PulteGroup Inc. (PHM)

Updated July 24th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$126	**5 Year CAGR Estimate:**	7.5%	**Market Cap:**	$26 B
Fair Value Price:	$125	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	09/13/2024
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Dividend Payment Date[1]:**	10/03/2024
Dividend Yield:	0.6%	**5 Year Price Target**	$176	**Years Of Dividend Growth:**	6
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

PulteGroup was founded in 1950 by Bill Pulte. The company has delivered nearly 800,000 homes across the United States. It is the nation's third largest homebuilders and has operations in over 45 major cities. The company is marketed under the following brands: Pulte, Centex, Del Webb, DiVosta, American West, and John Wieland Homes and Neighborhoods. The company caters to the needs of first-time, move-up, luxury and active adult homebuyers. PulteGroup trades on the NYSE under the ticker PHM and is based in Georgia, Atlanta. In 2023, PulteGroup recorded $15.7 billion in home sale revenues.

PulteGroup reported second quarter 2024 results on July 23rd, 2024, for the period ending June 30th, 2024. Home sale revenue for the quarter was $4.4 billion, a 10% year-over-year increase. The company generated net income of $809 million, or $3.83 per share.

Net new orders decreased 3.7% to 7,649 homes. The net new order value rose 2% from the prior year to $4.4 billion. Gross margin as a percentage of home sales was 29.9%, up 30 basis points from the year-ago quarter. And the quarter-end backlog decreased by 4% to 12,982 homes and has a value of $8.1 billion, which is 1% lower than the prior year. Average sales price improved 2% from the prior year, to $549,000.

The company repurchased 2.8 million of its common shares in the second quarter for $314 million. At the quarter-end, the company had $1.4 billion in cash and a debt-to-capital ratio of 12.8%.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.26	$1.36	$1.67	$2.24	$3.41	$3.66	$5.18	$7.43	$11.01	$11.72	***$13.20***	***$18.51***
DPS	$0.23	$0.33	$0.36	$0.36	$0.38	$0.45	$0.50	$0.57	$0.61	$0.68	***$0.80***	***$1.12***
Shares[2]	369.5	349.2	319.1	286.8	277.1	270.2	266.5	259.9	236.2	221.2	***210.0***	***180.0***

PulteGroup has improved its earnings-per-share at an impressive growth rate in both the last ten and five years, boasting a 28% CAGR.

The housing market which PulteGroup operates in is still hot, as demand is high, and the supply is very limited. PHM has many brands which allow them to sell to a variety of clientele interested in purchasing housing. The company has a backlog of home orders to construct, and the cancelation rate is slowing down, at 9% in the second quarter of 2024 compared to 10% in the first quarter.

The increasing average sale price continues to add to the company's earnings growth. Finally, the company's share count has been reduced by more than 5% annually over the last nine years, which significantly increases the earnings-per-share as earnings are spread across fewer outstanding shares. We estimate the company can deliver 7.0% EPS growth from this relative high point into 2029. The increase in interest rates and resultant mortgage rates heavily impacted new order levels and cancellations in the first part of 2023, but rates are expected to come down in 2024, and we see that

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[1] Estimate
[2] In millions

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demand for housing is still very strong, bolstered by population growth. In fact, PulteGroup estimates that the U.S. has a shortage of several million homes.

The corporation's dividend has grown by 12% on average over the past five years, and we estimate it will grow at around 7% in the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.4	14.9	11.3	11.3	8.4	9.0	7.5	8.8	5.1	6.0	***9.5***	***9.5***
Avg. Yld.	1.2%	1.6%	1.9%	1.4%	1.3%	1.4%	1.3%	1.0%	1.3%	0.9%	***0.6%***	***0.6%***

Pulte's price-to-earnings multiple is in line with our estimate at fair value today at 9.0 based on 2024 forecasted earnings, implying no change in the valuation. PHM is not an income stock with its yield of just 0.6%, and we expect the yield to remain around here as the company prefers to repurchase shares and invest in the business.

