



Home Depot (HD)

Updated February 22nd, 2023 by Quinn Mohammed

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|--------------------------------------|------------|
| Current Price: | \$296 | 5 Year CAGR Estimate: | 9.9% | Market Cap: | \$324 B |
| Fair Value Price: | \$330 | 5 Year Growth Estimate: | 5.0% | Ex-Dividend Date¹: | 03/08/2023 |
| % Fair Value: | 89% | 5 Year Valuation Multiple Estimate: | 2.3% | Payment Date²: | 03/23/2023 |
| Dividend Yield: | 2.8% | 5 Year Price Target | \$422 | Years of Dividend Growth: | 14 |
| Dividend Risk Score: | B | Retirement Suitability Score: | B | Rating: | Hold |

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 \$157 billion in annual revenue. The stock has a market value of \$324 billion, making it one of the larger companies by market capitalization in the US. It trades under the ticker symbol HD on the NYSE.

On February 21st, 2023, Home Depot announced a 10% increase to the dividend to \$8.36 per share annualized.

Home Depot reported fourth quarter 2022 results on February 21st, 2023. The company reported fourth quarter sales of \$35.8 billion, up just 0.3% year-over-year. Comparable sales in the quarter decreased 0.3%. Net earnings equaled \$3.4 billion, or \$3.30 per share, compared to \$3.4 billion, or \$3.21 per share in Q4 2021.

For the full year, Home Depot reported \$16.69 in earnings per share, a 7.5% increase compared to \$15.53 in 2021.

The company spent nearly \$6.7 billion in common stock repurchases during 2022, less than the \$14.8 billion spent in 2021. Average ticket rose 8.8% compared to last year, from \$83.04 to \$90.36. Additionally, there was a 3.7% increase in sales per retail square foot, from \$604.74 to \$627.17.

As of the end of the fourth quarter, Home Depot had cash and cash equivalents equal to \$2.8 billion.

For fiscal 2023, management reaffirmed its previous guidance and expects sales growth and comparable sales growth to be flat year-over-year with an operating margin of roughly 14.5%. Home Depot also expects earnings per share to decline by mid-single digits in 2023. Home Depot's shares dropped 7% on the weak guidance the company issued.

Growth on a Per-Share Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---------------------------|--------|--------|--------|--------|--------|--------|---------|---------|---------|---------|----------------|----------------|
| EPS | \$3.76 | \$4.56 | \$5.34 | \$6.45 | \$7.46 | \$9.73 | \$10.25 | \$11.94 | \$15.53 | \$16.69 | \$16.12 | \$20.57 |
| DPS | \$1.56 | \$1.88 | \$2.36 | \$2.76 | \$3.56 | \$4.12 | \$5.44 | \$6.00 | \$6.60 | \$7.60 | \$8.36 | \$12.28 |
| Shares³ | 1380 | 1307 | 1252 | 1203 | 1158 | 1121 | 1088 | 1078 | 1058 | 1025 | 1010 | 950 |

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 5.0%, consisting of comparable sales in the low-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 above the rate of earnings, reaching \$12.28 per share in five years. Home Depot's 2.8% 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

¹ Estimate based on last year

² Estimate based on last year

³ In millions

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years to come. Further, as it matures it may institute a higher payout ratio target for the dividend, further boosting its dividend growth prospects.

Valuation Analysis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now | 2028 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 20.2 | 19.1 | 22.1 | 20.3 | 21.6 | 19.4 | 21.0 | 23.5 | 24.2 | 19.6 | 18.3 | 20.5 |
| Avg. Yld. | 2.1% | 2.2% | 2.0% | 2.1% | 2.2% | 2.2% | 2.3% | 2.3% | 2.0% | 2.2% | 2.8% | 2.9% |

After a decline in share price since the beginning of 2022, the stock today trades below our estimated fair value. Shares trade for 18.3 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.

