D.R. Horton Inc. (DHI)

Updated July 20th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$174	**5 Year CAGR Estimate:**	5.7%	**Market Cap:**	$52 B
Fair Value Price:	$144	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date[1]:**	07/31/2024
% Fair Value:	121%	**5 Year Valuation Multiple Estimate:**	-3.7%	**Dividend Payment Date[2]:**	08/08/2024
Dividend Yield:	0.7%	**5 Year Price Target**	$221	**Years Of Dividend Growth:**	9
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

D.R. Horton was founded in 1978 in Fort Worth, Texas, and has been the largest homebuilder by volume since 2002. It operates in 121 markets in 33 states across the U.S. The company's brand portfolio includes D.R. Horton (quality & value brand), Express Homes (first-time homebuyer), Freedom Homes (active adult) and Emerald Homes (luxury), which constructs and sells high-quality homes with sales prices ranging from $200,000 to over $1 million. The corporation also provides mortgage financing, title services and insurance agency services for homebuyers through its mortgage, title, and insurance subsidiaries. D.R. Horton trades on the NYSE under the ticker symbol DHI and boasts a $52 billion market capitalization. In the trailing twelve months, D.R. Horton closed 88,971 homes.

On November 7th, 2023, the company announced a $0.30 quarterly dividend, a 20% increase over the prior dividend.

D. R. Horton reported third quarter fiscal 2024 results on July 18th, 2024, for the period ending June 30th, 2024. Investors were impressed with the report as shares of DHI soared 10% on the day. Homebuilding revenue rose 6% year-over-year to $9.2 billion. Net income increased 1% to $1.35 billion and net income per share improved 5% to $4.10 compared to $3.90 in Q3 2023, beating analysts' estimates by $0.31.

Net sales orders increased 1% compared to the year-ago quarter, to 23,001 homes, and the value remained flat at $8.7 billion. The corporation repurchased 3.0 million shares of common stock for $441 million during Q3, and approved a new $4 billion repurchase authorization. Return on equity was 21.5% for the trailing twelve months.

D. R. Horton updated its guidance for fiscal 2024, calling for revenue of $36.8 billion to $37.2 billion and $1.8 billion of share repurchases, but it maintained its estimate of cash flow from homebuilding operations of $3.0 billion. D. R. Horton expects to close 90,000 to 90,500 homes in the year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.50	$2.03	$2.36	$2.74	$4.09	$4.29	$6.41	$11.41	$16.51	$13.82	***$14.38***	***$22.13***
DPS	$0.14	$0.25	$0.32	$0.40	$0.50	$0.60	$0.70	$0.83	$0.90	$1.00	***$1.20***	***$2.11***
Shares[3]	364.6	368.7	372.9	375.0	376.3	368.4	364.0	356.0	347.0	347.0	***330.0***	***310.0***

D. R. Horton's earnings have grown consistently since 2011, once the company recovered from the financial crisis. The corporation has grown earnings by 28.0% on average per year over the last nine and five years. Rising interest rates impacted the demand for housing initially, but given the limited supply of new and existing homes, and the increase of population, demand remains highly elevated. Off an impressive base of $14.38 per share in fiscal 2024, we are forecasting earnings-per-share growth at 9.0% per year over the next five years. Earnings could come in stronger if the housing boom continues. The company has a large backlog of homes under contract, most recently reported at 16,792 homes, valued at $6.6 billion, and the cancellation rate was 18% in Q3 2024. The company's share count has grown over the long term, however since 2018 the company has made efforts to reduce its share count and we see this as another

[1] Estimate
[2] Estimate
[3] In millions

tailwind to earnings in the coming years. In fiscal 2023, DHI reduced its outstanding share count by 3%. Interest rates are expected to begin declining in 2024, which would have a positive impact on the company's results, as it will improve affordability for customers. Additionally, if interest rates were to decline, home values would likely improve as well.

The corporation's dividend has grown by 24% on average over the past nine years, and we estimate it will grow at around 12% in the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.4	13.0	12.9	11.8	11.0	9.7	8.6	7.7	5.5	7.3	***12.1***	***10.0***
Avg. Yld.	0.6%	0.9%	1.1%	1.2%	1.1%	1.4%	1.3%	0.9%	1.1%	0.9%	***0.7%***	***1.0%***

D.R. Horton's price-to-earnings multiple appears to be overvalued at 12.1 based on 2024 forecasted earnings, and we peg fair value at 10.0 times earnings, in line with its ten-year average. As a result, we see the potential for a valuation headwind. DHI yields 0.7% and we expect the yield to increase from here due to its impressive dividend growth.

