

Lennar Corporation(LEN)

\$60.18 (As of 06/19/20)

Price Target (6-12 Months): **\$63.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 03/26/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: A

Summary

Lennar delivered strong fiscal second-quarter results, with earnings beating analysts' expectation by 27.9%. Earnings jumped 27% year over year, defying major business disruptions over the past three months. This marks the fifth consecutive quarter of an earnings beat. The results mainly benefited from effective cost control and focus on making its homebuilding platform more efficient, which in turn resulted in higher operating leverage. Higher demand for new homes backed by declining mortgage rates and low inventory levels bodes well. Focus on lighter land strategy to boost free cash flow will bolster the balance sheet and thereby drive returns. Lennar's shares have outperformed the industry so far this year. However, rising land and labor costs remain headwinds.

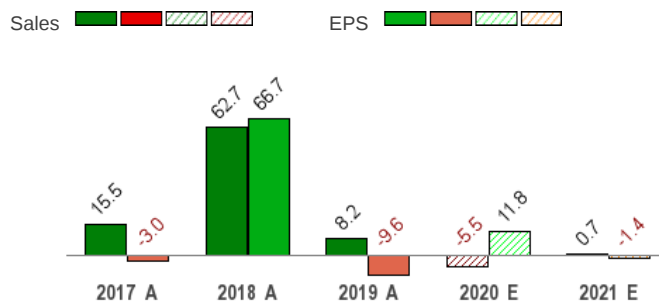
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$71.38 - \$25.42
20 Day Average Volume (sh)	4,111,113
Market Cap	\$18.8 B
YTD Price Change	7.9%
Beta	1.56
Dividend / Div Yld	\$0.50 / 0.8%
Industry	Building Products - Home Builders
Zacks Industry Rank	Bottom 22% (196 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	27.9%
Last Sales Surprise	-0.0%
EPS F1 Est- 4 week change	15.7%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	9.1
P/E F1	9.4
PEG F1	0.7
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,054 E	5,243 E	5,689 E	6,311 E	21,183 E
2020	4,505 A	5,287 A	5,273 E	5,913 E	21,032 E
2019	3,868 A	5,563 A	5,857 A	6,972 A	22,260 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.00 E	\$1.50 E	\$1.66 E	\$2.10 E	\$6.33 E
2020	\$1.27 A	\$1.65 A	\$1.52 E	\$1.81 E	\$6.42 E
2019	\$0.74 A	\$1.30 A	\$1.59 A	\$2.13 A	\$5.74 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 06/19/2020. The reports text is as of 06/22/2020.

Overview

Founded in 1954 and based in Miami, FL, **Lennar Corporation** is engaged in homebuilding and financial services in the United States. The company's reportable segments consist of Homebuilding, Lennar Financial Services, Rialto and Lennar Multifamily.

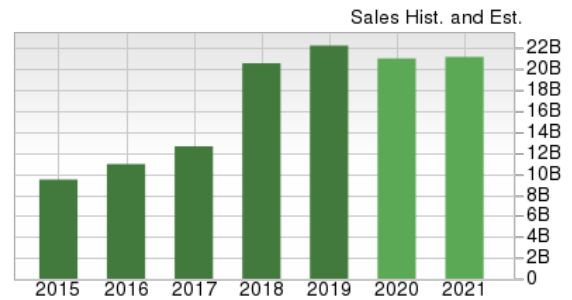
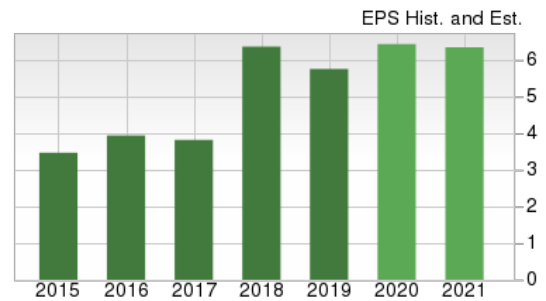
Despite the varied product portfolio, homebuilding remains Lennar's core business. **Homebuilding** operations (accounting for 93.4% of fiscal 2019 total revenues) include the sale and construction of single-family attached and detached homes as well as the purchase, development and sale of residential land directly and through unconsolidated entities. In February 2018, Lennar completed its previously announced merger with CalAtlantic, creating the nation's largest homebuilder based on revenues. The merger makes CalAtlantic a wholly-owned subsidiary of Lennar.

