

D.R. Horton, Inc. (DHI)

\$76.09 (As of 08/21/20)

Price Target (6-12 Months): **\$89.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 06/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: C

Momentum: B

Summary

D.R. Horton's shares have outperformed the industry so far this year. The trend is expected to continue, courtesy of its impressive third-quarter fiscal 2020 performance. Furthermore, higher gross margin, improved SG&A leverage, along with a solid Q4 guidance — given improving housing market fundamentals — are encouraging. The company is well positioned for fiscal 2020 and 2021, courtesy of industry-leading market share, well-stocked supply of land, lots and homes, affordable product offerings, along with a solid balance sheet. Earnings estimates for fiscal 2020 have gained 20% over the past 30 days, reflecting analysts' optimism over its prospects. Yet, higher land and labor costs are pressing concerns.

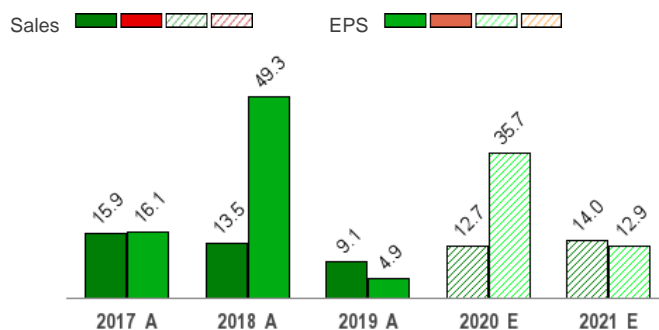
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$76.97 - \$25.51
20 Day Average Volume (sh)	3,571,824
Market Cap	\$28.0 B
YTD Price Change	45.9%
Beta	1.65
Dividend / Div Yld	\$0.70 / 0.9%
Industry	Building Products - Home Builders
Zacks Industry Rank	Top 2% (5 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	35.4%
Last Sales Surprise	7.2%
EPS F1 Est- 4 week change	18.1%
Expected Report Date	NA
Earnings ESP	0.8%
P/E TTM	14.4
P/E F1	13.1
PEG F1	1.2
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,006 E	4,949 E	6,217 E	6,601 E	22,427 E
2020	4,021 A	4,500 A	5,390 A	5,786 E	19,680 E
2019	3,503 A	4,097 A	4,882 A	4,977 A	17,459 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.39 E	\$1.45 E	\$1.89 E	\$1.98 E	\$6.57 E
2020	\$0.99 A	\$1.30 A	\$1.72 A	\$1.72 E	\$5.82 E
2019	\$0.76 A	\$0.93 A	\$1.26 A	\$1.35 A	\$4.29 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/21/2020. The reports text is as of 08/24/2020.

Overview

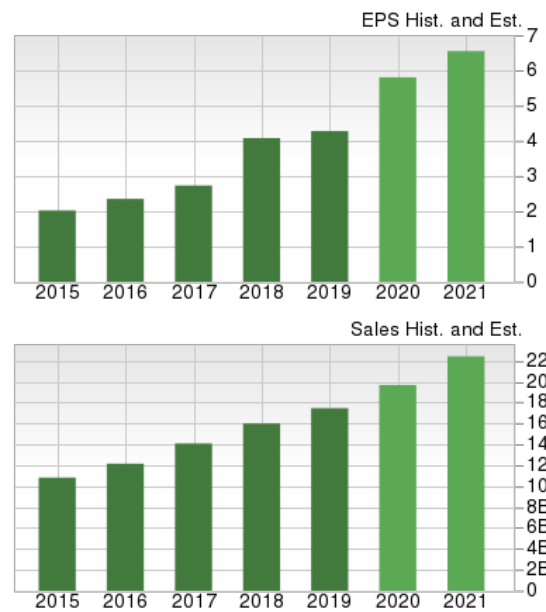
D.R. Horton, Inc., based in Texas, is one of the leading national homebuilders, primarily engaged in the construction and sale of single-family houses both in the entry-level and move-up markets. Homes vary in sizes from 1,000 to 4,000 square feet, with prices ranging from \$100,000 to more than \$1,000,000. D.R. Horton's operations are spread over 90 markets across 29 states in the East, Midwest, Southeast, South Central, Southwest and West regions of the United States. Its houses are sold under the brand names D.R. Horton - America's Builder, Emerald Homes, Express Homes and Freedom Homes.

