



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

Updated October 28<sup>th</sup>, 2022 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$31	<b>5 Year CAGR Estimate:</b>	7.0%	<b>Market Cap:</b>	\$2.23 B
<b>Fair Value Price:</b>	\$46	<b>5 Year Growth Estimate:</b>	-7.0%	<b>Ex-Dividend Date:</b>	11/08/2022
<b>% Fair Value:</b>	68%	<b>5 Year Valuation Multiple Estimate:</b>	8.0%	<b>Dividend Payment Date:</b>	11/23/2022
<b>Dividend Yield:</b>	6.4%	<b>5 Year Price Target</b>	\$32	<b>Years Of Dividend Growth:</b>	6
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Rating</b>	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 October 27<sup>th</sup>, 2022, M.D.C. Holdings posted its Q3-2022 results for the quarter ending September 30<sup>th</sup>, 2022. Home sale revenues grew 12% year-over-year, primarily driven by a 1% decrease in unit closings and a 13% rise in average selling prices. Net income came in at \$144.4 million, or \$1.98 per diluted share, down 1% from \$146.0 million, or \$1.99 per diluted share, in the prior-year period. Net income was weighted down by home sales gross margin falling by 80 basis points to 22.7% amid growth in home prices falling behind the increase in building material and labor costs.

The company continues to see declining demand for its homes, with recession fears having grown amongst home buyers. This is evidenced by the 47% year-over-year decline in unit orders during the quarter. Cancellations as a percentage of beginning backlog increased 970 basis points to 17.1% from 7.4% year-over-year as well. Still, the average selling price of net orders remains 8% higher compared to Q3-2021.

The company expects to achieve Q4 home deliveries between 2,200 to 2,500 at an average selling price of \$570,000 and \$580,000. Based on these estimates and the company’s performance during the first nine months of the year, we project FY-2022 EPS of \$8.37.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$0.98	\$4.83	\$0.98	\$1.02	\$1.59	\$2.17	\$3.20	\$3.56	\$5.33	\$8.13	<b>\$8.37</b>	<b>\$5.82</b>
<b>DPS</b>	\$0.76	\$0.76	\$0.76	\$0.75	\$0.76	\$0.84	\$1.04	\$1.14	\$1.29	\$1.67	<b>\$2.00</b>	<b>\$2.68</b>
<b>Shares<sup>1</sup></b>	63.0	64.1	64.3	64.5	64.6	64.9	65.4	66.5	68.5	70.1	<b>72.7</b>	<b>85.0</b>

M.D.C.’s earnings-per-share grew rapidly over the past several years, featuring a 5-year EPS CAGR of 31%. The company’s most recent quarterly report continued to display strong signs of a slowdown in demand for new houses, with the dollar value of net new orders declining 88% to \$152.8 million in Q3, compared to \$1.31 billion last year. 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 further, a negative 5% to a negative 7% 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.

<sup>1</sup> 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 October 28<sup>th</sup>, 2022 by Nikolaos Sismanis

## 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	5.5
Avg. Yld.	2.6%	2.9%	3.2%	3.3%	2.4%	2.8%	3.6%	3.7%	2.9%	3.3%	6.4%	8.4%

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, last year's home-buying spree has completely evaporated. The current P/E of around 3.7 reflects the market's expectations of declining EPS from this year's inflated numbers. Still, we believe that once earnings normalize, the stock will be fairly valued at a P/E of around 5.5.

The stock's yield currently stands at 6.4%, which makes for a substantial tangible return and should provide a margin of safety to further downside.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

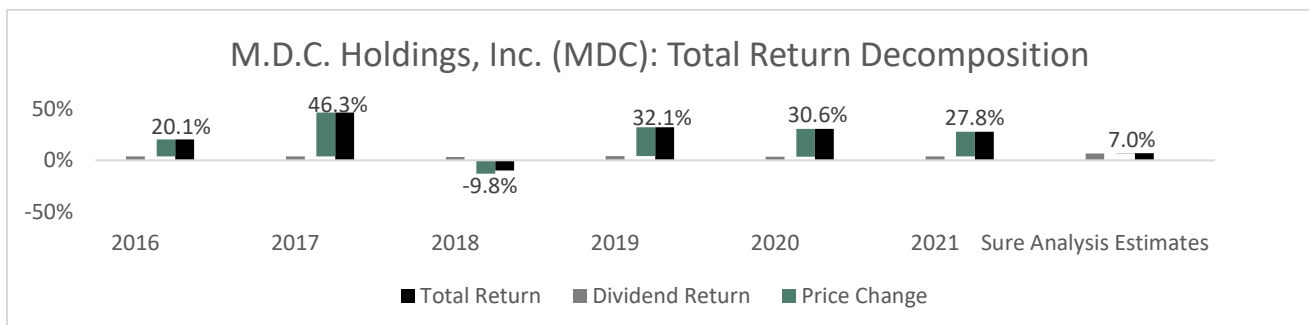
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	16%	78%	74%	48%	39%	33%	32%	24%	21%	24%	46%

