



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

Updated October 26<sup>th</sup>, 2023 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$37	<b>5 Year CAGR Estimate:</b>	12.3%	<b>Market Cap:</b>	\$2.77 B
<b>Fair Value Price:</b>	\$39	<b>5 Year Growth Estimate:</b>	6.5%	<b>Ex-Dividend Date:</b>	11/07/2023
<b>% Fair Value:</b>	95%	<b>5 Year Valuation Multiple Estimate:</b>	1.0%	<b>Dividend Payment Date:</b>	11/22/2023
<b>Dividend Yield:</b>	5.9%	<b>5 Year Price Target</b>	\$54	<b>Years Of Dividend Growth:</b>	7
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	C	<b>Rating</b>	Buy

## Overview & Current Events

M.D.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 October 26<sup>th</sup>, 2023, M.D.C. Holdings posted its Q3 results for the quarter ending September 30<sup>th</sup>, 2023. For the quarter, home sale revenues fell 22.7% year-over-year, primarily driven by a 17.6% decrease in unit deliveries and a 6.4% decline in average selling prices. Net income came in at \$107.3 million, or \$1.40 per diluted share, down roughly 26% from \$144.0 million, or 29% from \$1.98 per diluted share, in the prior-year period. Net income was weighed down by home sales gross margin falling from 22.7% to 19.2% due to development in home prices falling behind the increase in building material and labor costs.

Despite the challenging macroeconomic environment and the steep decline in unit orders caused by persistent interest rate hikes over the past year, there is now a promising resurgence in demand from new homebuyers. This is demonstrated by the 42% year-over-year increase in unit orders during the quarter. Cancellations as a percentage of beginning backlog also recorded a meaningful improvement, falling to 23.9% from 80.9% last year. That said, the average selling price of net orders did fall by 4% to \$560K as well.

The company expects to achieve Q4 home deliveries between 2,200 and 2,400 at an average selling price of about \$555,000. Based on M.D.C.'s first nine-month results and Q4 guidance, we project FY-2023 EPS of \$4.90.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$4.83	\$0.98	\$1.02	\$1.59	\$2.17	\$3.20	\$3.56	\$5.33	\$8.13	\$7.87	<b>\$4.90</b>	<b>\$6.71</b>
<b>DPS</b>	\$0.76	\$0.76	\$0.75	\$0.76	\$0.84	\$1.04	\$1.14	\$1.29	\$1.67	\$2.00	<b>\$2.20</b>	<b>\$2.81</b>
<b>Shares<sup>1</sup></b>	64.1	64.3	64.5	64.6	64.9	65.4	66.5	68.5	70.1	71.0	<b>75.0</b>	<b>85.0</b>

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 recent results have display signs of a slowdown in demand for new houses, with the dollar value of net new orders declining and cancelations surging. The declining demand for homes was driven by a sharp increase in interest rates combined with a more uncertain economic outlook that has taken a toll on homebuyer 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, while the company's recent results showed positive signs regarding the possibility of a strong rebound in demand for homes despite interest rates remaining high.

<sup>1</sup> 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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Hence, we expect earnings-per-share to grow gradually at a CAGR of 6.5% through 2028 as economic conditions hopefully improve over time. We forecast a D.P.S. growth of 5% 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.

## 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	7.6	8.0
Avg. Yld.	2.9%	3.2%	3.3%	2.4%	2.8%	3.6%	3.7%	2.9%	3.3%	5.2%	5.9%	5.2%

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 7.6 times reflects the current uncertainty surrounding homebuilders. However, we believe the market modestly undervalues the stock. The current dividend yield of 5.9% makes for a substantial tangible return and should provide a margin of safety.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

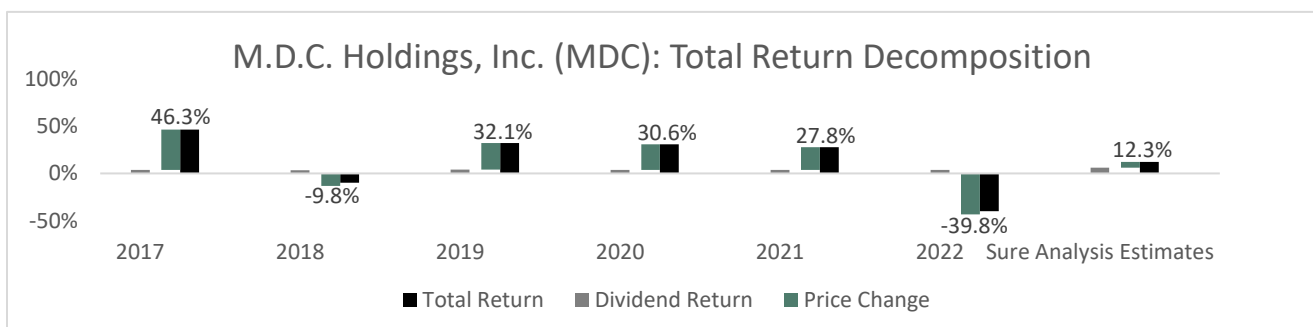
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	16%	78%	74%	48%	39%	33%	32%	24%	21%	25%	45%	42%