D.R. Horton operates through three segments: **Homebuilding** (contributing 96.7% of the total revenues in fiscal 2019), **Forestar** (2.4%) and **Financial Services** (2.5%). Notably, of the total revenues, 1.8% represents the elimination of intercompany transactions. The Homebuilding segment comprises six reporting regions and derives revenues primarily from the sale of completed homes built on lots it develops and on finished lots purchased ready for home construction. In addition to single-family detached homes (accounting for around 90% of home sale revenues), the segment builds attached homes, such as town homes, duplexes, triplexes and condominiums. The segment also derives revenues by selling lands and lots.

As of Dec 31, 2019, the Forestar land development reporting segment has operations in 51 markets and 20 states, where it owns, directly or through joint ventures, interests in residential and mixed-use projects. During fiscal 2018, the company had acquired a 75% share of Forestar Group, which is a residential and mixed-use real estate development company. Forestar Group Inc. (FOR), a publicly-traded residential and real estate development company, is a majority-owned subsidiary of D.R. Horton.

The Financial Services segment, through the mortgage subsidiary, DHI Mortgage, provides mortgage financing and title agency services primarily to the company's homebuilding customers.

Other Businesses — Through DHI Communities, a 100% owned subsidiary, the company develops, constructs and owns multi-family residential properties that produce rental income.



Reasons To Buy:

- ▲ **Strong Results and Stock Outperformance:** Shares of D.R. Horton have outperformed the industry year to date. The price performance was backed by the company's robust earnings surprise history, having surpassed the Zacks Consensus Estimate in eight of the trailing 11 quarters. Its revenues also surpassed the consensus mark in nine of the trailing 11 quarters. The trend is expected to continue in the near term as well, supported by solid results in the first nine months of fiscal 2020, with adjusted earnings and revenues increasing 41.8% and 10.8%, respectively.

It finished fiscal 2019 on a strong note as well. Earnings per share increased 10.6% and revenues grew 10.7% from a year ago. With 56,975 homes closed in fiscal 2019, D.R. Horton completed its 18th consecutive year as the largest homebuilder in the United States.

With accretive acquisitions, robust backlog and a well-stocked inventory of land, lots and homes in place, D.R. Horton is expected to perform well in fiscal 2020 and beyond

- ▲ **Accretive Acquisitions & Increased Capital Investments in Land:** In this unprecedented scenario, D.R. Horton has stopped new acquisitions, and deferred construction and other projects until it gets clearer visibility into market conditions.

That said, acquisitions have been an important part of D.R. Horton's growth strategy. The company is fast acquiring homebuilding companies in desirable markets. Over the past five years (through fiscal 2019), the company has invested approximately \$1 billion on acquisitions. During fiscal 2019, the company purchased homebuilding operations of three private builders for approximately \$325.9 million. In December 2018, the company entered Iowa by acquiring Classic Builders, the largest builder in Des Moines. It enhanced its market position in Raleigh, NC by acquiring Terramor Homes. In November 2018, it acquired Westport Homes, a top five builder by volume in Indianapolis and Columbus, which are both in the top 50 U.S. housing markets.

The company's strong cash position and low debt/capital ratio allowed it to make strategic land purchases even during the downturn, in turn giving it a significant competitive advantage. The company has selectively invested in attractively-priced land and lots in the past few years allowing it to bring new attractive communities in desirable markets. D.R. Horton's well-stocked supply of land, plots and homes provide it with a strong competitive position to meet the demand in future quarters, thereby growing sales and home closings. The company invested \$3.7 billion in lots, land and development in fiscal 2019, almost on par with the year-ago level of \$3.8 billion. It invested \$1.1 billion in lots, land and development during the third quarter of fiscal 2020. The company has been boosting investments to replenish land and lot supply in fiscal 2020 and beyond for supporting revenue growth.

- ▲ **Affordable Homes Drive D.R. Horton's Profits:** Higher building material costs, as well as land and labor shortages are prompting homebuilders to increase home prices. That said, D.R. Horton's strategic shift toward more entry-level affordable homes have been paying off, with the segment experiencing strong demand and limited supply. Notably, first-time homebuyers represented 57% of its closings in third-quarter fiscal 2020.