Lennar's reportable homebuilding segments consist of Homebuilding East, which covers Florida, Georgia, Maryland, New Jersey, North Carolina, South Carolina and Virginia; Homebuilding Central covers Arizona, Colorado and Texas; Homebuilding West covers California and Nevada; Homebuilding Other covers Illinois, Indiana, Minnesota, Oregon, Tennessee, Utah and Washington. However, Homebuilding Other is not considered a reportable segment.

The **Financial Services** business (3.7%) includes mortgage financing, title insurance and closing services to the company's homebuyers as well as others through Lennar's financial services subsidiaries — Universal American Mortgage Company and Eagle Home Mortgage.

Lennar Multi-Family (2.7%), created in fourth-quarter 2013, is involved in the development, construction and property management of multi-family rental apartments in premium markets of California through unconsolidated entities.

Lennar & Other (0.2%): This segment includes operations primarily from the company's share of carried interests in the Rialto fund investments, retained after the sale of Rialto's asset and investment management platform, along with equity in earnings/loss from the Rialto fund investments and strategic technology investments, including other income (expense).



Reasons To Buy:

▲ **Strong Performance:** Lennar, which has been continuously delivering strong performances since fiscal 2014, maintained growth momentum in first half of fiscal 2020 as well. Similar to other public builders, Lennar witnessed a pause in homebuyer demand in mid-March that extended through the end of April due to widespread stay-at-home orders and surging national unemployment. Since then, new single-family homes demand has seen a v-shaped recovery throughout the country and Lennar was in a prime position to benefit from the same. A combination of lower interest rates and slower price appreciation has positively impacted affordability, thereby helping the company to deliver solid performance. During second-quarter fiscal 2020, Lennar reported better-than-expected results, defying unprecedented health crisis and significant business disruption over the past three months. This marks the fifth consecutive quarter of an earnings beat. The results mainly benefited from effective cost control and focus on making its homebuilding platform more efficient, which in turn resulted in higher operating leverage. Lennar's core homebuilding results remain consistent with slow and steady housing recovery.

Lennar is poised to gain from solid housing market fundamentals, strategic land investments and improving SG&A leverage

The company was successful in meeting the target of achieving lower SG&A percentage in fiscal 2016, 2017, 2018 and 2019. In first-quarter fiscal 2020, SG&A expenses — as a percentage of revenues from home sales — improved 30 basis points (bps) to 9.2%, courtesy of improved operating leverage as a result of an increase in home deliveries and continued benefits from technology initiatives. Lennar remains focused on continued improvement in the SG&A line from operating leverage and investments in technology. Meanwhile, its focus on making the homebuilding platform more efficient resulted in an SG&A percentage of 8.3% during second-quarter fiscal 2020, an all-time, second quarter low. The company is focused on reducing operating costs in order to drive the bottom line and cash flow.

▲ **Strategic Land Investments, Multiple Growth Platforms:** Lennar strategically focused on acquiring low-cost new home sites in well-positioned markets during the downturn, which placed it well to meet growing demand during the upturn, thus giving it a competitive edge over its peers facing land availability constraints.

In the second quarter of fiscal 2019, Lennar announced a strategic transaction with Level Homes, an Engquist Development in Raleigh, North Carolina. Through this transaction, it purchased 34 homes under construction and 29 developed homesites. Importantly, in view of asset-light land strategy, Lennar has a future right to purchase approximately 1,600 finished homesites across seven communities. These homesites will be delivered by Engquist over the next six years, marking the beginning of a new strategic relationship in the Carolinas. Lennar's acquisition of CalAtlantic Group Inc. in February 2018 made it one of the country's top three home builders in 24 of the top 30 U.S. markets.

Although Lennar's Homebuilding and Financial Services divisions are the primary drivers of near-term revenues and earnings, Multi-Family business provides diversification as well as complementary long-term growth opportunities. Lennar's Multi-Family rental business which began in 2011 is a leading blue-chip developer of apartment communities. These multi-family rental properties are expected to witness a huge demand as the need for such properties is growing. Rental rates are soaring and vacancies are at historic lows with demand rising but supply remaining limited. In 2015, Lennar formed the Lennar Multifamily Venture, a build to core equity fund designed for the development, construction and property management of class-A multifamily assets.

