



Home Depot (HD)

Updated November 15th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$306	5 Year CAGR Estimate:	8.3%	Market Cap:	\$304 B
Fair Value Price:	\$300	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	11/30/2023
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.4%	Payment Date²:	12/15/2023
Dividend Yield:	2.7%	5 Year Price Target	\$402	Years of Dividend Growth:	14
Dividend Risk Score:	B	Retirement Suitability Score:	C	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 \$304 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.

Effective August 15th, 2023, the company inked a new share repurchase authorization of \$15 billion.

Home Depot reported third quarter 2023 results on November 14th, 2023. The company reported sales of \$37.7 billion, down 3.0% year-over-year. Comparable sales in the quarter also decreased 3.1%. Net earnings equaled \$3.8 billion, or \$3.81 per share, compared to \$4.3 billion, or \$4.24 per share in Q3 2022.

The company spent nearly \$6.5 billion on common stock repurchases during the quarter. Average ticket declined 0.3% compared to last year, from \$89.67 to \$89.36. Additionally, there was a 3.7% decrease in sales per retail square foot, from \$618.50 to \$595.71.

As of the end of the third quarter, Home Depot had cash and cash equivalents equal to \$2.1 billion.

For fiscal 2023, management narrowed its previous guidance and expects sales growth and comparable sales growth to decline by 3% to 4%. Home Depot also expects earnings per share to decline by 9% to 11% in 2023.

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	\$15.02	\$20.10
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	1003	925

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 per share growth of 6.0%, 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 to 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 2.7% yield has surpassed its historic average as the valuation is lower than it's been in recent years. The company has ample 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. Additionally, 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	20.4	20.0
Avg. Yld.	2.1%	2.2%	2.0%	2.1%	2.2%	2.2%	2.3%	2.3%	2.0%	2.2%	2.7%	3.1%

The share price of Home Depot has recovered somewhat recently, and the stock now trades above our estimate of fair value. Shares trade for 20.4 times our earnings estimate for this year, while we see fair value at 20.0 times earnings. As a result, we see the potential for a valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

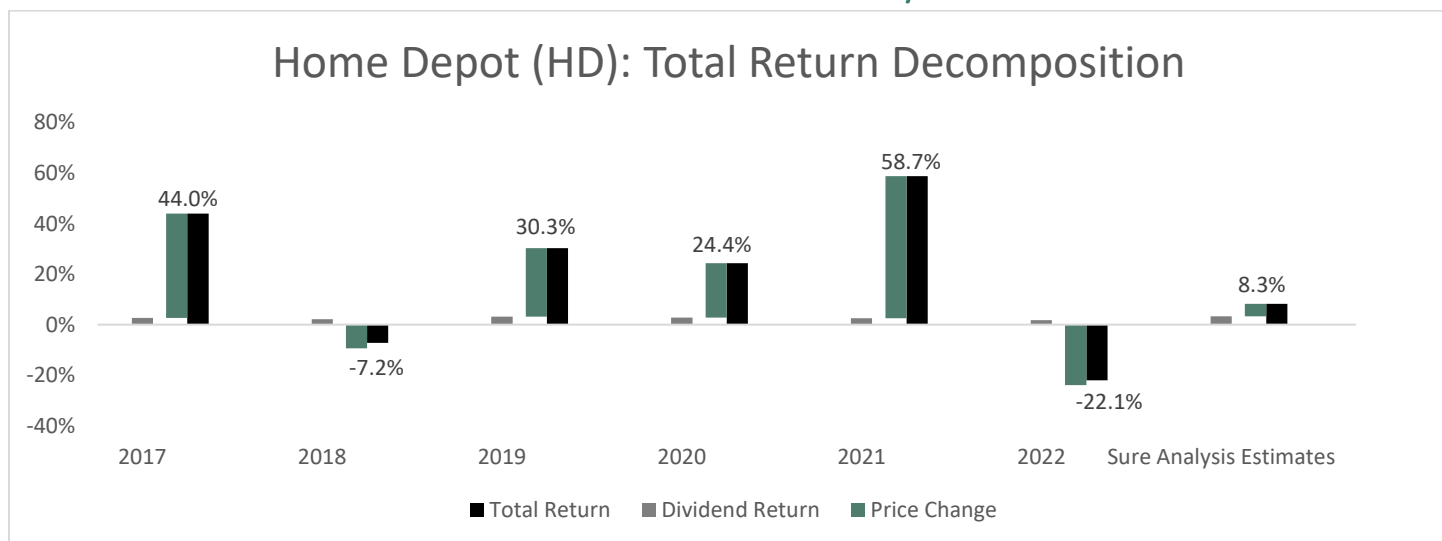
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	41%	41%	44%	43%	48%	42%	53%	50%	42%	46%	56%	61%

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 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 long-term earnings and dividend growth outlooks. The share price of HD has declined by 8% since our last research report, in August, and it is now trading at 102% of our fair value estimate. We expect total annual returns of 8.3% going forward, consisting of the current 2.7% yield, and 6.0% earnings-per-share growth, offset by the potential for a valuation headwind. With good 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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