- ▲ **Cost Reduction and Margin Improvement:** Management has consistently made an effort to reduce both construction and selling, general and administrative (SG&A) expenses. It controls construction costs by designing homes efficiently and also by obtaining construction materials and labor at competitive prices. Further, its SG&A expenses are continuously going down due to cost control and better fixed cost leverage. In fiscal 2018, 2017 and 2016, SG&A expenses improved 30 basis points (bps), 40 bps and 20 bps, respectively. Notably, the company did not achieve SG&A leverage in fiscal 2019 after it reduced revenue growth expectation for the fiscal first quarter, and worked on aligning its inventory levels and operations with revised expectations throughout the fiscal year. Nonetheless, it remains focused on controlling SG&A and expects to improve the same in fiscal 2020. In the first nine months of fiscal 2020, SG&A improved 40 bps year over year.

The company strategically manages the pricing, incentives and sales pace across its markets in a manner that will optimize the returns on inventory investments. It believes a consistent sales pace through inventory turnover is the best way to maximize profits and returns. The company's return on equity (ROE) was 19.9% in the trailing 12 months ended Jun 30, 2020 (versus 17.3% a year ago) and homebuilding return on inventory (ROI) was 21.6% (versus 18.1% a year ago). Notably, the company's homebuilding ROI improved over the past three years from 15.4% in fiscal 2016 to 16.6% and 20.2% in fiscal 2017 and fiscal 2018, respectively. In fiscal 2019, ROI was 18.1%.

With 335,000 lots (34% were owned and 66% controlled through option contracts) in inventory at fiscal third quarter-end, D.R. Horton is well poised for fiscal 2020 and 2021.

- ▲ **Healthy Balance Sheet:** Ample liquidity and a low leverage profile will help D.R. Horton tide over the unfavorable demand trends owing to the pandemic. The company ended the fiscal third quarter with \$1.9 billion of unrestricted homebuilding cash and \$1.8 billion of available capacity on the revolving credit facility, which resulted in total homebuilding liquidity of \$3.7 billion. Its homebuilding debt to total capital on Jun 30, 2020 was 18.4%, down sequentially from 19.2% in the fiscal second quarter. Its homebuilding debt (i.e. homebuilding notes payable) totaled \$2.5 billion on Jun 30, 2020, with \$400 million of senior note maturities in the next 12 months.

Importantly, D.R. Horton has been actively managing cash flows, returning much of its free cash to investors through share repurchases and dividends. During the first nine months of fiscal 2020, the company paid dividends worth \$192.3 million and repurchased \$360.4 million shares. It has \$535.3 million remaining under the stock repurchase authorization (as of Jun 30, 2020). Notably, during fiscal 2019, the company returned more than \$1.4 billion to its shareholders through share repurchases and dividends, after reducing homebuilding debt by \$1.3 billion.

Risks

- **Coronavirus-Led Uncertainties:** Although a low interest rate environment and limited supply of homes at affordable prices helped D.R. Horton to post solid results, renewed fears of a second wave of the virus may impact the company in the near term. Also, it did not provide its full-year guidance due to significant uncertainty on the duration of the COVID-19 pandemic and its impact on the economy.
 - **Margin Pressure:** Rising land and labor costs are threatening margins as they limit homebuilders' pricing power. Labor shortages are leading to higher wages while land prices are inflating due to limited availability. Meanwhile, key cost pressures coming from finished lots, skilled labor, and rising materials costs may affect margins in all key regions. This is denting homebuilders' margins to some extent.
 - **Federal Government Actions:** The housing industry is cyclical and affected by consumer confidence levels, prevailing economic conditions and interest rates. The federal government's actions related to economic stimulus, taxation and borrowing limits could affect consumer confidence and spending levels, which in turn could hurt both the economy and housing market.
 - **Overvalued Compared to Peers:** The company's stretched valuation is another concern. Its trailing 12-month price to earnings ratio is 14.36, which is higher than the industry's 12.17. This implies that the stock is overvalued than peers.
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Last Earnings Report

D.R. Horton (DHI) Q3 Earnings & Revenues Beat Estimates

D.R. Horton, Inc. reported third-quarter fiscal 2020 results, wherein earnings and revenues handily beat the respective Zacks Consensus Estimate.

Its industry-leading market share, broad geographic footprint and affordable product offerings across multiple brands supported the upside. The company's initiatives in sync with changing market conditions resulted in net sales order increase in excess of 50% in both May and June from the comparable months of the prior year.

