PulteGroup Inc. (PHM)

Updated February 2nd, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$46	**5 Year CAGR Estimate:**	3.3%	**Market Cap:**	$13 B
Fair Value Price:	$53	**5 Year Growth Estimate:**	-1.0%	**Ex-Dividend Date[1]:**	03/14/2022
% Fair Value:	87%	**5 Year Valuation Multiple Estimate:**	2.9%	**Dividend Payment Date[2]:**	04/05/2022
Dividend Yield:	1.4%	**5 Year Price Target**	$50	**Years Of Dividend Growth:**	5
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

PulteGroup was founded in 1950 by Bill Pulte. The company has delivered nearly 750,000 homes across the United States. It is the nation's third largest homebuilders and has operations in over 40 major cities. The company is marketed under the following brands: Pulte, Centex, Del Webb, DiVosta, American West, and John Wieland Homes and Neighborhoods. The company caters to the needs of first-time, move-up, luxury and active adult homebuyers. The company trades on the NYSE under the ticker PHM and is based in Georgia, Atlanta. In 2022, PulteGroup recorded $15.8 billion in home sale revenues.

PulteGroup reported fourth quarter and full year 2022 results on January 31st, 2023, for the period ending December 31st, 2022. Home sale revenue for the fourth quarter was $5.1 billion, a 20% year-over-year increase. The company generated adjusted net income of $832 million, or $3.63 per share.

Net new orders decreased 41% to 3,964 homes. This decrease was a result of higher mortgage rates, reduced affordability and more buyers canceling their contracts. The net new order value decreased to $2.1 billion from $3.8 billion in the prior year. The still-favorable demand environment allowed for a homebuilding gross margin improvement of 200 basis points to 28.8%. The year-end backlog decreased to 12,169 homes and has a value of $7.7 billion, which is 22% lower than the prior year. Average sales price increased 17% from the prior year, to $571,000.

The company repurchased 2.4 million worth of its common shares in the fourth quarter for $100 million. At year-end, the company had $1.1 billion in cash and a debt-to-capital ratio of 18.7%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.49	$1.26	$1.36	$1.67	$2.24	$3.41	$3.66	$5.18	$7.43	$11.01	***$7.50***	***$7.13***
DPS	$0.15	$0.23	$0.33	$0.36	$0.36	$0.38	$0.45	$0.50	$0.57	$0.61	***$0.64***	***$0.82***
Shares[3]	381.3	369.5	349.2	319.1	286.8	277.1	270.2	266.5	259.9	236.2	***225.0***	***180.0***

PulteGroup has grown it's earnings per share strongly in the last five years, at a 5-year average annual growth rate of 38%. Even dating back from 2013 to 2022, PHM has grown earnings at a nearly 25% average annual growth rate.

The housing market which PulteGroup operates is still hot, as demand is high, and the supply is limited. PHM has many brands which allow for them to sell to a variety of clientele interested in purchasing housing. The company has a backlog of home orders to construct, however the cancelation rate has crept up to 32% as of the fourth quarter of 2022.

The increasing average sale price continues to add to the company's earnings growth. Finally, the company's share count has been reduced by more than 5% annually over the last nine years, which significantly increases the earnings per share as earnings are spread across fewer outstanding shares. We estimate the company's earnings will decrease by 1% off this relative high point into 2028, due to the cyclicality of the business and the current relative high point. The increase

[1] Estimate
[2] Estimate
[3] In millions

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in interest rates and resultant mortgage rates are affecting new order levels, and are causing a large increase in order cancellations.

The corporation's dividend has grown by 11% on average over the past five years, and we estimate it will grow at around 5% in the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	12.7	15.4	14.9	11.3	11.3	8.4	9.0	7.5	8.8	5.1	***6.1***	***7.0***
Avg. Yld.	0.8%	1.2%	1.6%	1.9%	1.4%	1.3%	1.4%	1.3%	1.0%	1.3%	***1.4%***	***1.6%***

Pulte's price-to-earnings multiple is undervalued today at 6.1 based on 2023 forecasted earnings, implying the potential for a small valuation tailwind. PHM is not an income stock with its yield of 1.4%, and we expect the yield to remain around here as the company prefers to repurchase shares and invest in the business.

