

Lennar Corporation(LEN)

\$70.65 (As of 02/21/20)

Price Target (6-12 Months): **\$74.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/28/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: B

Summary

Lennar's shares have outperformed its industry in the past year and the trend is expected to continue, as it ended fiscal 2019 on a strong note. Lennar's fiscal fourth-quarter earnings and revenues topped the Zacks Consensus Estimate by 12.1% and 4.9%, respectively. The metrics grew 15.8% and 7.9% in the quarter and 5.5% and 8% in fiscal 2019, respectively, aided by higher deliveries and continued operating leverage given technological efforts. It is well positioned for fiscal 2020, given higher demand for new homes, reflective of healthy housing market fundamentals arising from declining mortgage rates, slower appreciation of home prices, low unemployment, higher wages and a decline in inventory levels. Focus on lighter land strategy to boost free cash flow will drive returns. Yet, rising land and labor costs remain headwinds.

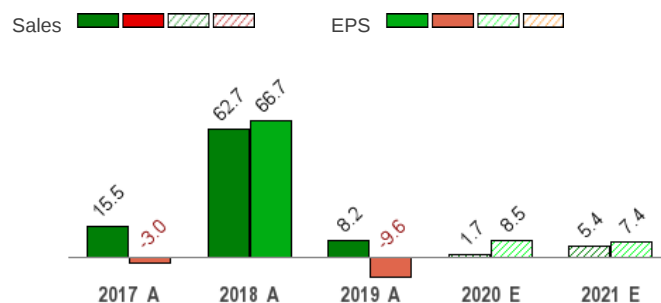
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$71.38 - \$44.84
20 Day Average Volume (sh)	2,589,600
Market Cap	\$22.3 B
YTD Price Change	26.6%
Beta	1.02
Dividend / Div Yld	\$0.50 / 0.7%
Industry	Building Products - Home Builders
Zacks Industry Rank	Top 11% (28 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.1%
Last Sales Surprise	4.9%
EPS F1 Est- 4 week change	1.5%
Expected Report Date	03/25/2020
Earnings ESP	0.0%
P/E TTM	12.3
P/E F1	11.3
PEG F1	0.8
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,176 E	5,384 E	6,438 E	7,495 E	23,862 E
2020	4,273 E	5,619 E	5,985 E	6,769 E	22,646 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	\$0.89 E	\$1.57 E	\$1.84 E	\$2.39 E	\$6.69 E
2020	\$0.83 E	\$1.54 E	\$1.70 E	\$2.10 E	\$6.23 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 02/21/2020. The reports text is as of 02/24/2020.

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.

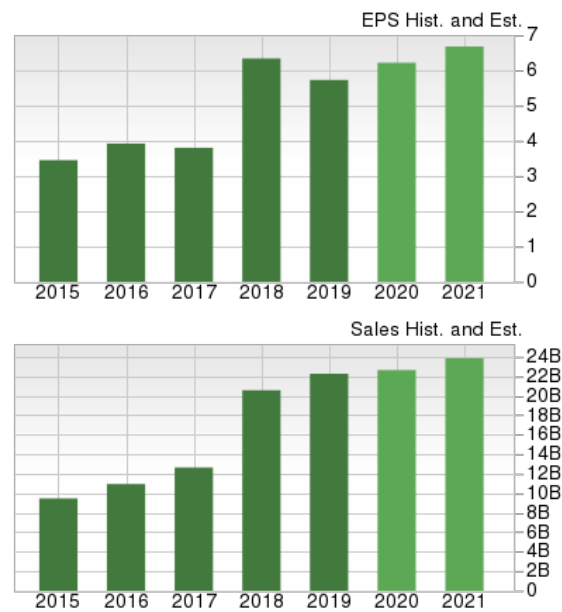
Despite the varied product portfolio, homebuilding remains Lennar's core business. **Homebuilding** operations (accounting for 93.4% of fiscal 2019 total revenues) include the sale and construction of single-family attached and detached homes as well as the purchase, development and sale of residential 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:** After delivering strong performances in fiscal 2014, 2015, 2016, 2017 and 2018, Lennar maintained its growth momentum in fiscal 2019 as well. A combination of lower interest rates and slower price appreciation have positively impacted affordability, thereby helping the company to generate higher revenues in fiscal 2019 after weak second half of fiscal 2018. During the period, its total revenues grew 8% year over year. Precisely, homebuilding operation registered 9% revenue growth, driven by higher number of homes delivered (up 13% year over year). 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 and 2018. In fiscal 2019, SG&A expenses — as a percentage of revenues from home sales — improved 20 basis points (bps) to 8.3%, 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. The company is focused on reducing operating costs, in order to drive the bottom line and cash flow. For fiscal 2020, SG&A is expected in the range of 8.2-8.3%.

