American Homes 4 Rent (AMH)

Updated November 6th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$31	**5 Year CAGR Estimate:**	6.0%	**Market Cap:**	$12 billion
Fair Value Price:	$32	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	12/14/22[1]
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.8%	**Dividend Payment Date:**	12/29/22[2]
Dividend Yield:	2.3%	**5 Year Price Target**	$37	**Years Of Dividend Growth:**	2
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

Based in Maryland, American Homes 4 Rent is an internally managed real estate investment trust which focuses on acquiring, developing, renovating, operating and leasing single-family homes as rental properties. The trust holds nearly 54,000 single-family properties in sub-markets of metropolitan statistical areas in 22 states. AMH formed in August of 2013 and has a market capitalization of $12 billion, and generates annual revenues of $1.5 billion.

On February 17th, 2022, AMH announced an 80% quarterly dividend increase to $0.18 per share. This follows last year's 100% raise.

On November 3rd, 2022, AMH announced third quarter results for the period ending September 30th, 2022. For the quarter, revenue grew 15.3% to $391.63 million and topped estimates by $11.8 million. FFO of $0.39 compared favorably to FFO of $0.35 in the previous year and matched expectations.

For the quarter, AMH saw a same-home average occupied day percentage of 97.1%, down 30 basis points sequentially. New leases signed had rental rate growth of 12.7%. Rents and other single-family property revenues were up 15.3% to $391.6 million while occupied homes totaled 55,321 compared to 52,889 in the third quarter of 2021. Rent from single-family properties increased 7.7% to $268.9 million, with average monthly rents per property up 8.1%. Expenses increased 6.1% to $96.4 million, but this was offset by lower uncollectable rents and higher fees.

AMH lowered its outlook for 2022 as well. The trust now expects core FFO of $1.52 to $1.56 for the year, down from prior guidance of $1.54 to $1.58 for the year. Still, which would be a 13.2% improvement from 2021 at the midpoint.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO	---	$0.15	$0.57	$0.72	$0.97	$1.02	$1.06	$1.11	$1.16	$1.36	***$1.54***	***$1.79***
DPS	---	$0.05	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.40	***$0.72***	***$0.83***
Shares[3]	---	186	211	208	243	287	297	301	317	336	***349***	***355***

AMH has a short history as a publicly traded REIT, but funds-from-operation growth was extensive at the beginning of the trust's existence. AMH's funds-from-operation grew at a rate of 5.9% annually over the last five year as growth has slowed since 2013. We forecast a 3% funds-from-operation growth annually through 2027.

AMH's quarterly dividend had amounted to $0.05 per share since the trust's inception. That changed when the trust doubled its dividend for the March 31st, 2021 payment date and followed that up with an 80% increase for the late-March distribution. Following these increases, we now anticipate dividend growth in line with FFO growth.

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[1] Estimated ex-dividend date.
[2] Estimated dividend payment date.
[3] Share count in millions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/FFO	---	---	30.1	22.9	19.3	21.8	19.6	21.9	23.5	32.1	***20.1***	***21.0***
Avg. Yld.	---	0.3%	1.2%	1.2%	1.1%	0.9%	1.0%	0.8%	0.7%	0.9%	***2.3%***	***2.2%***

Shares of the trust are lower by $9, or 23.1%, since our August 16th, 2022 report. AMH has enjoyed a rich valuation since the beginning of its existence. With the stock trading at 20.1 times funds-from-operations, AMH's valuation is slightly below our target price-to-funds-from-operations of 21. Reverting to this valuation by 2027 would add 0.8% to annual returns.

Investors often hold shares of REITs for the high yields. AMH is the rare name in the sector that has a very low yield. At 2.3%, the current yield is below that of the typical REIT stock, but above the average yield of the S&P 500 index.