Safety, Quality, Competitive Advantage, & Recession Resiliency

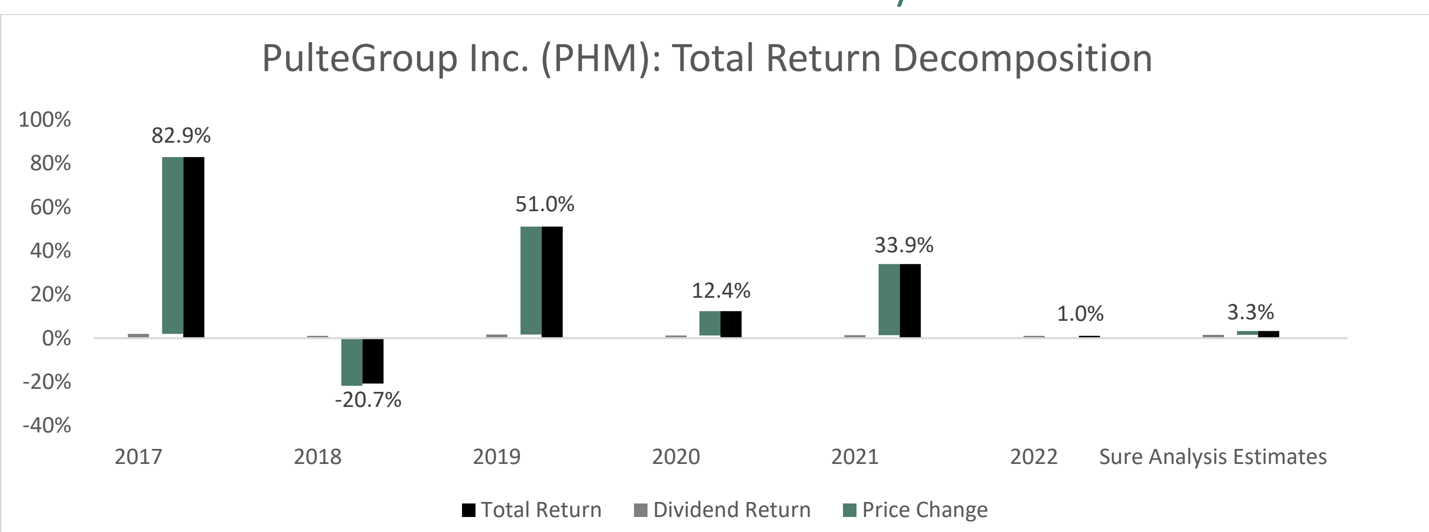
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	10%	18%	24%	22%	16%	11%	12%	10%	8%	5%	***9%***	***11%***

The payout ratio remains exceptionally low so the dividend is safe and should continue to grow in the years to come at roughly the rate of earnings. However, PulteGroup is more interested in investing for growth than it is in becoming an income stock. PulteGroup is not recession resistant and was clobbered in the Great Financial Crisis. In fact, the corporation reported higher net income per share in 2005 than it did in 2020. From 2007 to 2011, the company reported net losses and slashed its dividend to zero. While the company is benefiting from strong demand today, interest rates and housing demand can cause volatile earnings in a recession. We don't see any significant competitive advantage over its peers, but we like the fact that PHM has different banners catering to a variety of client types.

Final Thoughts & Recommendation

We see PulteGroup as a strong company in the homebuilding market, but PHM is forecasted to generate only 3.3% in total annual returns over the next five years, comprised of the 1.4% starting yield and a potential valuation tailwind, offset by a 1% annual decrease in earnings-per-share. We are reiterating our hold rating on PulteGroup.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	5,680	5,822	5,982	7,677	85,78	10,188	102,13	11,036	13,927	16,229
Gross Profit	1,172	1,578	1,628	1,948	1,863	2,373	2,397	2,778	3,782	4,834
Gross Margin	20.6%	27.1%	27.2%	25.4%	21.7%	23.3%	23.5%	25.2%	27.2%	29.8%
SG&A Exp.	569	861	795	957	892	1,012	1,044	1,011	1,209	1,381
D&A Exp.	32	40	46	54	51	49	54	66	70	71
Operating Profit	591	703	820	977	957	1,348	1,339	1,747	2,557	3,442
Operating Margin	10.4%	12.1%	13.7%	12.7%	11.2%	13.2%	13.1%	15.8%	18.4%	21.2%
Net Profit	2,620	474	494	603	447	1,022	1,017	1,407	1,946	2,617
Net Margin	46.1%	8.1%	8.3%	7.9%	5.2%	10.0%	10.0%	12.7%	14.0%	16.1%
Free Cash Flow	852	259	-383	29	631	1,389	1,018	1,726	931	556
Income Tax	-2,092	215	322	331	492	326	323	322	564	822

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	8,734	8,569	9,189	10,178	9,687	10,173	10,716	12,205	13,353	14,797
Cash & Equivalents	1,580	1,293	754	699	273	1,110	1,218	2,582	1,779	1,053
Accounts Receivable	52	61	363	307	213	153	118	69	57	44
Inventories	3,979	4,392	5,450	6,771	7,147	7,253	7,681	7,722	9,048	11,326
Goodwill & Int. Ass.	136	123	110	155	141	127	125	163	147	136
Total Liabilities	4,085	3,764	4,430	5,519	5,533	5,355	5,257	5,636	5,863	5,882
Accounts Payable	203	271	328	405	394	352	436	511	621	566
Long-Term Debt	2,171	1,981	2,378	3,461	3,445	3,376	3,092	3,164	2,655	2,632
Shareholder's Equity	4,649	4,805	4,759	4,659	4,154	4,818	5,458	6,570	7,490	8,914
LTD/E Ratio	0.47	0.41	0.50	0.74	0.83	0.70	0.57	0.48	0.35	0.30

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	33.9%	5.5%	5.6%	6.2%	4.5%	10.3%	9.7%	12.3%	15.2%	18.6%
Return on Equity	76.6%	10.0%	10.3%	12.8%	10.1%	22.8%	19.8%	23.4%	27.7%	31.9%
ROIC	44.9%	7.0%	7.1%	7.9%	5.7%	12.9%	12.1%	15.4%	19.6%	24.1%
Shares Out.	381.3	369.5	349.2	319.1	286.8	277.1	270.2	266.5	259.9	236.2
Revenue/Share	14.68	15.56	16.63	22.44	27.96	35.77	37.10	40.96	53.58	68.72
FCF/Share	2.20	0.69	-1.06	0.08	2.06	4.88	3.70	6.41	3.58	2.35

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