Safety, Quality, Competitive Advantage, & Recession Resiliency

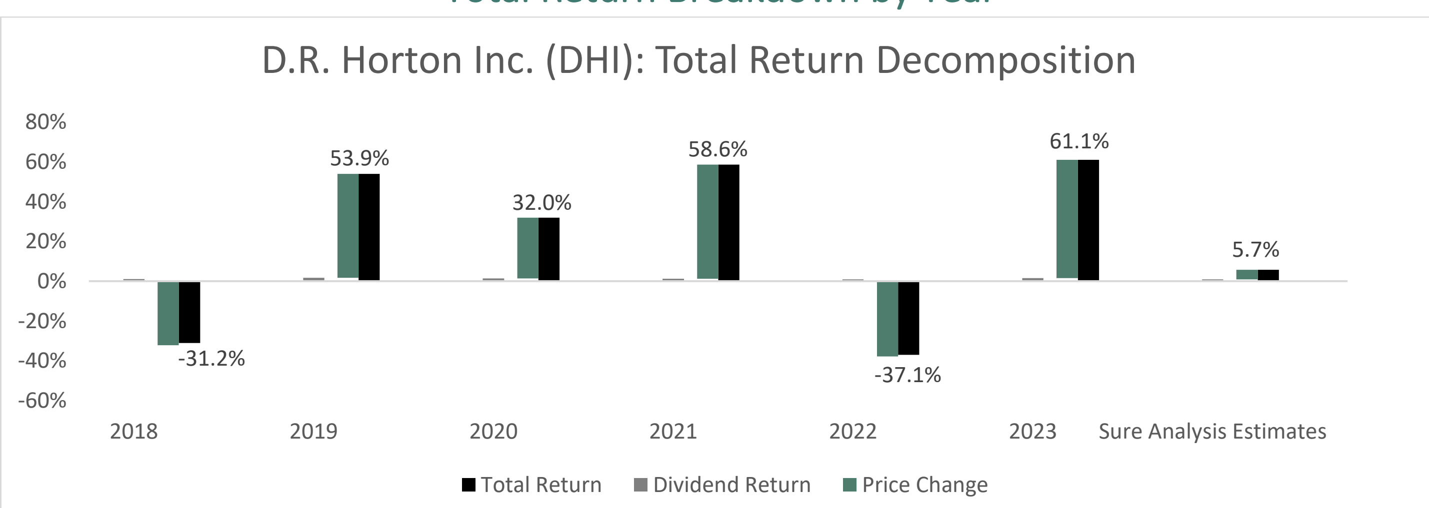
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	9%	12%	14%	15%	12%	14%	11%	7%	5%	7%	***8%***	***10%***

Today the payout ratio is quite low at only 8% of net income, and we estimate that the company has a long runway of dividend growth ahead of it. However, it must be noted that DHI faced many hardships in the Great Financial Crisis, which caused it to report losses from 2007 to 2009 and caused the dividend to be cut significantly. The company only eclipsed its 2005 per share earnings in 2020. This demonstrates that D.R. Horton is not recession resistant. Additionally, interest rates and housing demand can cause volatile earnings in a recession. DHI's competitive advantage lies in its industry leading position in homebuilding, which it has dominated since 2002.

Final Thoughts & Recommendation

D. R. Horton has been the US' largest homebuilder by volume for more than 20 years, and has closed over 1.1 million homes in its 45-year+ history. Since the Great Financial Crisis, the corporation has compounded earnings and the dividend at strong double digits, and we see this continuing for the dividend. Shares of D.R. Horton earn a hold rating due to its forecasted 5.7% annualized total returns through 2029.

Total Return Breakdown by Year



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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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	8025	10824	12157	14091	16068	17593	20311	27774	33480	35460
Gross Profit	1756	2288	2655	3048	3670	3872	4938	7875	10504	9350
Gross Margin	21.9%	21.1%	21.8%	21.6%	22.8%	22.0%	24.3%	28.4%	31.4%	26.4%
SG&A Exp.	965	1186	1320	1472	1677	1833	2048	2556	2934	3249
D&A Exp.	38	54	61	55	62	72	80	74	81	92
Operating Profit	791	1102	1335	1577	1993	2040	2890	5319	7570	6102
Operating Margin	9.9%	10.2%	11.0%	11.2%	12.4%	11.6%	14.2%	19.2%	22.6%	17.2%
Net Profit	534	751	886	1038	1460	1619	2374	4176	5858	4746
Net Margin	6.6%	6.9%	7.3%	7.4%	9.1%	9.2%	11.7%	15.0%	17.5%	13.4%
Free Cash Flow	-762	644	546	283	407	668	1135	267	414	4156
Income Tax	281	373	467	564	598	507	603	1165	1734	1520

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	10185	11151	11559	12185	14115	15607	18912	24016	30351	32580
Cash & Equivalents	662	1384	1303	1008	1473	1494	3019	3210	2541	3874
Inventories	7701	7807	8341	9237	10395	11282	12237	16479	21656	22370
Goodwill & Int. Ass.	95	87	80	80	109	164	181	164	174	164
Total Liabilities	5066	5256	4766	4437	4956	5312	6791	8800	10566	9444
Accounts Payable	525	517	578	580	625	634	901	1177	1360	1246
Long-Term Debt	3666	3812	3271	2872	3204	3399	4283	5412	6067	5094
Shareholder's Equity	5116	5894	6793	7747	8984	10021	11840	14887	19396	22700
D/E Ratio	0.72	0.65	0.48	0.37	0.36	0.34	0.36	0.36	0.31	0.22

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.6%	7.0%	7.8%	8.7%	11.1%	10.9%	13.8%	19.5%	21.5%	15.1%
Return on Equity	11.6%	13.6%	14.0%	14.3%	17.5%	17.0%	21.7%	31.2%	34.2%	22.6%
ROIC	6.5%	8.1%	9.0%	10.0%	12.7%	12.4%	15.8%	22.6%	25.2%	17.6%
Shares Out.	364.6	368.7	372.9	375.0	376.3	368.4	364.0	356.0	354.8	343.3
Revenue/Share	21.89	29.27	32.41	37.19	41.91	46.62	54.87	75.93	94.36	103.3
FCF/Share	-2.08	1.74	1.46	0.75	1.06	1.77	3.07	0.73	1.17	12.10

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