D.R. Horton Inc. (DHI)

Updated November 22nd, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$81	**5 Year CAGR Estimate:**	5.8%	**Market Cap:**	$28 B
Fair Value Price:	$79	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	12/02/2022
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.5%	**Dividend Payment Date[2]:**	12/12/2022
Dividend Yield:	1.2%	**5 Year Price Target**	$101	**Years Of Dividend Growth:**	8
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 106 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 $28 billion market capitalization. In the trailing twelve months, D.R. Horton closed 83,518 homes.

On November 9th, 2022, the company announced a $0.25 quarterly dividend, which was an 11% increase over the prior dividend.

D. R. Horton reported fourth quarter fiscal 2022 results on November 9th, for the period ending September 30th, 2022.

Homebuilding revenue increased 23% year-over-year to $9.4 billion. Net income increased 22% to $1.6 billion and net income per share increased 26% to $4.67 compared to $3.70 in Q4 2021. For the full fiscal year 2022, D. R. Horton generated $16.51 in earnings per share, a 45% increase compared to $11.41 in fiscal 2021.

Net sales orders decreased 15% in the fourth quarter over last year, to 13,582 homes, and the value decreased 10% to $5.4 billion. The corporation repurchased 14.0 million shares of common stock for $1.1 billion during fiscal 2022. Return on equity was 34.5% for fiscal 2022.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.33	$1.50	$2.03	$2.36	$2.74	$4.09	$4.29	$6.41	$11.41	$16.51	***$9.85***	***$12.57***
DPS	$0.19	$0.14	$0.25	$0.32	$0.40	$0.50	$0.60	$0.70	$0.83	$0.90	***$1.00***	***$1.61***
Shares[3]	322.9	364.6	368.7	372.9	375.0	376.3	368.4	364.0	356.0	347.0	***340.0***	***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 32% on average per year over the last nine years. In the past five years, this growth rate has been 43% on average per year. Rising interest rates have greatly impacted the demand for housing, and we believe the cyclical business reached its peak in fiscal 2022. Off a still impressive but more normalized base of $9.85 per share in fiscal 2023, we are estimating earnings per share growth to come in at roughly 5.0% 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 19,614 homes, but the value has decreased by 16% year-over-year to $8.0 billion, and the cancellation rate was 21% in fiscal 2022. The company's share count has grown over the long term, however since 2018 the company has made efforts to reduce its

[1] Estimate
[2] Estimate
[3] 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.

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 is likely to 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.3	14.4	13.0	12.9	11.8	11.0	9.7	8.6	7.7	5.5	***8.2***	***8.0***
Avg. Yld.	0.9%	0.6%	0.9%	1.1%	1.2%	1.1%	1.4%	1.3%	0.9%	1.1%	***1.2%***	***1.6%***

D.R. Horton's price-to-earnings multiple appears to be overvalued at 8.2 based on 2022 forecasted earnings, and we believe the valuation will shrink to meet our estimated valuation of 8.0 times earnings. We see the potential for a minor valuation headwind. DHI yields just above 1% and we expect the yield to remain around here.