Quarter Ending **06/2020**

Report Date	Jul 28, 2020
Sales Surprise	7.22%
EPS Surprise	35.43%
Quarterly EPS	1.72
Annual EPS (TTM)	5.36

Earnings & Revenue Discussion

D.R. Horton reported quarterly adjusted earnings of \$1.72 per share, which surpassed the Zacks Consensus Estimate of \$1.27 by 35.4% and increased 36.5% from the year-ago period.

Total revenues (Homebuilding, Forestar and Financial Services) came in at \$5.39 billion, up 9.9% year over year. The reported figure also beat the consensus mark of \$5.04 billion.

Home Closings and Orders

Homebuilding revenues of \$5.22 billion increased 9.7% from the prior-year quarter. Home sales also increased 10% year over year to \$5.21 billion, aided by higher home deliveries. However, land/lot sales and other revenues were \$14.5 million, down from \$27.5 million a year ago.

Home closings increased 10% from the prior-year quarter to 17,642 homes and 10% in value to \$5.21 billion. It recorded growth across all regions comprising East, Midwest, Southeast, and South Central, barring Southwest and West.

Quarterly net sales orders increased 38% year over year to 21,519 homes. It registered growth in all geographic regions served. Value of net orders also improved 35% year over year to \$6.3 billion. The cancellation rate was 22%, higher than 20% a year ago.

Order backlog of homes at quarter-end was 23,205 homes, up 41% year over year. The value of backlogs was also up 41% from the prior year to \$7 billion.

Revenues from the Financial Services segment increased 30.9% from the year-ago level to \$156.6 million.

Forestar contributed \$177.9 million to its total quarterly revenues, reflecting a notable improvement from \$88.2 million a year ago.

Margins

Home sales gross margin expanded 130 bps to 21.6%. The company's consolidated pre-tax margin expanded 170 bps to 14.5%.

SG&A, as a percentage of homebuilding revenues, improved 20 bps to 7.9% in the quarter.

Balance Sheet Details

D.R. Horton's cash, cash equivalents and restricted cash totaled \$2.35 billion as of Jun 30, 2020 compared with \$1.49 billion at fiscal 2019-end.

At the end of the reported quarter, it had \$1.9 billion of unrestricted homebuilding cash and \$1.8 billion of available capacity. Total homebuilding liquidity was \$3.7 billion.

As of Jun 30, 2020, homebuilding debt totaled \$2.5 billion, with \$400 million of senior note maturities in the next 12 months.

As of Jun 30, 2020, its homebuilding debt to total capital was 18.4%. The trailing 12-month return on equity was 19.9%.

D.R. Horton repurchased 7 million shares of common stock for \$360.4 million during the first nine months of fiscal 2020. The company's remaining stock repurchase authorization — which has no expiration date — as of Jun 30, 2020 was \$535.3 million.

Fiscal Q4 Guidance

The company expects revenues between \$5.5 billion and \$5.8 billion (indicating an increase from \$5.04 billion a year ago), homes closing within 18,000-19,000 units (depicting an increase from 16,024 units of home closed a year ago), and home sales gross margin in the mid-21% range (21% was recorded in the year-ago period). Homebuilding SG&A expenses are expected to be 8-8.2% of homebuilding revenues (suggesting a decline from 8.5% a year ago).

Valuation

D.R. Horton shares are up 45.9% in the year-to-date period and 56.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 30.9% and 8.1% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 43% and 23.8%, respectively.

The S&P 500 index is up 5.5% in the year-to-date period and 18.3% in the past year.

The stock is currently trading at 11.86X forward 12-month earnings, which compares to 11.96X for the Zacks sub-industry, 18.73X for the Zacks sector and 22.83X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.83X and as low as 5.44X, with a 5-year median of 11.19X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$89 price target reflects 13.71X forward 12-month earnings.

The table below shows summary valuation data for DHI.