Safety, Quality, Competitive Advantage, & Recession Resiliency

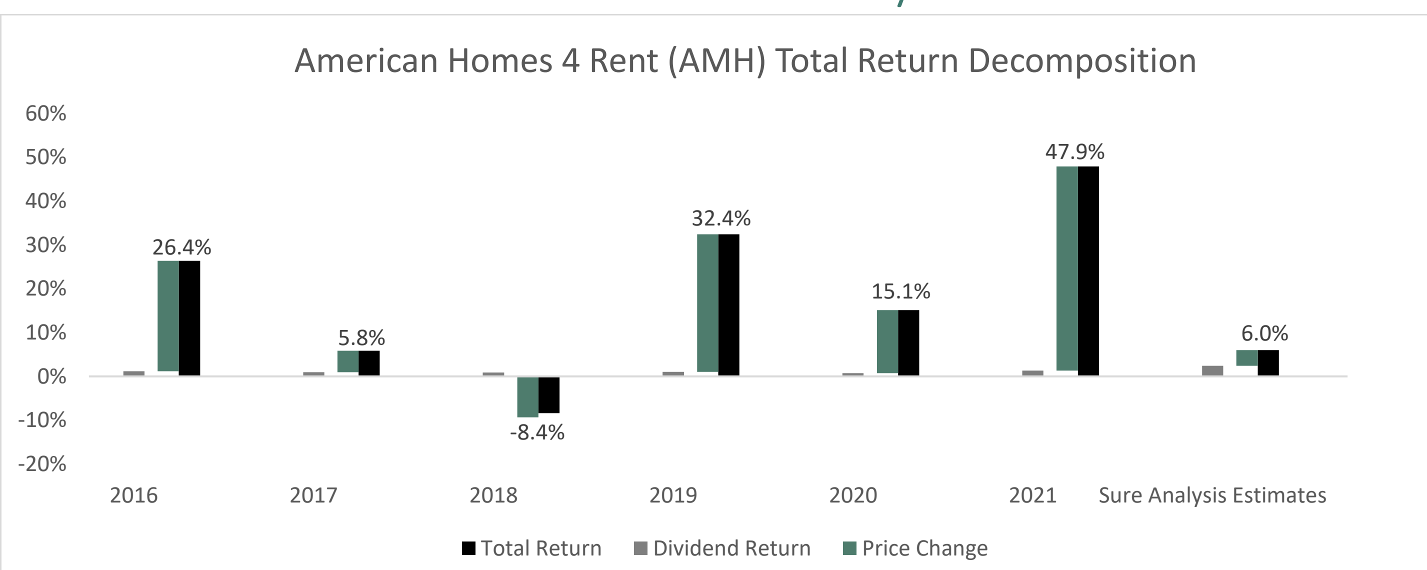
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	33%	35%	28%	21%	20%	19%	18%	17%	29%	***47%***	***47%***

AMH was not publicly traded during the 2007 to 2009 recession so understanding the trust's ability to withstand an economic downturn is not possible. Even so, we believe that the trust would encounter some difficulty. Consumers would still need places to live, so occupancy rates could well remain high. We fear that rental rates would probably decline. AMH is one of the largest operators of single-family in the U.S., giving it a size and scale that is above most of its peer group.

Final Thoughts & Recommendation

American Homes 4 Rent is expected to see total annual returns of 6.0% through 2027, up from our prior estimate of 1.5%. Our projected return stems from a 3% funds-from-operation growth rate, a starting yield of 2.3%, and a small tailwind from multiple expansion. AMH continues to see strong growth metrics in almost every area of its business. We have lowered our five-year price target $1 to $37 due to guidance, but now rate shares of AMH as a hold due to projected returns.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	5	139	399	631	879	960	1,073	1,143	1,183	1,304
Gross Profit	1	65	214	337	491	536	585	623	643	717
Gross Margin	20.9%	47.0%	53.7%	53.5%	55.8%	55.8%	54.6%	54.5%	54.3%	55.0%
SG&A Exp.	8	16	25	27	33	35	37	43	49	56
Operating Profit	(9)	(22)	24	68	159	204	230	250	251	288
Op. Margin	-206%	-15.8%	6.0%	10.7%	18.1%	21.2%	21.4%	21.9%	21.2%	22.1%
Net Profit	(10)	(32)	(48)	(62)	7	81	108	141	140	189
Net Margin	-226%	-23.2%	-12.0%	-9.9%	0.8%	8.4%	10.1%	12.3%	11.9%	14.5%
Free Cash Flow	(7)	16	176	185	251	348	356	386	369	473

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	921	4,224	6,227	6,751	8,107	8,609	9,001	9,100	9,594	10,962
Cash & Equivalents	397	149	109	58	119	46	30	38	137	48
Acc. Receivable	7	7	11	14	18	30	29	30	42	42
Goodwill & Int.	-	117	104	110	118	115	110	112	110	120
Total Liabilities	16	573	2,058	2,816	3,170	2,733	3,028	3,081	3,121	4,224
Accounts Payable	0	1	5	1	0	2	0	5	0	1
Long-Term Debt	-	442	1,850	2,594	2,923	2,476	2,804	2,833	2,817	3,880
Total Equity	905	2,935	3,450	3,259	4,193	5,149	5,252	5,335	5,789	6,059
LTD/E Ratio	-	0.15	0.54	0.80	0.70	0.48	0.53	0.53	0.49	0.64

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets		-1.3%	-0.9%	-1.0%	0.1%	1.0%	1.2%	1.6%	1.5%	1.8%
Return on Equity	-2.3%	-1.7%	-1.5%	-1.9%	0.2%	1.7%	2.1%	2.7%	2.5%	3.2%
ROIC		-1.3%	-1.0%	-1.0%	0.1%	1.0%	1.3%	1.6%	1.5%	1.9%
Shares Out.		186	211	208	243	287	297	301	317	336
Revenue/Share	0.06	1.12	2.03	2.99	3.76	3.63	3.65	3.81	3.85	4.01
FCF/Share	(0.09)	0.13	0.89	0.88	1.07	1.32	1.21	1.29	1.20	1.45

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