

NVR, Inc. (NVR)

\$4,028.24 (As of 01/23/20)

Price Target (6-12 Months): **\$4,230.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/07/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

Summary

Shares of NVR have outperformed the industry in the past year. This outperformance is backed by the company's solid earnings surprise history. Notably, the third quarter marked the seventh straight quarter of earnings beat. NVR has been benefiting from higher deliveries courtesy of improved housing market fundamental. Also, disciplined business model, and focus on maximizing liquidity and minimizing risks bode well. Estimates for 2020 have moved north over the past 60 days, depicting analysts' optimism over the stock's solid prospect. However, lower selling prices are somewhat hurting its profitability. Backlog and average community count fell 7% and 1.3%, respectively, in the third quarter from the year-ago period. Rising land and labor costs are raising concerns.

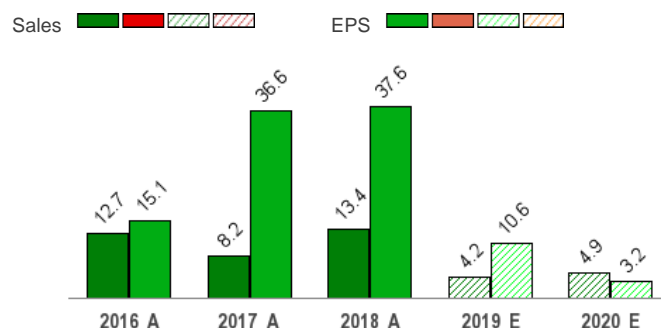
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$4,058.00 - \$2,470.00
20 Day Average Volume (sh)	24,662
Market Cap	\$14.8 B
YTD Price Change	5.8%
Beta	0.58
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Building Products - Home Builders
Zacks Industry Rank	Top 26% (66 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.4%
Last Sales Surprise	3.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/24/2020
Earnings ESP	0.0%
P/E TTM	18.7
P/E F1	18.1
PEG F1	1.7
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					7,660 E
2019	1,643 A	1,757 A	1,873 A	2,025 E	7,299 E
2018	1,490 A	1,750 A	1,809 A	1,954 A	7,004 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$222.52 E
2019	\$47.64 A	\$53.09 A	\$56.11 A	\$58.65 E	\$215.52 E
2018	\$39.34 A	\$49.05 A	\$48.28 A	\$58.57 A	\$194.80 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 01/23/2020. The reports text is as of 01/24/2020.

Overview

Incorporated on Mar 4, 1993, **NVR, Inc.** is engaged in the construction and sale of single-family detached homes, townhomes and condominium buildings, all of which are primarily constructed on a pre-sold basis. In order to serve homebuilding customers, the company operates a mortgage banking and title services business. The company operates in two business segments: Homebuilding and Mortgage Banking.

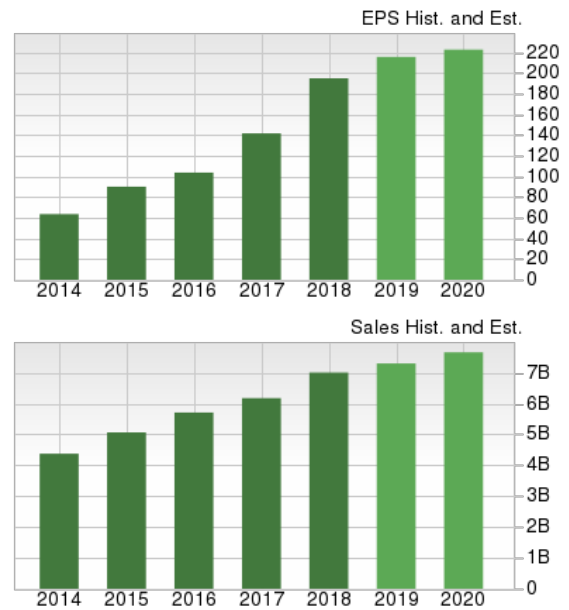
Homebuilding (accounting for 98% of third-quarter 2019 total revenues) division builds and sells homes under the three brand names - Ryan Homes, NVHomes and Heartland Homes. The company currently operates in 32 metropolitan areas across 14 states. The two trade names - NVHomes and Heartland Homes, are mainly for move-up and upscale buyers.