▲ **Dynamic Pricing Model & Asset Light Strategy:** The company is using its dynamic pricing model, which enables it to set price according to the evolving market conditions. Courtesy of this strategy, Lennar has been taking advantage of the strong demand trend, which is helping it to maximize cash flow and return on inventory. Lennar ended first-quarter fiscal 2020 with backlog of 17,632 homes and potential housing revenues of \$7.16 billion. The company is well positioned to deliver solid results in fiscal 2020, given strong backlog and current housing fundamentals. Based on its solid land position, operating strategy and dynamic pricing model, the company earlier expected to deliver 54,000-55,000 homes in fiscal 2020. However, owing to the current pandemic, the company had to suspend its guidance.

Meanwhile, Lennar has maintained its relentless focus on a land lighter strategy. The company continues to migrate toward a significantly smaller land-owned inventory, driving business and cash flow. Strong operating results and focus on asset base increased its cash flow in fiscal 2019 to \$1.6 billion.

▲ **Enough Liquidity:** The combination of slowing land spend in the fiscal second quarter, strong closings and executing the strategy of building strategic relationships to option homesites resulted in significant cash flow generation. Lennar ended the quarter with \$1.4 billion of cash on the balance sheet and zero borrowed against its revolver. At fiscal second quarter-end, Lennar had \$1.4 billion in cash with no outstanding borrowing under the \$2.45-billion revolving credit facility. Hence, it has a total homebuilding liquidity of \$3.85 billion. Its net debt to total capital was 26.9% at the end of fiscal second quarter (versus 31.4% at fiscal first quarter-end and 36.2% a year ago). Also, the next senior note maturity of \$300 million 2.95% notes is due on Nov 29, 2020.

Reasons To Sell:

▼ **Coronavirus Led Disruptions Likely to Weigh on Near-Term Results:** Although the company is building homes and working remotely, shortage of building lots and fear of general economic slowdown in the future raise concerns. Precisely, a significant rise in unemployment — particularly arising from coronavirus-led shutdowns and stay-at-home orders — is a major headwind.

The coronavirus outbreak, and higher land and labor costs are likely to weigh on the bottom line.

▼ **Higher Labor, Land and Material Costs:** Higher 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. This is somewhat denting homebuilders' margins.

Although the company's fiscal 2019 and first-quarter fiscal 2020 gross and operating margins have seen some improvement, the adverse effect of labor shortage in the construction industry is the strongest headwind faced by Lennar. Notably, labor cost represents 43% of Lennar's direct costs. Also, higher construction costs are a cause of concern. Moreover, the recent pandemic crisis is likely to weigh on the its margins going forward.

▼ **Supply Constraints:** Several years of production deficits during the housing downturn limited the supply of both rental and new homes in the country. At present, a shortage of buildable lots, skilled labor and available capital for smaller builders are limiting home production, thereby lowering the inventory of homes, both new and existing. Limited capital for land and land development has left entitled lands in short supply while growing demand drove land prices higher. The labor market has also tightened with limited availability of labor arresting the rapid growth in housing production. If the supply picture does not improve, prices could go up, thereby affecting affordability.

▼ **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.

Although strong economy along with labor market strength provide the basis for strong demand, its influence on the homebuilding industry is undeniable and uncertain.

Last Earnings Report

Lennar's Q2 Earnings Beat, Revenues Miss Estimates

Lennar Corporation reported better-than-expected results for second-quarter fiscal 2020 (ended May 31, 2020), defying unprecedented health crisis and significant business disruption over the past three months. This marks the fifth consecutive quarter of an earnings beat. The results mainly benefited from effective cost control and focus on making its homebuilding platform more efficient, which in turn resulted in higher operating leverage.

Stuart Miller, executive chairman of Lennar stated, "While unemployment increased throughout the quarter due to impacts from the COVID-19 pandemic, customers moved from rental apartments and from densely populated areas to purchase homes, and home sales grew steadily, as record-low interest rates and low inventory levels drove a favorable rebound in the homebuilding industry."

The company reported quarterly earnings of \$1.65 per share, handily surpassing the Zacks Consensus Estimate of \$1.29 by 27.9%. Also, the reported figure jumped 27% from \$1.30 in the year-ago quarter. The upside was mainly driven by higher cost control and continued operating leverage, backed by technological efforts. Revenues of \$5.29 billion missed the consensus estimate by 0.03%. The reported figure also decreased 5% year over year.