Valuation Multiples - DHI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.86	11.96	18.73	22.85
	5-Year High	15.83	14.36	19.19	22.85
	5-Year Low	5.44	6.34	10.74	15.25
	5-Year Median	11.19	10.72	15.86	17.58
P/B TTM	Current	2.47	1.64	4.4	4.59
	5-Year High	2.49	2.29	6.76	4.59
	5-Year Low	1	0.66	1.71	2.83
	5-Year Median	1.82	1.49	3.31	3.75
P/S F12M	Current	1.24	1.18	2.15	3.71
	5-Year High	1.26	1.18	2.15	3.71
	5-Year Low	0.53	0.57	1.18	2.53
	5-Year Median	0.9	0.92	1.63	3.05

As of 08/21/2020

Industry Analysis Zacks Industry Rank: Top 2% (5 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Beazer Homes USA, Inc. (BZH)	Outperform	1
MI Homes, Inc. (MHO)	Outperform	1
Meritage Homes Corporation (MTH)	Outperform	1
NVR, Inc. (NVR)	Outperform	2
PulteGroup, Inc. (PHM)	Outperform	1
KB Home (KBH)	Neutral	3
Lennar Corporation (LEN)	Neutral	3
Toll Brothers Inc. (TOL)	Neutral	2

Industry Comparison Industry: Building Products - Home Builders				Industry Peers		
	DHI	X Industry	S&P 500	LEN	PHM	TOL
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	1	-	-	3	1	2
VGM Score	B	-	-	A	B	B
Market Cap	27.99 B	3.38 B	23.62 B	24.78 B	12.73 B	5.61 B
# of Analysts	19	5	14	3	3	6
Dividend Yield	0.91%	0.00%	1.65%	0.63%	1.01%	0.99%
Value Score	C	-	-	B	B	B
Cash/Price	0.15	0.17	0.07	0.06	0.14	0.15
EV/EBITDA	12.87	10.19	13.29	12.34	9.91	10.70
PEG Ratio	1.19	1.42	3.03	1.59	1.19	6.24
Price/Book (P/B)	2.47	1.21	3.11	1.49	2.18	1.23
Price/Cash Flow (P/CF)	16.73	10.16	12.69	13.09	12.16	9.47
P/E (F1)	13.13	11.88	21.51	12.35	11.15	16.10
Price/Sales (P/S)	1.48	0.82	2.43	1.10	1.20	0.80
Earnings Yield	7.56%	8.43%	4.46%	8.09%	8.97%	6.20%
Debt/Equity	0.38	0.46	0.76	0.45	0.47	0.94
Cash Flow (\$/share)	4.60	3.90	6.93	6.06	3.90	4.72
Growth Score	C	-	-	A	B	C
Hist. EPS Growth (3-5 yrs)	23.36%	21.30%	10.44%	15.69%	32.05%	21.87%
Proj. EPS Growth (F1/F0)	35.68%	7.70%	-5.53%	11.90%	21.97%	-31.18%
Curr. Cash Flow Growth	3.66%	-2.58%	5.20%	-6.27%	-2.58%	-11.99%
Hist. Cash Flow Growth (3-5 yrs)	23.21%	18.38%	8.52%	22.34%	15.54%	13.21%
Current Ratio	6.82	4.02	1.33	14.21	1.13	6.84
Debt/Capital	27.50%	32.45%	44.50%	31.07%	32.13%	48.38%
Net Margin	10.82%	7.19%	10.13%	9.30%	10.94%	6.85%
Return on Equity	18.53%	13.03%	14.67%	13.08%	20.10%	9.91%
Sales/Assets	1.13	0.98	0.51	0.77	0.98	0.66
Proj. Sales Growth (F1/F0)	12.73%	0.00%	-1.54%	-5.10%	0.82%	-11.56%
Momentum Score	B	-	-	C	F	F
Daily Price Chg	3.18%	2.35%	-0.15%	3.15%	2.46%	3.69%
1 Week Price Chg	4.40%	2.53%	1.09%	1.38%	1.83%	2.63%
4 Week Price Chg	20.49%	13.01%	1.64%	13.24%	14.99%	21.99%
12 Week Price Chg	37.67%	32.65%	6.72%	31.85%	37.98%	38.49%
52 Week Price Chg	52.90%	25.19%	1.00%	52.62%	43.18%	24.03%
20 Day Average Volume	3,571,824	342,751	1,873,576	2,207,722	2,883,091	1,656,480
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	18.13%	16.20%	1.79%	1.65%	33.04%	2.02%
(F1) EPS Est 12 week change	26.33%	27.93%	3.35%	15.45%	29.53%	-12.36%
(Q1) EPS Est Mthly Chg	39.54%	33.14%	0.42%	0.47%	51.37%	3.17%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	C
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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