



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

Updated January 31st, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$63	5 Year CAGR Estimate:	2.3%	Market Cap:	\$4.68 B
Fair Value Price:	\$42	5 Year Growth Estimate:	6.5%	Ex-Dividend Date:	02/06/2024
% Fair Value:	150%	5 Year Valuation Multiple Estimate:	-7.7%	Dividend Payment Date:	02/21/2024
Dividend Yield:	3.5%	5 Year Price Target	\$58	Years Of Dividend Growth:	7
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating	Sell

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 January 18th, 2024, M.D.C. Holdings announced that it had entered into a definitive agreement to be acquired by a wholly-owned subsidiary of Japan-based house manufacturer Sekisui (SKHSY) in an all-cash transaction with an equity value of \$4.9 billion. MDC shareholders will receive \$63 per share in cash.

On January 30th, 2024, M.D.C. Holdings posted its Q4 and full-year results for the quarter ending December 31st, 2023. For the quarter, home sale revenues fell 12% year-over-year to \$1.31 billion, primarily driven by a 6% decrease in unit deliveries and a 6% decline in average selling prices. Net income came in at \$119.5 million, or \$1.60 per diluted share, down roughly 50% from \$79.8 million, or 44% from \$1.11 per diluted share, in the prior-year period. Net income grew due to last year’s result including a \$92.8 million non-cash expense related to inventory impairments. For the year, EPS came in at \$5.42.

The company did not provide guidance for fiscal 2024 as the merger with Sekisui is expected to close soon. We would normally expect EPS of \$5.25 for the year, though our estimate is non-meaningful now. Investors can still expect to collect February’s dividend.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$0.98	\$1.02	\$1.59	\$2.17	\$3.20	\$3.56	\$5.33	\$8.13	\$7.87	\$5.42	\$5.25	\$7.19
DPS	\$0.76	\$0.75	\$0.76	\$0.84	\$1.04	\$1.14	\$1.29	\$1.67	\$2.00	\$2.10	\$2.20	\$2.81
Shares¹	64.3	64.5	64.6	64.9	65.4	66.5	68.5	70.1	71	73.5	73.5	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 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.

We expect earnings-per-share to grow gradually at a CAGR of 6.5% through 2029 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.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	24.0	22.1	20.2	13.8	9.1	8.7	8.8	6.1	4.8	7.0	11.9	8.0
Avg. Yld.	3.2%	3.3%	2.4%	2.8%	3.6%	3.7%	2.9%	3.3%	5.2%	5.6%	3.5%	4.9%

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 P/E ratio of 11.9 appears high, but it's influenced by the agreed acquisition price. Under normal conditions, we would value M.D.C. at 8 times earnings.

Safety, Quality, Competitive Advantage, & Recession Resiliency

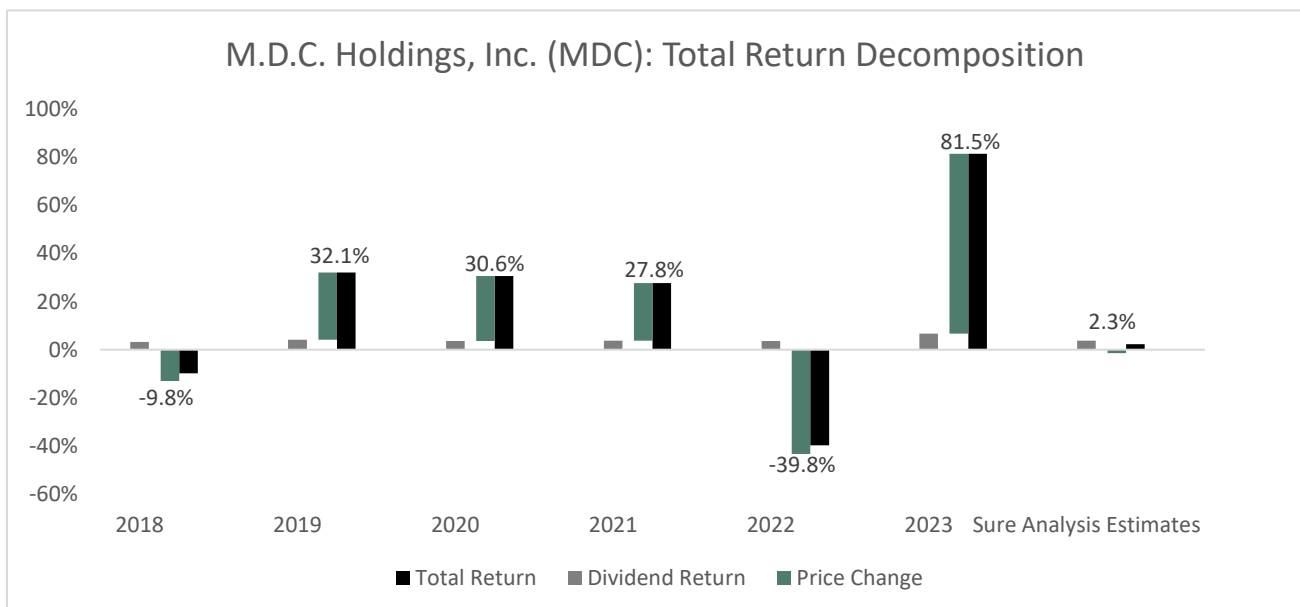
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	78%	74%	48%	39%	33%	32%	24%	21%	25%	39%	42%	39%

While M.D.C.' earnings plummeted in fiscal 2023, but the 42% 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.

Final Thoughts & Recommendation

Based on M.D.C.'s current yield, our growth estimates, and the possibility of a valuation headwind, we would normally project annualized returns of just 2.3% through 2029, and rate the stock a sell. However, our estimates are meaningless given the agreed acquisition by Sekisui. Any upside from the acquisition price appears priced-in already, with any excess return set to come from M.D.C.'s last dividend payment in February.

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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