Safety, Quality, Competitive Advantage, & Recession Resiliency

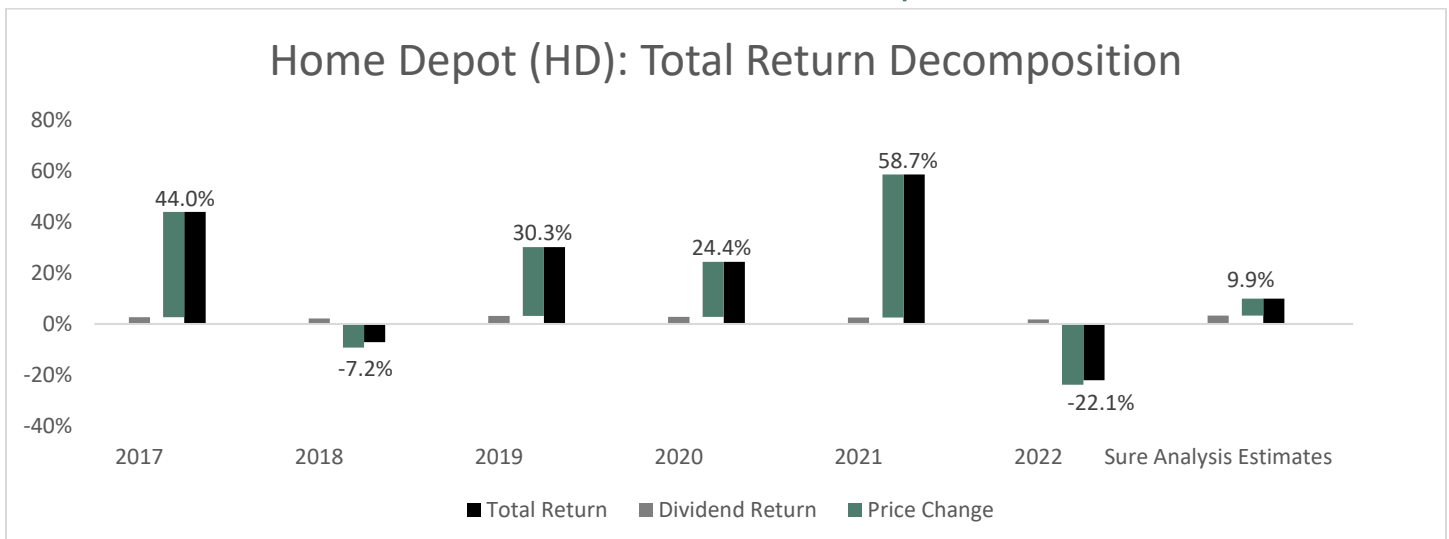
| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 41% | 41% | 44% | 43% | 48% | 42% | 53% | 50% | 42% | 46% | 52% | 60% |

Home Depot's payout ratio is just above 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 was reflected in Home Depot's stock, which saw 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 the decline in share price, HD is trading at 89% of our fair value estimate, which is cheaper than it has traded in the recent past. We expect total annual returns of 9.9% going forward, consisting of the current 2.8% yield, 5.0% 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 hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue (\$B) | 74.75 | 78.81 | 83.18 | 88.52 | 94.60 | 100.90 | 108.20 | 110.23 | 132.11 | 151.16 |
| Gross Profit | 25,842 | 26,915 | 28,389 | 30,265 | 32,313 | 34,356 | 37,160 | 37,572 | 44,853 | 50,832 |
| Gross Margin | 34.6% | 34.2% | 34.1% | 34.2% | 34.2% | 34.0% | 34.3% | 34.1% | 34.0% | 33.6% |
| SG&A Exp. | 16,508 | 16,122 | 16,280 | 16,801 | 17,132 | 17,864 | 19,513 | 19,740 | 24,447 | 25,406 |
| D&A Exp. | 1,684 | 1,757 | 1,786 | 1,863 | 1,973 | 2,062 | 2,152 | 2,296 | 2,519 | 2,862 |
| Operating Profit | 7,766 | 9,166 | 10,469 | 11,774 | 13,427 | 14,681 | 15,777 | 15,843 | 18,278 | 23,040 |
| Op. Margin | 10.4% | 11.6% | 12.6% | 13.3% | 14.2% | 14.5% | 14.6% | 14.4% | 13.8% | 15.2% |
| Net Profit | 4,535 | 5,385 | 6,345 | 7,009 | 7,957 | 8,630 | 11,121 | 11,242 | 12,866 | 16,433 |
| Net Margin | 6.1% | 6.8% | 7.6% | 7.9% | 8.4% | 8.6% | 10.3% | 10.2% | 9.7% | 10.9% |
| Free Cash Flow | 5,663 | 6,239 | 6,800 | 7,870 | 8,162 | 10,134 | 10,723 | 11,009 | 16,376 | 14,005 |
| Income Tax | 2,686 | 3,082 | 3,631 | 4,012 | 4,534 | 5,068 | 3,435 | 3,473 | 4,112 | 5,304 |

