American Homes 4 Rent (AMH)

Updated May 22nd, 2023 by Nathan Parsh

Key Metrics

Current Price:	$34	**5 Year CAGR Estimate:**	7.6%	**Market Cap:**	$14 billion
Fair Value Price:	$34	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	06/14/23
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	-0.1%	**Dividend Payment Date:**	06/30/23
Dividend Yield:	2.6%	**5 Year Price Target**	$43	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

Based in Maryland, American Homes 4 Rent is an internally managed real estate investment trust which focuses on acquiring, developing, renovating, operating and leasing single-family homes as rental properties. The trust holds nearly 54,000 single-family properties in sub-markets of metropolitan statistical areas in 22 states. AMH formed in August of 2013, has a market capitalization of about $14 billion, and generates annual revenues of $1.6 billion.

On February 10th, 2023, AMH announced an 22.2% quarterly dividend increase to $0.22 per share. This follows the trust's 80% and 100% raises over the last two years.

On May 4th, 2023, AMH reported first quarter results for the period ending March 31st, 2023. For the quarter, revenue grew 11.7% to $397.7 million and was $7.7 million more than expected. FFO of $0.41 compared favorably to FFO of $0.38 in the previous year and was $0.01 above estimates.

For the quarter, AMH had a same-home average occupied day percentage of 97.2%, up 20 basis points sequentially. New leases signed had rental rate growth of 7.8%. Rents and other single-family property revenues grew 11.7% to $397.7 million while occupied homes totaled 55,827 compared to 53,995 in the first quarter of 2023. Average monthly rents per property was higher by 8.0%. Expenses increased 12.2% to $103.6 million.

AMH reaffirmed its prior guidance for 2023 as well. The trust continues to expect core FFO of $1.58 to $1.64 for the year. At the midpoint, this would be a 4.5% improvement from 2022.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO	$0.15	$0.57	$0.72	$0.97	$1.02	$1.06	$1.11	$1.16	$1.36	$1.54	***$1.61***	***$2.05***
DPS	$0.05	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.40	$0.72	***$0.88***	***$1.42***
Shares[1]	186	211	208	243	287	297	301	317	336	354	***361***	***365***

AMH has a short history as a publicly traded REIT, but funds-from-operation growth was extensive at the beginning of the trust's existence. AMH's funds-from-operation grew at a rate of 7.8% annually over the last five year as growth has slowed since 2013. We now forecast a 5% funds-from-operation growth annually through 2028.

AMH's quarterly dividend had amounted to $0.05 per share since the trust's inception. That changed when the trust doubled its dividend for the March 31st, 2021 payment date and followed that up with an 80% increase for March 31st, 2022 distribution. Given the aggressive growth recently and the reasonable payout ratio, we project dividend growth will be 10% per year moving forward.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/FFO	---	30.1	22.9	19.3	21.8	19.6	21.9	23.5	32.1	19.6	***21.1***	***21.0***
Avg. Yld.	0.3%	1.2%	1.2%	1.1%	0.9%	1.0%	0.8%	0.7%	0.9%	2.4%	***2.6%***	***3.3%***

[1] Share count in millions.

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Shares of the trust are up $2, or 6.3%, since our February 26th, 2023 report. AMH has enjoyed a rich valuation since the beginning of its existence. With the stock trading at 21.1 times funds-from-operations, AMH's valuation is slightly above our target price-to-funds-from-operations of 21. Reverting to this valuation by 2028 would reduce annual returns by 0.1% over this period of time.

Investors often hold shares of REITs for the high yields. AMH is the rare name in the sector that has a very low yield. At 2.6%, the current yield is below that of the typical REIT stock, but above the average yield of the S&P 500 index.