Quarter Ending 05/2020

Report Date	Jun 15, 2020
Sales Surprise	-0.03%
EPS Surprise	27.91%
Quarterly EPS	1.65
Annual EPS (TTM)	6.64

Segment Details

Homebuilding: Revenues at the segment totaled \$4.95 billion, down 5% from the prior-year quarter. The downside was due to lower average sales price or ASP of homes delivered. Within the Homebuilding umbrella, home sales contributed \$4.93 billion to total revenues, down 4.8% from a year ago, while land sales accounted for \$19.8 million, up 20.5%.

Home deliveries during the reported quarter remained on par with the year-ago level at 12,653 units as a result of the coronavirus pandemic and economic shutdown. The average sales price of homes delivered was \$389,000, reflecting a 4% year-over-year decline owing to continued shift to lower-priced communities and regional product mix due to stay-at-home orders in certain higher-priced markets. New orders declined 10% from the year-ago quarter to 13,015 homes. The potential value of net orders also decreased 16% year over year to \$4.9 billion.

Backlog at fiscal second quarter-end decreased 6% from a year ago to 17,975. Potential housing revenues from backlog also declined 8% year over year to \$7.1 billion.

Homebuilding Margins

Gross margin on home sales was 21.6% in the quarter, up 150 basis points (bps). The upside can be attributed to its efforts toward reducing construction costs. Selling, general and administrative or SG&A expenses — as a percentage of home sales — improved 10 bps to 8.3% on improved operating leverage. Operating margin on home sales also improved 170 bps year over year to 13.3% in the quarter.

Financial Services: The segment's revenues decreased 3.9% year over year to \$196.3 million in the reported quarter. That said, operating earnings came in at \$150.6 million, up from \$62.5 million a year ago on strong mortgage business owing to higher volumes and margins.

Lennar Multi-Family: Revenues of \$123.1 million at the segment decreased 16.5% from the prior-year quarter. However, the segment incurred operating loss of \$0.638 million in the quarter, narrower than \$4.322 million loss a year ago.

Lennar Other: The segment's revenues totaled \$18.5 million, up 18.2% from \$15.7 million a year ago. Operating loss was \$18 million during the quarter versus operating earnings of \$1.8 million in the comparable period of 2019.

Financials

Lennar had homebuilding cash and cash equivalents of \$1.4 billion as of May 31, 2020, up from \$1.2 billion on Nov 30, 2019. Total homebuilding debt was \$7.5 billion as of May 31, 2020 compared with \$6.58 billion on Nov 30, 2019. Total homebuilding debt to capital at the end of the fiscal second quarter was 31.2% compared with 32.8% at fiscal 2019-end.

Guidance

For the fiscal third quarter, Lennar expects deliveries in the range of 13,200-13,400 homes; ASP within \$38,000-\$385,000; homebuilding gross margin in the 21.5%-21.75% band; and homebuilding SG&A of 8.3-8.5%. New orders are expected within 12,800-13,000.

For the fiscal fourth quarter, it expects deliveries in the range of 14,300-14,600 homes; ASP of \$38,000; homebuilding gross margin in the range of 21.75-22%; and homebuilding SG&A of 8%. New orders are expected within 12,000-12,250.

For fiscal 2020, the company expects deliveries in the range of 50,500-51,000 homes, with a gross margin on home sales of 21.5% and net margin on home sales of 13%.

Valuation

Lennar shares are up 7.9% in the year-to-date period and 17% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are down 2.9% and 8.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 11.2% and 4.6%, respectively.

The S&P 500 index is down 3.8% in the year-to-date period but up 5.2% in the past year.

The stock is currently trading at 9.45X forward 12-month earnings, which compares to 11.19X for the Zacks sub-industry, 18.79X for the Zacks sector and 22.24X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.65X and as low as 4.67X, with a 5-year median of 10.68X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$63 price target reflects 9.89X forward 12-month earnings.

The table below shows summary valuation data for LEN.