Balance Sheet Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets | 41,084 | 40,518 | 39,946 | 41,973 | 42,966 | 44,529 | 44,003 | 51,236 | 70,581 | 71,876 |
| Cash & Equivalents | 2,494 | 1,929 | 1,723 | 2,216 | 2,538 | 3,595 | 1,778 | 2,133 | 7,895 | 2,343 |
| Acc. Receivable | 1,395 | 1,398 | 1,484 | 1,890 | 1,570 | 1,604 | 1,640 | 1,738 | 2,550 | 2,901 |
| Inventories | 10,710 | 11,057 | 11,079 | 11,809 | 12,549 | 12,748 | 13,925 | 14,531 | 16,627 | 22,068 |
| Goodwill & Int. | 1,170 | 1,289 | 1,353 | 2,102 | 2,093 | 2,275 | 2,252 | 2,254 | 7,126 | 7,449 |
| Total Liabilities | 23,307 | 27,996 | 30,624 | 35,657 | 38,633 | 43,075 | 45,881 | 54,352 | 67,282 | 73,572 |
| Accounts Payable | 5,376 | 5,797 | 5,807 | 6,565 | 7,000 | 7,244 | 7,755 | 7,787 | 11,606 | 13,462 |
| Long-Term Debt | 10,796 | 14,724 | 17,197 | 21,216 | 23,601 | 27,028 | 29,202 | 31,483 | 37,238 | 40,086 |
| Total Equity | 17,777 | 12,522 | 9,322 | 6,316 | 4,333 | 1,454 | -1,878 | -3,116 | 3,299 | -1,696 |
| LTD/E Ratio | 0.61 | 1.18 | 1.84 | 3.36 | 5.45 | 18.59 | -15.55 | -10.10 | 11.29 | -23.64 |

Profitability & Per Share Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------|-------|-------|-------|-------|--------|--------|-------|--------|----------|---------|
| Return on Assets | 11.1% | 13.2% | 15.8% | 17.1% | 18.7% | 19.7% | 25.1% | 23.6% | 21.1% | 23.1% |
| Return on Equity | 25.4% | 35.5% | 58.1% | 89.6% | 149.4% | 298.3% | | | 14061.2% | 2050.3% |
| ROIC | 15.8% | 19.3% | 23.6% | 25.9% | 28.7% | 30.6% | 39.9% | 40.4% | 37.3% | 41.6% |
| Shares Out. | 1,511 | 1,434 | 1,346 | 1,283 | 1,234 | 1,184 | 1,143 | 1,097 | 1,078 | 1,058 |
| Revenue/Share | 49.47 | 54.96 | 61.79 | 68.99 | 76.66 | 85.22 | 94.67 | 100.48 | 122.55 | 142.87 |
| FCF/Share | 3.75 | 4.35 | 5.05 | 6.13 | 6.61 | 8.56 | 9.38 | 10.04 | 15.19 | 13.24 |

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

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