Lennar's shares have outperformed its industry in the past year and earnings estimates for fiscal 2020 have increased 1.8% over the past 30 days, depicting analysts' optimism surrounding bottom-line prospects.

▲ **Housing Market Fundamental Remains Steady:** The U.S. housing market started building up strength since the beginning of 2019, after a torrid second-half 2018. Declining mortgage rates & construction costs, along with moderate home prices have been adding strength to Lennar and other homebuilders. Again, solid job market, falling unemployment rate, increasing wages and a limited home supply are somewhat offsetting the ongoing industry headwinds. In fiscal 2019, the company's new orders jumped 12% from a year ago to 51,439 homes.

▲ **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 the fourth quarter of fiscal 2019 with a sales backlog of 15,577 homes and a dollar value of \$6.3 billion. The company is well positioned to deliver solid results in fiscal 2020, given solid backlog and current housing inventory. Based on its existing land position, operating strategy and dynamic pricing model, the company expects to deliver 54,000-55,000 homes in fiscal 2020, given increased efficiency, improving margins, strong bottom-line growth and cash flow.

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. Lennar's annual cash flow for fiscal 2020 is expected to reach the \$2-billion mark.

▲ **Active Management of Cash Flows:** Lennar has been actively managing cash flows via returning much of its free cash to investors through share repurchases and dividends. During fiscal 2019, it generated strong homebuilding cash flow of \$1.6 billion and repurchased 9.8 million shares for a total purchase price of \$492.9 million. The company expects to continue generating strong cash flow in fiscal 2020, and intends to utilize the cash to pay down debt and return capital to its shareholders while improving balance sheet, as it continues to improve shareholder return. On Jan 2020, the company more than tripled (approximately 212.5%) quarterly dividend to 12.5 cents per share (50 cents annually) from 4 cents (16 cents annually).

Reasons To Sell:

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

Rising land and labor costs are significant headwinds

Although the company's fiscal 2019 gross and operating margins improved, 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.

▼ **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. Indeed, rising interest and mortgage rates as well as land and labor shortages raise concerns, as do rising material prices. High mortgage rates dilute the demand for new homes as mortgage loans become expensive. This lower purchasing power of the buyers hurts volumes, revenues and profits of homebuilders.

Additionally, the rise in mortgage rates may impact affordability at a time when millennials are taking baby steps into the housing market. Higher interest rates will only flare up the issues and further delay home purchases by millennials.

Last Earnings Report

Lennar Q4 Earnings and Revenues Beat Estimates

Lennar Corporation reported better-than-expected results in fourth-quarter fiscal 2019 (ended Nov 30, 2019). This marks the third consecutive quarter of earnings beat. The results mainly benefited from solid demand for new homes, depicting healthy housing market fundamentals stemming from low unemployment, higher wages and a decline in inventory levels.

The company reported quarterly earnings of \$2.13 per share, surpassing the Zacks Consensus Estimate of \$1.90 by 12.1%. Also, the reported figure jumped 15.8% from \$1.84 reported in the year-ago quarter (excluding one-time gain of 58 cents per share from the sale of Rialto and non-recurring expenses). The upside was mainly driven by higher deliveries and continued operating leverage, backed by technological efforts.

Revenues of \$6.97 billion topped the consensus estimate of \$6.7 billion by 4.9%. The reported figure also increased 7.9% year over year.

Segment Details

Homebuilding: Revenues from the segment totaled \$6.53 billion, up 7.7% from the prior-year period. The increase was backed by higher number of homes delivered during the quarter.

Within the Homebuilding umbrella, home sales contributed \$6.44 billion to total revenues, up 8.3% from a year ago, and land sales accounted for \$89.7 million, down 21.4% from the year-ago figure.

Home deliveries during the reported quarter increased 16% year over year to 16,420, buoyed by higher number of homes delivered across all the regions served by the company.

The average sales price of homes delivered was \$393,000, reflecting a 7% year-over-year decline. The decline in selling price was owing to continued shift to the entry-level market.

New orders grew 23.4% from the year-ago quarter to 13,089 homes. Potential value of net orders also increased 22.6% year over year to \$5.16 billion.

