



Home Depot (HD)

Updated November 28th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$319	5 Year CAGR Estimate:	10.5%	Market Cap:	\$333 B
Fair Value Price:	\$340	5 Year Growth Estimate:	7.0%	Ex-Dividend Date¹:	11/30/2022
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.3%	Payment Date²:	12/15/2022
Dividend Yield:	2.4%	5 Year Price Target	\$477	Years of Dividend Growth:	13
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Home Depot was founded in 1978 and since that time has grown into a juggernaut home improvement retailer with over 2,300 stores in the US, Canada and Mexico that generate around \$150 billion in annual revenue. The stock has a market value of \$333 billion, making it one of the larger companies by market capitalization in the US. It trades under the ticker symbol HD on the NYSE.

Home Depot reported third quarter 2022 results on November 15th. The company reported third quarter sales of \$38.9 billion, a 5.6% year-over-year increase. Comparable sales in the quarter rose 4.3%, and 4.5% in the U.S. specifically. Net earnings equated to \$4.3 billion, or \$4.24 per share, compared to \$4.1 billion, or \$3.92 per share in Q3 2021.

The company spent over \$5.1 billion in common stock repurchases during the first nine months of 2022, less than the \$10.4 billion spent in the first nine months of 2021. Average ticket rose 8.8% compared to last year, from \$82.38 to \$89.67. Additionally, there was a 5.3% increase in sales per retail square foot, from \$587.28 to \$618.50.

As of the end of the third quarter, Home Depot has cash and cash equivalents equal to \$2.5 billion. For fiscal 2022, management reaffirmed its previous guidance and expects sales growth and comparable sales growth of roughly 3.0%, with an operating margin of roughly 15.4%. The company will also pay \$1.6 billion in net interest expense for 2022. Finally, diluted EPS growth is expected to be mid-single digits.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.10	\$3.76	\$4.56	\$5.34	\$6.45	\$7.46	\$9.73	\$10.25	\$11.94	\$15.53	\$16.60	\$23.28
DPS	\$1.16	\$1.56	\$1.88	\$2.36	\$2.76	\$3.56	\$4.12	\$5.44	\$6.00	\$6.60	\$7.60	\$11.69
Shares³	1484.0	1380	1307	1252	1203	1158	1121	1088.0	1078.0	1058.0	1020.0	950.0

Home Depot's earnings momentum has been enormous in the past decade as it has been able to fully capitalize on the housing and construction boom that ensued following the Great Recession. Then, in the depths of the COVID pandemic, business boomed as the demand for home remodeling and renovations surged. We see five-year annual earnings growth of 7.0%, consisting of comparable sales in the mid-single digits, a low single digit tailwind from buybacks and a potential low single digit tailwind from operating margin improvements. Average ticket sales increases will also continue add to the top line.

In addition, the company's streak of meaningful dividend growth should continue as we see the payout rising a little above the rate of earnings, reaching \$11.69 per share in five years. Home Depot's 2.4% yield has surpassed its historic average as the valuation is lower than it's been historically. The company has plenty of room to continue raising the payout in the years to come. Further, as it matures it may institute a higher payout ratio target for the dividend, further boosting its dividend growth prospects.

¹ Estimate based on last year

² Estimate based on last year

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.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.9	20.2	19.1	22.1	20.3	21.6	19.4	21.0	23.5	24.2	19.2	20.5
Avg. Yld.	2.1%	2.1%	2.2%	2.0%	2.1%	2.2%	2.2%	2.3%	2.3%	2.0%	2.4%	2.4%

After a decline in share price since the beginning of 2022, the stock today trades below our estimated fair value. Shares trade for 19.2 times our earnings estimate for this year, while we see fair value at 20.5 times earnings.

As a result, we see the potential for a valuation tailwind. The yield should remain about where it is in the years to come given that earnings and the dividend should expand at nearly congruent rates.

Safety, Quality, Competitive Advantage, & Recession Resiliency

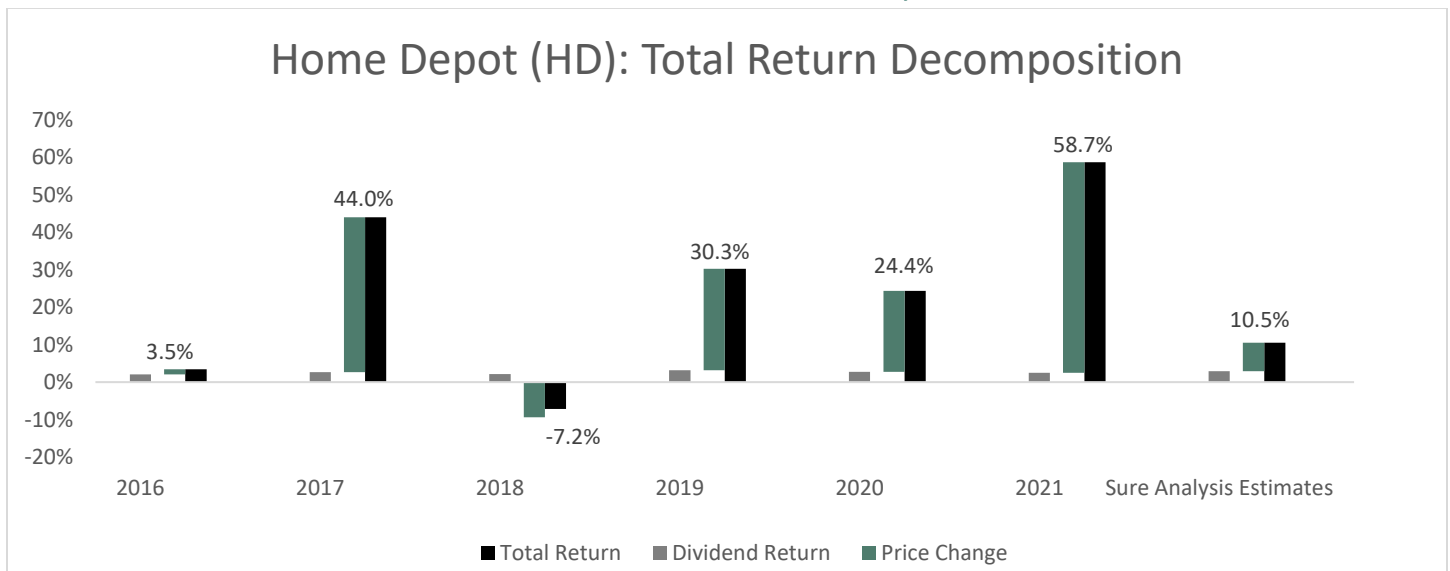
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	37%	41%	41%	44%	43%	48%	42%	53%	50%	42%	46%	50%