While M.D.C.'s earnings for fiscal 2023 are set to plummet, the 45% 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-equity ratio of 47%, cash & equivalents of \$1.21 billion, and no senior note maturities due until 2030.

## Final Thoughts & Recommendation

M.D.C.'s performance has lagged during the first half of fiscal 2023, with the tough macroeconomic landscape killing demand for new homes. That said, the company's most recent results showed improvements in home orders and lower cancellation rates. Based on the current yield, our growth estimates, and the possibility of a modest valuation tailwind, we project annualized returns of 12.3% through 2028. Thus, we rate M.D.C. a buy. Still, there are multiple factors that could easily sway the company's performance. Therefore, its overall investment case is relatively speculative as well.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	1,680	1,695	1,909	2,327	2,578	3,065	3,293	3,901	5,255	5,718
<b>Gross Profit</b>	315	302	325	396	455	590	647	866	1,264	1,310
<b>Gross Margin</b>	18.8%	17.8%	17.0%	17.0%	17.6%	19.2%	19.6%	22.2%	24.1%	22.9%
<b>SG&amp;A Exp.</b>	213	203	226	251	287	330	363	403	494	536
<b>D&amp;A Exp.</b>	4	4	4	5	5	21	23	27	32	28
<b>Operating Profit</b>	102	99	99	146	167	260	284	463	771	774
<b>Operating Margin</b>	6.1%	5.8%	5.2%	6.3%	6.5%	8.5%	8.6%	11.9%	14.7%	13.5%
<b>Net Profit</b>	314	63	66	103	142	211	238	368	574	562
<b>Net Margin</b>	18.7%	3.7%	3.4%	4.4%	5.5%	6.9%	7.2%	9.4%	10.9%	9.8%
<b>Free Cash Flow</b>	(271)	(167)	(1)	111	68	(35)	33	(50)	(238)	877
<b>Income Tax</b>	(185)	37	36	49	88	53	67	90	178	198

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	2,595	2,351	2,416	2,529	2,780	3,001	3,338	3,865	4,964	5,363
<b>Cash &amp; Equivalents</b>	199	154	181	283	505	464	460	489	591	714
<b>Accounts Receivable</b>	23	29	23	42	53	53	66	72	99	116
<b>Inventories</b>	1,412	1,668	1,764	1,759	1,830	2,133	2,367	2,832	3,761	3,516
<b>Goodwill &amp; Int. Ass.</b>	6	6	6	6	6	6	6	6	6	6
<b>Total Liabilities</b>	1,382	1,123	1,160	1,209	1,373	1,425	1,556	1,745	2,366	2,271
<b>Accounts Payable</b>	21	42	40	51	48	62	104	133	174	136
<b>Long-Term Debt</b>	1,159	915	944	971	1,114	1,120	1,154	1,250	1,748	1,668
<b>Shareholder's Equity</b>	1,213	1,228	1,256	1,320	1,407	1,576	1,782	2,120	2,597	3,092
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	13.8%	2.6%	2.8%	4.2%	5.3%	7.3%	7.5%	10.2%	13.0%	10.9%
<b>Return on Equity</b>	30.0%	5.2%	5.3%	8.0%	10.4%	14.1%	14.2%	18.8%	24.3%	19.8%
<b>ROIC</b>	15.4%	2.8%	3.0%	4.6%	5.9%	8.1%	8.5%	11.7%	14.9%	12.4%
<b>Shares Out.</b>	64.1	64.3	64.5	64.6	64.9	65.4	66.5	68.5	72.9	72.9
<b>Revenue/Share</b>	26.02	26.24	29.47	35.90	38.84	45.90	47.87	55.20	72.13	78.39
<b>FCF/Share</b>	(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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