Backlog at the end of fiscal 2019 marginally decreased 0.2% from a year ago to 15,577. Potential housing revenues from backlog also declined 4.1% year over year to \$6.3 billion.

Homebuilding Margins

Gross margin on home sales was 21.5% in the quarter, up 10 bps. The upside was attributable to backlog/construction in progress write-up related to purchase accounting adjustments on CalAtlantic Group, Inc. homes that were delivered during the comparable period of last year.

Selling, general and administrative or SG&A expenses, as a percentage of home sales, improved 30 bps to 7.6%. The improvement was due to better operating leverage, owing to increased home deliveries.

Operating margin on home sales also improved 40 bps year over year to 13.9% in the quarter.

Financial Services: The segment's revenues increased almost 1% year over year to \$252.8 million in the reported quarter. However, operating earnings came in at \$81.2 million, up from \$57.6 million a year ago. The upside was primarily backed by a strong mortgage business.

Lennar Multi-Family: Revenues of \$175.9 million from the segment increased 61.2% from the prior-year quarter. However, the segment generated operating earnings of \$4.8 million in the quarter, down from \$33 million in the comparable year-ago period.

Lennar Other: The segment's revenues totaled \$7.9 million, down 76.5% from \$33.7 million a year ago. Operating earnings were \$10.8 million during the quarter against a loss of \$49.2 million in the comparable period of 2018.

Fiscal 2019 Highlights

Earnings came in at \$5.74 per share, reflecting an increase of 5.5% from \$5.44 a year ago. Revenues of \$22.3 billion were up 8% year over year on the back of 13% increase in home deliveries. In fiscal 2019, the company's new orders jumped 12% from a year ago to 51,439 homes.

Financials

Lennar had homebuilding cash and cash equivalents of \$1.2 billion as of Nov 30, 2019, down from \$1.34 billion on Nov 30, 2018. Net homebuilding debt was \$6.58 billion as of Nov 30, 2019 compared with \$7.21 billion on Nov 30, 2018. Net debt-to-capital ratio at the end of fiscal 2019 was 29.2% compared with 33.1% at fiscal 2018-end.

During the fiscal fourth quarter, the company repurchased 1.7 million shares of common stock for \$98.2 million.

Fiscal Q1 Guidance

Lennar expects deliveries in the range of 9,800-10,000 homes and homebuilding gross margin within 19.7-19.8%. Orders are expected in the band of 11,300-11,500 units. Average selling price is expected within \$390,000-\$395,000.

Quarter Ending **11/2019**

Report Date	Jan 08, 2020
Sales Surprise	4.91%
EPS Surprise	12.11%
Quarterly EPS	2.13
Annual EPS (TTM)	5.76

SG&A expenses, as a percentage of home sales, are likely to be within 9.4-9.5%. Earnings per share are expected within 80-85 cents.

Financial services pretax profit is expected in the range of \$25-\$27 million.

Fiscal 2020 Guidance

Lennar expects deliveries in the range of 54,000-55,000 homes and homebuilding gross margin within 20.5-21%.

Average selling price is expected to be \$380,000. SG&A expenses, as a percentage of home sales, are likely to be between 8.2% and 8.3%. It expects 1-2% community growth.

Recent News

Lennar Lures Investors With 213% Quarterly Dividend Hike - Jan 9, 2020

Lennar Corporation announced a hike in dividend payout, maintaining its commitment of increasing stockholder returns. This hike is reflective of the homebuilder's focus on operational excellence, land strategy and cash flow.

The company more than tripled (approximately 212.5%) quarterly dividend to 12.5 cents per share (50 cents annually) from 4 cents (16 cents annually). This new dividend, approved by the board of directors, will be paid on Feb 7, 2020 to its stockholders of record as of Jan 24.

Valuation

Lennar shares are up 26.6% in the year-to-date period and 42.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 18.9% and 3.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 47.1% and 24%, respectively.

The S&P 500 index is up 3.6% in the year-to-date period and 18.6% in the past year.