Safety, Quality, Competitive Advantage, & Recession Resiliency

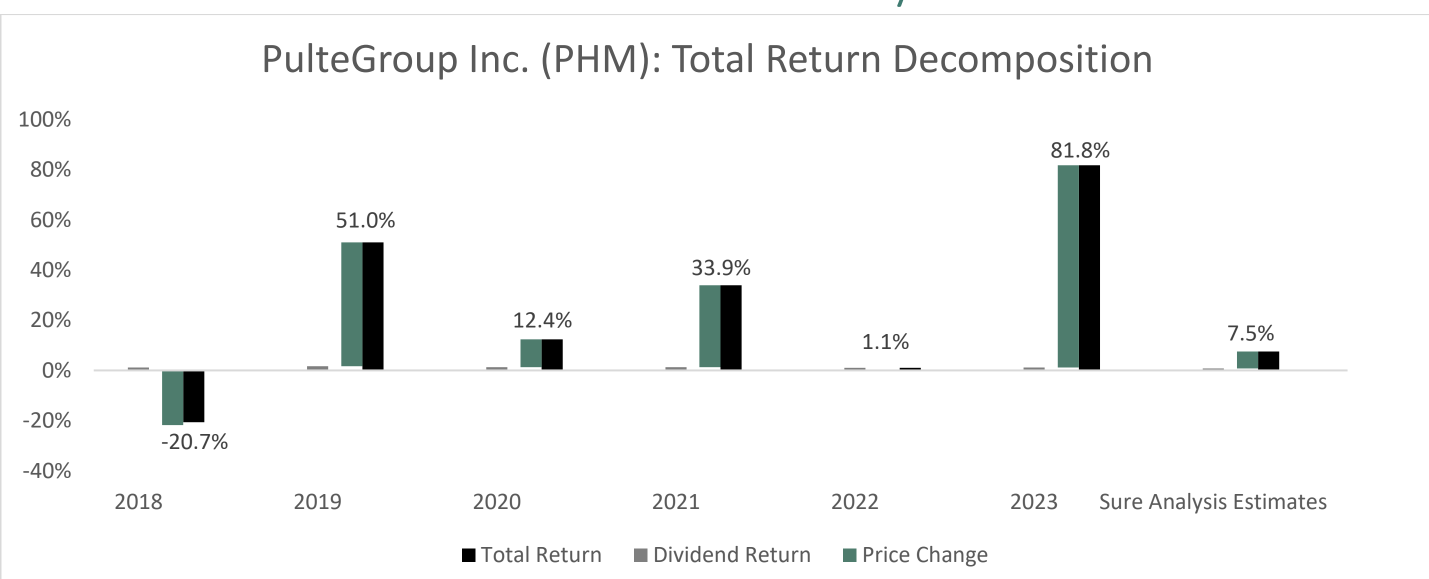
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	18%	24%	22%	16%	11%	12%	10%	8%	6%	6%	***6%***	***6%***

The payout ratio remains exceptionally low so the dividend is safe and should continue to grow in the years to come at roughly the rate of earnings. However, PulteGroup is more interested in investing for growth than it is in becoming an income stock. PulteGroup is not recession resistant and was clobbered in the Great Financial Crisis. In fact, the corporation reported higher net income per share in 2005 than it did in 2020. From 2007 to 2011, the company reported net losses and slashed its dividend to zero. While the company is benefiting from strong demand today, interest rates and housing demand can cause volatile earnings in a recession. We don't see any significant competitive advantage over its peers, but we like the fact that PHM has different banners catering to a variety of client types.

Final Thoughts & Recommendation

We see PulteGroup as a strong company in the homebuilding market, and PHM is forecasted to generate 7.5% total annual returns over the next five years, comprised of the 0.6% starting yield and 7.0% EPS growth. We are reiterating our hold rating on PulteGroup.

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	5,822	5,982	7,677	85,78	10,188	102,13	11,036	13,927	16,229	16060
Gross Profit	1,578	1,628	1,948	1,863	2,373	2,397	2,778	3,782	4,834	4719
Gross Margin	27.1%	27.2%	25.4%	21.7%	23.3%	23.5%	25.2%	27.2%	29.8%	
SG&A Exp.	861	795	957	892	1,012	1,044	1,011	1,209	1,381	1313
D&A Exp.	40	46	54	51	49	54	66	70	71	81
Operating Profit	703	820	977	957	1,348	1,339	1,747	2,557	3,442	3396
Operating Margin	12.1%	13.7%	12.7%	11.2%	13.2%	13.1%	15.8%	18.4%	21.2%	
Net Profit	474	494	603	447	1,022	1,017	1,407	1,946	2,617	2602
Net Margin	8.1%	8.3%	7.9%	5.2%	10.0%	10.0%	12.7%	14.0%	16.1%	
Free Cash Flow	259	-383	29	631	1,389	1,018	1,726	931	556	2105
Income Tax	215	322	331	492	326	323	322	564	822	2602

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	8,569	9,189	10,178	9,687	10,173	10,716	12,205	13,353	14,797	16090
Cash & Equivalents	1,293	754	699	273	1,110	1,218	2,582	1,779	1,053	1807
Accounts Receivable	61	363	307	213	153	118	69	57	44	27
Inventories	4,392	5,450	6,771	7,147	7,253	7,681	7,722	9,048	11,326	11800
Goodwill & Int. Ass.	123	110	155	141	127	125	163	147	136	125
Total Liabilities	3,764	4,430	5,519	5,533	5,355	5,257	5,636	5,863	5,882	5704
Accounts Payable	271	328	405	394	352	436	511	621	566	619
Long-Term Debt	1,981	2,378	3,461	3,445	3,376	3,092	3,164	2,655	2,632	2462
Shareholder's Equity	4,805	4,759	4,659	4,154	4,818	5,458	6,570	7,490	8,914	10380
LTD/E Ratio	0.41	0.50	0.74	0.83	0.70	0.57	0.48	0.35	0.30	0.24

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.5%	5.6%	6.2%	4.5%	10.3%	9.7%	12.3%	15.2%	18.6%	16.9%
Return on Equity	10.0%	10.3%	12.8%	10.1%	22.8%	19.8%	23.4%	27.7%	31.9%	27.0%
ROIC	7.0%	7.1%	7.9%	5.7%	12.9%	12.1%	15.4%	19.6%	24.1%	21.3%
Shares Out.	369.5	349.2	319.1	286.8	277.1	270.2	266.5	259.9	236.2	221.2
Revenue/Share	15.56	16.63	22.44	27.96	35.77	37.10	40.96	53.58	68.72	72.62
FCF/Share	0.69	-1.06	0.08	2.06	4.88	3.70	6.41	3.58	2.35	9.52

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