Valuation Multiples - LEN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.45	11.19	18.79	22.24
	5-Year High	15.65	14.36	18.79	22.24
	5-Year Low	4.67	6.34	10.75	15.23
	5-Year Median	10.68	10.72	15.88	17.49
P/B TTM	Current	1.13	1.26	3.82	4.23
	5-Year High	2.16	2.29	6.73	4.56
	5-Year Low	0.57	0.66	1.71	2.83
	5-Year Median	1.44	1.51	3.27	3.67
P/S F12M	Current	0.88	0.96	1.87	3.47
	5-Year High	1.42	1.21	2.12	3.47
	5-Year Low	0.4	0.57	1.17	2.53
	5-Year Median	0.86	0.92	1.61	3.02

As of 06/19/2020

Industry Analysis Zacks Industry Rank: Bottom 22% (196 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Beazer Homes USA, Inc. (BZH)	Outperform	2
D.R. Horton, Inc. (DHI)	Neutral	3
KB Home (KBH)	Neutral	3
Meritage Homes Corporation (MTH)	Neutral	2
NVR, Inc. (NVR)	Neutral	4
Toll Brothers Inc. (TOL)	Neutral	3
MI Homes, Inc. (MHO)	Underperform	5
PulteGroup, Inc. (PHM)	Underperform	5

Industry Comparison Industry: Building Products - Home Builders				Industry Peers		
	LEN	X Industry	S&P 500	DHI	PHM	TOL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	2	-	-	3	5	3
VGM Score	B	-	-	C	B	A
Market Cap	18.79 B	2.60 B	21.51 B	20.38 B	9.30 B	4.00 B
# of Analysts	2	5	14	17	6	6
Dividend Yield	0.83%	0.00%	1.92%	1.25%	1.38%	1.38%
Value Score	B	-	-	B	C	A
Cash/Price	0.04	0.20	0.06	0.15	0.20	0.19
EV/EBITDA	10.19	8.14	12.62	9.86	7.32	8.83
PEG Ratio	0.67	3.03	2.90	1.28	5.68	NA
Price/Book (P/B)	1.13	1.13	2.99	1.90	1.68	0.87
Price/Cash Flow (P/CF)	9.93	8.01	11.39	12.19	8.88	6.76
P/E (F1)	9.37	11.46	21.20	12.16	11.24	11.18
Price/Sales (P/S)	0.83	0.62	2.29	1.10	0.88	0.57
Earnings Yield	10.67%	8.72%	4.42%	8.22%	8.88%	8.94%
Debt/Equity	0.45	0.45	0.77	0.40	0.50	0.94
Cash Flow (\$/share)	6.06	3.90	7.01	4.60	3.90	4.72
Growth Score	C	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	15.42%	20.52%	10.87%	23.17%	32.78%	21.87%
Proj. EPS Growth (F1/F0)	11.85%	-14.58%	-10.65%	7.47%	-11.65%	-29.24%
Curr. Cash Flow Growth	-6.27%	-3.09%	5.46%	3.66%	-2.58%	-11.99%
Hist. Cash Flow Growth (3-5 yrs)	22.34%	21.78%	8.55%	23.21%	15.54%	13.21%
Current Ratio	14.27	4.44	1.29	7.25	0.81	6.84
Debt/Capital	31.07%	31.07%	45.14%	28.63%	33.26%	48.38%
Net Margin	9.30%	6.93%	10.53%	10.26%	10.02%	6.85%
Return on Equity	13.08%	12.77%	16.06%	17.70%	19.53%	9.91%
Sales/Assets	0.77	0.99	0.55	1.15	0.99	0.66
Proj. Sales Growth (F1/F0)	-5.51%	-4.19%	-2.61%	3.17%	-7.23%	-7.61%
Momentum Score	A	-	-	C	D	F
Daily Price Chg	-2.78%	-1.68%	-1.02%	-2.18%	-2.64%	-1.33%
1 Week Price Chg	-7.00%	-8.05%	-7.25%	-4.39%	-7.71%	-12.52%
4 Week Price Chg	2.00%	6.38%	5.73%	5.77%	6.06%	12.42%
12 Week Price Chg	41.87%	42.14%	15.89%	42.75%	34.85%	44.08%
52 Week Price Chg	14.13%	6.36%	-6.79%	22.70%	5.93%	-14.88%
20 Day Average Volume	4,111,113	364,230	2,574,456	4,597,877	3,565,121	3,100,879
(F1) EPS Est 1 week change	12.32%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	15.71%	0.70%	0.00%	0.30%	-3.47%	-9.88%
(F1) EPS Est 12 week change	2.76%	-24.59%	-14.21%	-12.24%	-24.61%	-20.12%
(Q1) EPS Est Mthly Chg	0.42%	0.00%	0.00%	0.10%	-1.98%	-16.67%

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	B
Growth Score	C
Momentum Score	A
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.

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