Safety, Quality, Competitive Advantage, & Recession Resiliency

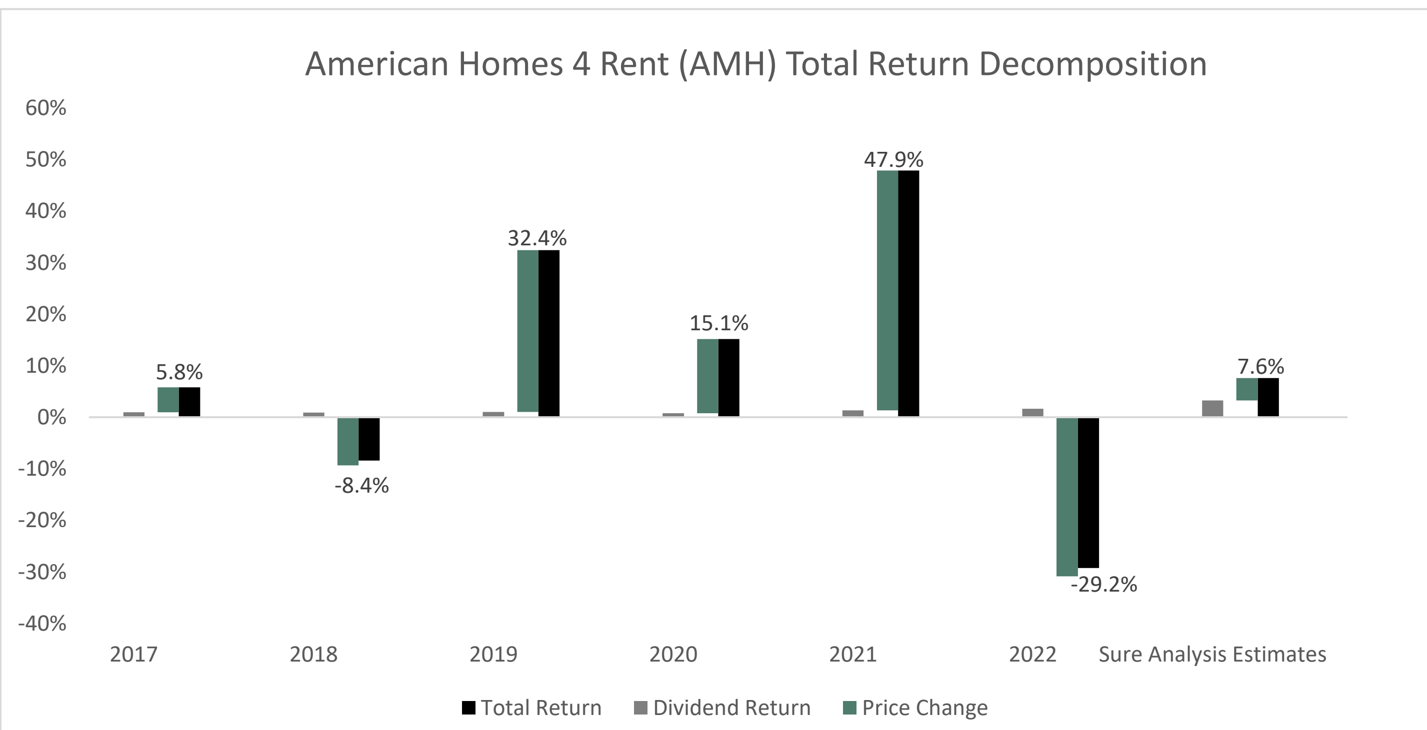
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	33%	35%	28%	21%	20%	19%	18%	17%	29%	47%	***55%***	***69%***

AMH was not publicly traded during the 2007 to 2009 recession so understanding the trust's ability to withstand an economic downturn is not possible. Even so, we believe that the trust would encounter some difficulty. Consumers would still need places to live, so occupancy rates could well remain high. We fear that rental rates would probably decline. AMH is one of the largest operators of single-family in the U.S., giving it a size and scale that is above most of its peer group.

Final Thoughts & Recommendation

American Homes 4 Rent is expected to see total annual returns of 7.6% through 2028, down from our prior estimate of 8.9%. Our projected return stems from a 5% funds-from-operation growth rate and a starting yield of 2.6%, offset by a small headwind from valuation reversion. The trust continues to see strong growth metrics in almost every area of its business. We maintain our five-year price target of $43 as well as our hold rating on shares of American Homes 4 Rent due to projected 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	139	399	631	879	960	1,073	1,143	1,183	1,304	1,491
Gross Profit	65	214	337	491	536	585	623	643	717	826
Gross Margin	47.0%	53.7%	53.5%	55.8%	55.8%	54.6%	54.5%	54.3%	55.0%	55.4%
SG&A Exp.	16	25	27	33	35	37	43	49	56	68
Operating Profit	(22)	24	68	159	204	230	250	251	288	331
Op. Margin	-15.8%	6.0%	10.7%	18.1%	21.2%	21.4%	21.9%	21.2%	22.1%	22.2%
Net Profit	(32)	(48)	(62)	7	81	108	141	140	189	273
Net Margin	-23.2%	-12.0%	-9.9%	0.8%	8.4%	10.1%	12.3%	11.9%	14.5%	18.3%
Free Cash Flow	16	176	185	251	348	356	386	369	473	527

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,224	6,227	6,751	8,107	8,609	9,001	9,100	9,594	10,962	12,175
Cash & Equivalents	149	109	58	119	46	30	38	137	48	69
Acc. Receivable	7	11	14	18	30	29	30	42	42	48
Goodwill & Int.	117	104	110	118	115	110	112	110	120	120
Total Liabilities	573	2,058	2,816	3,170	2,733	3,028	3,081	3,121	4,224	5,000
Accounts Payable	1	5	1	0	2	0	5	0	1	6
Long-Term Debt	442	1,850	2,594	2,923	2,476	2,804	2,833	2,817	3,880	4,516
Total Equity	2,935	3,450	3,259	4,193	5,149	5,252	5,335	5,789	6,059	6,496
LTD/E Ratio	0.15	0.54	0.80	0.70	0.48	0.53	0.53	0.49	0.64	0.70

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	-1.3%	-0.9%	-1.0%	0.1%	1.0%	1.2%	1.6%	1.5%	1.8%	2.4%
Return on Equity	-1.7%	-1.5%	-1.9%	0.2%	1.7%	2.1%	2.7%	2.5%	3.2%	4.4%
ROIC	-1.3%	-1.0%	-1.0%	0.1%	1.0%	1.3%	1.6%	1.5%	1.9%	2.4%
Shares Out.	186	211	208	243	287	297	301	317	336	354
Revenue/Share	1.12	2.03	2.99	3.76	3.63	3.65	3.81	3.85	4.01	4.26
FCF/Share	0.13	0.89	0.88	1.07	1.32	1.21	1.29	1.20	1.45	1.51

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

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