PulteGroup as attractive for those looking to invest in the homebuilding market, and PHM is forecasted to earn 8.9% in total annual returns. We estimate the company will grow primarily through valuation expansion of 13.4% annually, with a 5% annual headwind to earnings growth off this strong 2022 base, and a 1.4% yield. We are downgrading PHM from a buy to a hold on reduced total return expectations.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4,820	5,680	5,822	5,982	7,677	85,78	10,188	102,13	11,036	13,927
Gross Profit	756	1,172	1,578	1,628	1,948	1,863	2,373	2,397	2,778	3,782
Gross Margin	15.7%	20.6%	27.1%	27.2%	25.4%	21.7%	23.3%	23.5%	25.2%	27.2%
SG&A Exp.	514	569	861	795	957	892	1,012	1,044	1,011	1,209
D&A Exp.	30	32	40	46	54	51	49	54	66	70
Operating Profit	229	591	703	820	977	957	1,348	1,339	1,747	2,557
Operating Margin	4.7%	10.4%	12.1%	13.7%	12.7%	11.2%	13.2%	13.1%	15.8%	18.4%
Net Profit	206	2,620	474	494	603	447	1,022	1,017	1,407	1,946
Net Margin	4.3%	46.1%	8.1%	8.3%	7.9%	5.2%	10.0%	10.0%	12.7%	14.0%
Free Cash Flow	746	852	259	-383	29	631	1,389	1,018	1,726	931
Income Tax	-23	-2,092	215	322	331	492	326	323	322	564

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	6,734	8,734	8,569	9,189	10,178	9,687	10,173	10,716	12,205	13,353
Cash & Equivalents	1,405	1,580	1,293	754	699	273	1,110	1,218	2,582	1,779
Accounts Receivable	123	52	61	363	307	213	153	118	69	57
Inventories	4,214	3,979	4,392	5,450	6,771	7,147	7,253	7,681	7,722	9,048
Goodwill & Int. Ass.	149	136	123	110	155	141	127	125	163	147
Total Liabilities	4,545	4,085	3,764	4,430	5,519	5,533	5,355	5,257	5,636	5,863
Accounts Payable	178	203	271	328	405	394	352	436	511	621
Long-Term Debt	2,648	2,171	1,981	2,378	3,461	3,445	3,376	3,092	3,164	2,655
Shareholder's Equity	2,190	4,649	4,805	4,759	4,659	4,154	4,818	5,458	6,570	7,490
LTD/E Ratio	1.21	0.47	0.41	0.50	0.74	0.83	0.70	0.57	0.48	0.35

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.0%	33.9%	5.5%	5.6%	6.2%	4.5%	10.3%	9.7%	12.3%	15.2%
Return on Equity	10.0%	76.6%	10.0%	10.3%	12.8%	10.1%	22.8%	19.8%	23.4%	27.7%
ROIC	4.2%	44.9%	7.0%	7.1%	7.9%	5.7%	12.9%	12.1%	15.4%	19.6%
Shares Out.	386.6	381.3	369.5	349.2	319.1	286.8	277.1	270.2	266.5	259.9
Revenue/Share	12.53	14.68	15.56	16.63	22.44	27.96	35.77	37.10	40.96	53.58
FCF/Share	1.94	2.20	0.69	-1.06	0.08	2.06	4.88	3.70	6.41	3.58

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