



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

Updated May 4th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$41	5 Year CAGR Estimate:	7.2%	Market Cap:	\$3.0 B
Fair Value Price:	\$35	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	05/09/2023
% Fair Value:	118%	5 Year Valuation Multiple Estimate:	-3.3%	Dividend Payment Date:	05/24/2023
Dividend Yield:	4.8%	5 Year Price Target	\$47	Years Of Dividend Growth:	6
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating	Hold

Overview & Current Events

MD.C. 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 May 2nd, 2023, M.D.C. Holdings posted its Q1 results for the quarter ending March 31st, 2023. For the quarter, home sale revenues fell nearly 18% year-over-year, primarily driven by a 17.1% decrease in unit deliveries and a 0.9% decline in average selling prices. Net income came in at \$80.7 million, or \$1.08 per diluted share, down 46% from \$148.4 million, or \$2.02 per diluted share, in the prior-year period. Net income was weighted down by home sales gross margin falling from 25.7% to 16.8% due to development 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 33% year-over-year decline in unit orders during the quarter. Cancellations as a percentage of beginning backlog surged to 29.9% from 16.7% last year as well. The average selling price of net orders also fell by 1%. That said, the company also saw some improvements from Q4, including some order momentum building, with order totals increasing on a sequential basis each month last quarter. The company expects to achieve Q2 home deliveries between 1,600 and 1,700 at an average selling price of about \$550,000. Based on M.D.C.’s Q1 results and Q2 guidance, we continue to 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	74.0	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 48% to \$957.3 million in 1Q, compared to \$1.84 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 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.

¹ Share count is 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	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	11.8	10.0
Avg. Yld.	2.9%	3.2%	3.3%	2.4%	2.8%	3.6%	3.7%	2.9%	3.3%	5.2%	4.8%	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 11.8 reflects the normalization in earnings following record earnings in 2021 and 2022. It is not very far from our fair P/E of 10 but still implies the possibility of noteworthy valuation headwinds. The stock's yield currently stands at 4.8%, 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

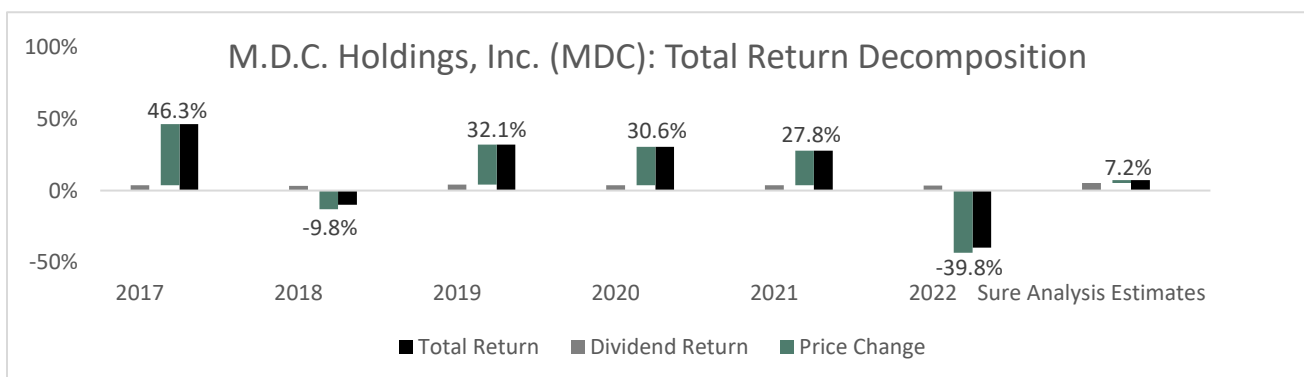
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	16%	78%	74%	48%	39%	33%	32%	24%	21%	25%	57%	57%

While M.D.C.'s 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 cyclical 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 32.3%, cash & equivalents of \$1.61 billion, and no senior note maturities due until 2030.

Final Thoughts & Recommendation

M.D.C.'s momentum has evaporated moving into 2023. Nevertheless, the dividend should remain covered, while the 4.8% yield should provide a margin of safety in the current environment. Based on the current yield, our growth estimates, and the possibility of a 3.3% annual valuation headwind, we project annualized returns of 7.2% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,680	1,695	1,909	2,327	2,578	3,065	3,293	3,901	5,255	5,718
Gross Profit	315	302	325	396	455	590	647	866	1,264	1,310
Gross Margin	18.8%	17.8%	17.0%	17.0%	17.6%	19.2%	19.6%	22.2%	24.1%	22.9%
SG&A Exp.	213	203	226	251	287	330	363	403	494	536
D&A Exp.	4	4	4	5	5	21	23	27	32	28
Operating Profit	102	99	99	146	167	260	284	463	771	774
Operating Margin	6.1%	5.8%	5.2%	6.3%	6.5%	8.5%	8.6%	11.9%	14.7%	13.5%
Net Profit	314	63	66	103	142	211	238	368	574	562
Net Margin	18.7%	3.7%	3.4%	4.4%	5.5%	6.9%	7.2%	9.4%	10.9%	9.8%
Free Cash Flow	(271)	(167)	(1)	111	68	(35)	33	(50)	(238)	877
Income Tax	(185)	37	36	49	88	53	67	90	178	198

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2,595	2,351	2,416	2,529	2,780	3,001	3,338	3,865	4,964	5,363
Cash & Equivalents	199	154	181	283	505	464	460	489	591	714
Accounts Receivable	23	29	23	42	53	53	66	72	99	116
Inventories	1,412	1,668	1,764	1,759	1,830	2,133	2,367	2,832	3,761	3,516
Goodwill & Int. Ass.	6	6	6	6	6	6	6	6	6	6
Total Liabilities	1,382	1,123	1,160	1,209	1,373	1,425	1,556	1,745	2,366	2,271
Accounts Payable	21	42	40	51	48	62	104	133	174	136
Long-Term Debt	1,159	915	944	971	1,114	1,120	1,154	1,250	1,748	1,668
Shareholder's Equity	1,213	1,228	1,256	1,320	1,407	1,576	1,782	2,120	2,597	3,092
LTD/E Ratio	0.96	0.75	0.75	0.74	0.79	0.71	0.65	0.59	0.67	0.54

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	13.8%	2.6%	2.8%	4.2%	5.3%	7.3%	7.5%	10.2%	13.0%	10.9%
Return on Equity	30.0%	5.2%	5.3%	8.0%	10.4%	14.1%	14.2%	18.8%	24.3%	19.8%
ROIC	15.4%	2.8%	3.0%	4.6%	5.9%	8.1%	8.5%	11.7%	14.9%	12.4%
Shares Out.	64.1	64.3	64.5	64.6	64.9	65.4	66.5	68.5	72.9	72.9
Revenue/Share	26.02	26.24	29.47	35.90	38.84	45.90	47.87	55.20	72.13	78.39
FCF/Share	(4.20)	(2.58)	(0.02)	1.72	1.02	(0.53)	0.48	(0.71)	(3.26)	12.02

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

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