Home Depot's payout ratio is almost half of earnings, and we expect it will remain in this range for the foreseeable future. That means the dividend is not only safe, but it has a lot of room to grow in the future as earnings expand. Home Depot's competitive advantage is in its enormous footprint, strong brand recognition and inventory variety. Supplanting its dominant position in home improvement will be extremely difficult for all comers, including rival Lowe's. The company is likely to suffer during a recession, but weakness would be a buying opportunity for long-term investors. With the coronavirus pandemic forcing many to stay home, home renovations had been a good use of this time and it shows as HD generated total returns of 24.4% in 2020 and 58.7% in 2021.

Final Thoughts & Recommendation

Home Depot offers investors the chance to own a stock that is dominant in its industry with terrific earnings and dividend growth outlooks. Due to a year-to-date decline in share price, HD is trading at 94% of our fair value estimate, which is cheaper than it has traded in the recent past. We expect total annual returns of 10.5% going forward, consisting of the current 2.4% yield, 7.0% earnings-per-share growth, and the potential for a valuation tailwind. With excellent total returns and a strong track record, we rate HD as a buy at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue (\$B)	70.4	74.75	78.81	83.18	88.52	94.60	100.90	108.20	110.23	132.11
Gross Profit	24,262	25,842	26,915	28,389	30,265	32,313	34,356	37,160	37,572	44,853
Gross Margin	34.5%	34.6%	34.2%	34.1%	34.2%	34.2%	34.0%	34.3%	34.1%	34.0%
SG&A Exp.	16,028	16,508	16,122	16,280	16,801	17,132	17,864	19,513	19,740	24,447
D&A Exp.	1,682	1,684	1,757	1,786	1,863	1,973	2,062	2,152	2,296	2,519
Operating Profit	6,661	7,766	9,166	10,469	11,774	13,427	14,681	15,777	15,843	18,278
Op. Margin	9.5%	10.4%	11.6%	12.6%	13.3%	14.2%	14.5%	14.6%	14.4%	13.8%
Net Profit	3,883	4,535	5,385	6,345	7,009	7,957	8,630	11,121	11,242	12,866
Net Margin	5.5%	6.1%	6.8%	7.6%	7.9%	8.4%	8.6%	10.3%	10.2%	9.7%
Free Cash Flow	5,430	5,663	6,239	6,800	7,870	8,162	10,134	10,723	11,009	16,376
Income Tax	2,185	2,686	3,082	3,631	4,012	4,534	5,068	3,435	3,473	4,112

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	40,518	41,084	40,518	39,946	41,973	42,966	44,529	44,003	51,236	70,581
Cash & Equivalents	1,987	2,494	1,929	1,723	2,216	2,538	3,595	1,778	2,133	7,895
Acc. Receivable	1,245	1,395	1,398	1,484	1,890	1,570	1,604	1,640	1,738	2,550
Inventories	10,325	10,710	11,057	11,079	11,809	12,549	12,748	13,925	14,531	16,627
Goodwill & Int.	1,120	1,170	1,289	1,353	2,102	2,093	2,275	2,252	2,254	7,126
Total Liabilities	22,620	23,307	27,996	30,624	35,657	38,633	43,075	45,881	54,352	67,282
Accounts Payable	4,856	5,376	5,797	5,807	6,565	7,000	7,244	7,755	7,787	11,606
Long-Term Debt	10,788	10,796	14,724	17,197	21,216	23,601	27,028	29,202	31,483	37,238
Total Equity	17,898	17,777	12,522	9,322	6,316	4,333	1,454	-1,878	-3,116	3,299
LTD/E Ratio	0.60	0.61	1.18	1.84	3.36	5.45	18.59	-15.55	-10.10	11.29

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	9.6%	11.1%	13.2%	15.8%	17.1%	18.7%	19.7%	25.1%	23.6%	21.1%
Return on Equity	21.1%	25.4%	35.5%	58.1%	89.6%	149.4%	298.3%			14061.2%
ROIC	13.5%	15.8%	19.3%	23.6%	25.9%	28.7%	30.6%	39.9%	40.4%	37.3%
Shares Out.	1484.0	1380	1307	1252	1203	1158	1121	1088.0	1078.0	1058.0
Revenue/Share	44.84	49.47	54.96	61.79	68.99	76.66	85.22	94.67	100.48	122.55
FCF/Share	3.46	3.75	4.35	5.05	6.13	6.61	8.56	9.38	10.04	15.19

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

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