Safety, Quality, Competitive Advantage, & Recession Resiliency

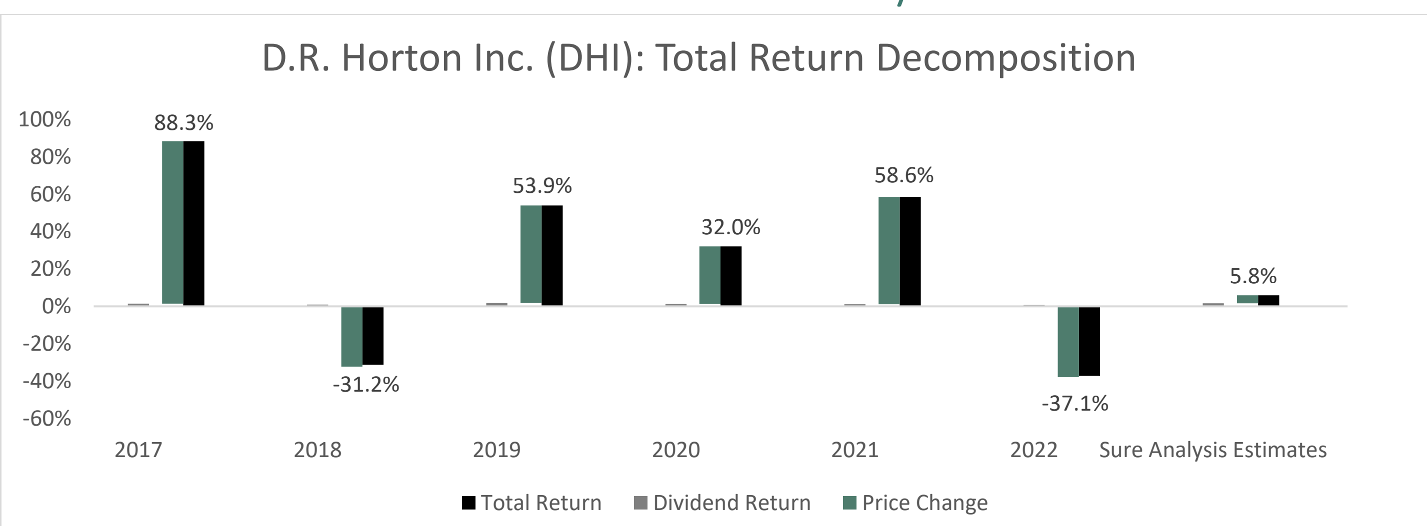
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	14%	9%	12%	14%	15%	12%	14%	11%	7%	5%	***10%***	***13%***

Today the payout ratio is quite low at only 10% 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. Additionally, 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 reiterating our hold rating on DHI as we expect 5.8% annualized total returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	6259	8025	10824	12157	14091	16068	17593	20311	27774	33480
Gross Profit	1406	1756	2288	2655	3048	3670	3872	4938	7875	10504
Gross Margin	22.5%	21.9%	21.1%	21.8%	21.6%	22.8%	22.0%	24.3%	28.4%	31.4%
SG&A Exp.	766	965	1186	1320	1472	1677	1833	2048	2556	2934
D&A Exp.	23	38	54	61	55	62	72	80	74	81
Operating Profit	640	791	1102	1335	1577	1993	2040	2890	5319	7570
Operating Margin	10.2%	9.9%	10.2%	11.0%	11.2%	12.4%	11.6%	14.2%	19.2%	22.6%
Net Profit	463	534	751	886	1038	1460	1619	2374	4176	5858
Net Margin	7.4%	6.6%	6.9%	7.3%	7.4%	9.1%	9.2%	11.7%	15.0%	17.5%
Free Cash Flow	-1287	-762	644	546	283	407	668	1135	267	414
Income Tax	195	281	373	467	564	598	507	603	1165	1734

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2021
Total Assets	8856	10185	11151	11559	12185	14115	15607	18912	24016	30351
Cash & Equivalents	977	662	1384	1303	1008	1473	1494	3019	3210	2541
Inventories	6197	7701	7807	8341	9237	10395	11282	12237	16479	21656
Goodwill & Int. Ass.	39	95	87	80	80	109	164	181	164	174
Total Liabilities	4795	5066	5256	4766	4437	4956	5312	6791	8800	10566
Accounts Payable	400	525	517	578	580	625	634	901	1177	1360
Long-Term Debt	3509	3666	3812	3271	2872	3204	3399	4283	5412	6067
Shareholder's Equity	4059	5116	5894	6793	7747	8984	10021	11840	14887	19396
D/E Ratio	0.86	0.72	0.65	0.48	0.37	0.36	0.34	0.36	0.36	0.31

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2021
Return on Assets	5.7%	5.6%	7.0%	7.8%	8.7%	11.1%	10.9%	13.8%	19.5%	21.5%
Return on Equity	12.1%	11.6%	13.6%	14.0%	14.3%	17.5%	17.0%	21.7%	31.2%	34.2%
ROIC	6.8%	6.5%	8.1%	9.0%	10.0%	12.7%	12.4%	15.8%	22.6%	25.2%
Shares Out.	322.9	364.6	368.7	372.9	375.0	376.3	368.4	364.0	356.0	354.8
Revenue/Share	17.15	21.89	29.27	32.41	37.19	41.91	46.62	54.87	75.93	94.36
FCF/Share	-3.53	-2.08	1.74	1.46	0.75	1.06	1.77	3.07	0.73	1.17

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