



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

Updated January 31st, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$37	5 Year CAGR Estimate:	9.8%	Market Cap:	\$2.63 B
Fair Value Price:	\$35	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	02/07/2023
% Fair Value:	105%	5 Year Valuation Multiple Estimate:	-1.0%	Dividend Payment Date:	02/22/2023
Dividend Yield:	5.4%	5 Year Price Target	\$47	Years Of Dividend Growth:	6
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating	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 \$5.6 billion in annual revenues and is based in Denver, Colorado.

On January 31st, 2023, M.D.C. Holdings posted its Q4-2022 and full-year results for the quarter ending December 31st, 2022. For the quarter, home sale revenues grew 4% year-over-year, primarily driven by a 4% decrease in unit deliveries and a 8% rise in average selling prices. Net income came in at \$92.8 million, or \$1.08 per diluted share, down 51% from \$162.7 million, or \$2.21 per diluted share, in the prior-year period. Net income was weighted down by home sales gross margin falling by 70 basis points to 22.4% 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 55% year-over-year decline in unit orders during the quarter. Cancellations as a percentage of beginning backlog surged to 24.6% from 8.7% last year as well. The average selling price of net orders also fell by 1%. Thus, while M.D.C.’s momentum was retained up until the end of 2022, results are set to plummet next year.

The company expects to achieve Q1 home deliveries between 1,500 to 1,600 at an average selling price of about \$550,000 and \$560,000. Based on our initial estimates, we project FY-2023 EPS of \$3.50.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$4.83	\$0.98	\$1.02	\$1.59	\$2.17	\$3.20	\$3.56	\$5.33	\$8.13	\$7.87	\$3.50	\$4.68
DPS	\$0.76	\$0.76	\$0.75	\$0.76	\$0.84	\$1.04	\$1.14	\$1.29	\$1.67	\$2.00	\$2.00	\$2.68
Shares¹	64.1	64.3	64.5	64.6	64.9	65.4	66.5	68.5	70.1	71.0	71.0	85.0

M.D.C.’s earnings-per-share grew at a CAGR of 23% between 2017 and 2022 following favorable market conditions – especially during the surge in demand for homes in 2021, whose momentum was carried over in 2022. However, 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 50% to \$3.01 billion in Q4, compared to \$6.04 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. That said since we have already assumed a heavy dip in the company’s FY2023 results, we expect earnings-per-share to grow gradually at a CAGR of 6% through 2028 as economic conditions hopefully improve over time. We forecast a D.P.S. growth of 6% in the medium-term as well, which

¹ Share count is in millions.

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the company should be able to afford despite expectations of a significant decline in earnings. It's worth noting that M.D.C. has never cut its dividend since initiating payments in 1994. The dividend has only been held stable or increased.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	5.4	24.0	22.1	20.2	13.8	9.1	8.7	8.8	6.1	4.8	10.5	10.0
Avg. Yld.	2.9%	3.2%	3.3%	2.4%	2.8%	3.6%	3.7%	2.9%	3.3%	5.2%	5.4%	5.7%

M.D.C.'s P/E over the past decade has fluctuated wildly based on the company's underlying net income prospects. It has been higher during weaker times and lower during brighter times, such as last year. The current P/E of around 10.5 reflects the normalization in earnings following record earnings in 2021 and 2022. It is rather close to our updated fair P/E of 10 but still implies the possibility of some valuation headwinds. The stock's yield currently stands at 5.4%, which makes for a substantial tangible return and should provide a margin of safety given the overall uncertainty involved.

Safety, Quality, Competitive Advantage, & Recession Resiliency

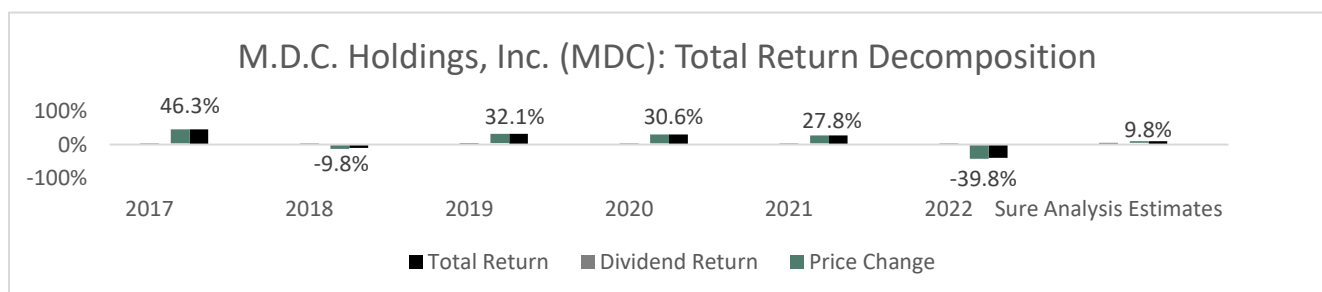
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	16%	78%	74%	48%	39%	33%	32%	24%	21%	25%	57%	57%

While M.D.C.' earnings for fiscal 2023 are set to plummet, the 57% payout ratio based on our projected EPS suggests the dividend should remain well-covered. There should be enough room for payouts to continue to grow further in the medium-term as well. That said, there are multiple risks that could damage the company's financials in the coming years. These include employment levels, interest rates, consumer confidence, wage growth, and the overall demand for housing, adding a great element of cyclicality 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 having an experienced management team, a debt-to-capital ratio of 32.6%, cash & equivalents of \$1.3 billion, and no senior note maturities due until 2030.

Final Thoughts & Recommendation

Despite posting solid numbers for its FY2022 results, M.D.C.'s momentum has evaporated moving into 2023. Nevertheless, the dividend should remain covered, while the 5.4% yield should provide a margin of safety in the current environment. Based on the current yield, our growth estimates, and the possibility of soft valuation headwinds, we project annualized returns of 9.8% through 2028. Thus, we rate M.D.C. a hold. Still, there are multiple factors that could easily sway the company's performance notably. Therefore, 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, despite never doing so since 1994.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

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

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