Due to a very healthy payout ratio, currently at 24%, and enough room for payouts to grow further in the medium-term, we consider M.D.C.'s dividend to be relatively safe despite recent challenges. 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, a debt-to-capital ratio of 44%, total available liquidity of around \$1.7 billion, and no senior note maturities due until 2030.

## Final Thoughts & Recommendation

M.D.C.'s momentum appears to be evaporating fast as tough macroeconomic conditions dominate headlines these days. While we expect the company's earnings to decline over the medium-term, the dividend should remain covered, while the 6.4% 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 7.0% 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 if management believes it's strategically meaningful 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 October 28<sup>th</sup>, 2022 by Nikolaos Sismanis

## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	1,203	1,680	1,695	1,909	2,327	2,578	3,065	3,293	3,901	5,255
<b>Gross Profit</b>	202	315	302	325	396	455	590	647	866	1,264
<b>Gross Margin</b>	16.8%	18.8%	17.8%	17.0%	17.0%	17.6%	19.2%	19.6%	22.2%	24.1%
<b>SG&amp;A Exp.</b>	167	213	203	226	251	287	330	363	403	494
<b>D&amp;A Exp.</b>	5	4	4	4	5	5	21	23	27	32
<b>Operating Profit</b>	35	102	99	99	146	167	260	284	463	771
<b>Operating Margin</b>	2.9%	6.1%	5.8%	5.2%	6.3%	6.5%	8.5%	8.6%	11.9%	14.7%
<b>Net Profit</b>	63	314	63	66	103	142	211	238	368	574
<b>Net Margin</b>	5.2%	18.7%	3.7%	3.4%	4.4%	5.5%	6.9%	7.2%	9.4%	10.9%
<b>Free Cash Flow</b>	(110)	(271)	(167)	(1)	111	68	(35)	33	(50)	(238)
<b>Income Tax</b>	(2)	(185)	37	36	49	88	53	67	90	178

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	1,945	2,595	2,351	2,416	2,529	2,780	3,001	3,338	3,865	4,964
<b>Cash &amp; Equivalents</b>	160	199	154	181	283	505	464	460	489	591
<b>Accounts Receivable</b>	28	23	29	23	42	53	53	66	72	99
<b>Inventories</b>	1,003	1,412	1,668	1,764	1,759	1,830	2,133	2,367	2,832	3,761
<b>Goodwill &amp; Int. Ass.</b>	6	6	6	6	6	6	6	6	6	6
<b>Total Liabilities</b>	1,065	1,382	1,123	1,160	1,209	1,373	1,425	1,556	1,745	2,366
<b>Accounts Payable</b>	77	21	42	40	51	48	62	104	133	174
<b>Long-Term Debt</b>	821	1,159	915	944	971	1,114	1,120	1,154	1,250	1,748
<b>Shareholder's Equity</b>	881	1,213	1,228	1,256	1,320	1,407	1,576	1,782	2,120	2,597
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	3.3%	13.8%	2.6%	2.8%	4.2%	5.3%	7.3%	7.5%	10.2%	13.0%
<b>Return on Equity</b>	7.2%	30.0%	5.2%	5.3%	8.0%	10.4%	14.1%	14.2%	18.8%	24.3%
<b>ROIC</b>	3.7%	15.4%	2.8%	3.0%	4.6%	5.9%	8.1%	8.5%	11.7%	14.9%
<b>Shares Out.</b>	63.0	64.1	64.3	64.5	64.6	64.9	65.4	66.5	68.5	72.9
<b>Revenue/Share</b>	19.01	26.02	26.24	29.47	35.90	38.84	45.90	47.87	55.20	72.13
<b>FCF/Share</b>	(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.

### 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.