The stock is currently trading at 11.15X forward 12-month earnings, which compares to 11.65X for the Zacks sub-industry, 16.3X for the Zacks sector and 19.09X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.33X and as low as 5.77X, with a 5-year median of 10.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$74 price target reflects 11.67X 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	11.15	11.65	16.3	19.09
	5-Year High	16.33	15.14	18.86	19.34
	5-Year Low	5.77	7.33	10.71	15.18
	5-Year Median	10.9	10.98	16	17.47
P/B TTM	Current	1.39	1.48	3.94	4.83
	5-Year High	2.16	2.29	7.23	4.9
	5-Year Low	0.84	1.02	2.19	2.85
	5-Year Median	1.51	1.56	3.43	3.62
P/S F12M	Current	0.97	1.09	1.94	3.51
	5-Year High	1.42	1.24	2.23	3.51
	5-Year Low	0.53	0.65	1.25	2.54
	5-Year Median	0.88	0.93	1.63	3

As of 02/21/2020

Industry Analysis Zacks Industry Rank: Top 11% (28 out of 255)



Top Peers

D.R. Horton, Inc. (DHI)	Outperform
KB Home (KBH)	Outperform
Meritage Homes Corporation (MTH)	Outperform
NVR, Inc. (NVR)	Outperform
PulteGroup, Inc. (PHM)	Outperform
Toll Brothers Inc. (TOL)	Neutral
Beazer Homes USA, Inc. (BZH)	Underperform
M/I Homes, Inc. (MHO)	Underperform

Industry Comparison Industry: Building Products - Home Builders				Industry Peers		
	LEN Neutral	X Industry	S&P 500	DHI Outperform	PHM Outperform	TOL Neutral
VGM Score	A	-	-	C	A	C
Market Cap	22.32 B	2.92 B	24.03 B	22.67 B	12.53 B	6.28 B
# of Analysts	6	3	13	14	6	7
Dividend Yield	0.71%	0.00%	1.76%	1.13%	1.03%	0.92%
Value Score	A	-	-	C	A	A
Cash/Price	0.05	0.11	0.04	0.12	0.10	0.21
EV/EBITDA	11.55	10.08	14.08	10.79	10.08	10.37
PEG Ratio	0.80	1.08	2.08	1.03	1.08	1.35
Price/Book (P/B)	1.39	1.35	3.29	2.16	2.30	1.31
Price/Cash Flow (P/CF)	11.65	10.15	13.42	13.45	11.89	10.15
P/E (F1)	11.19	11.30	19.00	11.72	11.26	12.20
Price/Sales (P/S)	1.00	0.79	2.64	1.25	1.23	0.87
Earnings Yield	8.82%	8.85%	5.26%	8.53%	8.88%	8.19%
Debt/Equity	0.49	0.49	0.70	0.36	0.51	0.77
Cash Flow (\$/share)	6.06	3.90	7.03	4.60	3.90	4.72
Growth Score	B	-	-	D	B	D
Hist. EPS Growth (3-5 yrs)	15.42%	20.35%	10.84%	24.04%	33.03%	25.00%
Proj. EPS Growth (F1/F0)	8.54%	9.84%	7.09%	23.08%	18.15%	-2.69%
Curr. Cash Flow Growth	-6.27%	0.17%	6.72%	3.66%	-2.58%	-11.99%
Hist. Cash Flow Growth (3-5 yrs)	22.34%	22.63%	8.25%	23.21%	15.54%	13.21%
Current Ratio	14.37	3.35	1.22	7.13	0.81	7.06
Debt/Capital	32.66%	32.66%	42.37%	26.48%	33.63%	43.38%
Net Margin	8.31%	6.81%	11.56%	9.74%	9.95%	8.17%
Return on Equity	12.00%	12.25%	16.80%	16.92%	19.38%	11.83%
Sales/Assets	0.76	0.98	0.55	1.16	0.99	0.69
Proj. Sales Growth (F1/F0)	1.74%	4.02%	3.90%	9.80%	9.95%	1.03%
Momentum Score	B	-	-	B	A	F
Daily Price Chg	-0.53%	-0.25%	-0.83%	-0.27%	-0.56%	-0.62%
1 Week Price Chg	1.97%	1.83%	1.65%	1.83%	1.28%	-0.79%
4 Week Price Chg	5.02%	3.53%	-0.37%	4.90%	5.84%	3.35%
12 Week Price Chg	18.24%	15.92%	3.74%	11.90%	16.55%	18.50%
52 Week Price Chg	43.54%	42.02%	14.14%	53.66%	68.15%	28.26%
20 Day Average Volume	2,589,600	305,925	1,992,841	3,677,859	3,491,759	1,860,611
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.51%	1.00%	-0.02%	4.59%	5.38%	0.00%
(F1) EPS Est 12 week change	4.06%	1.47%	-0.17%	4.81%	4.83%	-3.32%
(Q1) EPS Est Mthly Chg	-0.16%	0.00%	-0.48%	5.84%	8.93%	0.00%

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	A
Growth Score	B
Momentum Score	B
VGM Score	A

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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