Established in 1980, NVHomes operates in Virginia, Maryland, Delaware, and Pennsylvania. Heartland Homes operates in the Pittsburgh, PA metropolitan area.

NVR's homebuilding division comprises operating divisions in the following geographic areas: Mid Atlantic (Maryland, Virginia, West Virginia, Delaware and Washington, D.C.), North East (New Jersey and Eastern Pennsylvania), Mid East (New York, Ohio, Western Pennsylvania, Indiana and Illinois) and South East (North Carolina, South Carolina, Florida and Tennessee).

NVR derived approximately 30% and 10% of homebuilding revenues in 2018 from Washington, DC and Baltimore metropolitan areas, respectively. On Sep 30, 2019, backlog totaled 9,172 units, with a potential value of about \$3.4 billion.

NVR's **Mortgage Banking** (2%) provides mortgage-related services to home-building customers through its mortgage banking operations. These services are operated primarily through a wholly owned subsidiary, NVR Mortgage Finance, Inc. ("NVRM").



Reasons To Buy:

- ▲ **Homebuilding Segment, A Strong Growth Driver:** NVR and other homebuilding players are benefiting on the back of overall strong housing fundamentals and declining mortgage rates. In the first nine months of 2019, NVR's Homebuilding segment grew 4.4% year over year. Also, settlements rose 8.1% from the year-ago period. The upside was mainly driven by higher deliveries.

NVR has been generating higher revenues from the homebuilding business over the last few quarters. In fact, its top line topped analysts' expectations in each of the trailing five quarters. Meanwhile, shares of NVR have outperformed its industry over a year. Estimates for 2020 have moved north over the past 60 days, depicting analysts' optimism surrounding its earnings growth potential.

NVR's solid business model will drive growth. Commitment toward boosting shareholder value through share buybacks raises optimism

- ▲ **Solid Business Model:** Unlike other homebuilders, NVR's sole business is selling and building quality homes by typically acquiring finished building lots, without the risk of owning and developing land in a cyclical industry.

NVR acquires finished lots at market prices from various third-party land developers under the Lot Purchase Agreements so that the legal obligation and economic loss is limited to the amount of the deposit, in case of failure. The lot acquisition strategy helps the company to avoid financial requirements and risks associated with direct land ownership and land development. This strategy allows it to gain efficiencies and competitive edge over its peers.

- ▲ **Share Repurchase Program:** The company has historically used a substantial portion of its excess liquidity to repurchase outstanding shares of its common stock in open market and privately negotiated transactions. A company buys back shares when its management believes that the shares are undervalued. This reduces the number of outstanding shares, increases earnings per share and the market value of the remaining shares.

As of Sep 30, 2019, NVR repurchased 129,679 shares of its common stock for approximately \$365.5 million. In December 2018, the company's board of directors authorized the repurchase of an additional \$300 million of its outstanding common stock. This authorization is consistent with NVR's strategy of maximizing shareholder value.

NVR's superior return on equity (ROE) also supports its growth potential. The company's ROE currently stands at 41.7%. This compares favorably with ROE of 12.2% for the industry it belongs to. This indicates efficiency in using its shareholders' funds.

- ▲ **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, moderate construction costs, and reasonable home prices have been adding strength to NVR and other homebuilders. Also, solid job market, falling unemployment rate, increasing wages and a limited home supply are somewhat offsetting the ongoing industry headwinds.

Meanwhile, moderate lumber prices and benefits from its solid business strategy are adding to the bliss. In the first nine months of 2019, new orders grew 4.9% from the comparable year-ago period to 15,144 units.

Reasons To Sell:

- ▼ **Higher Costs, Lower Backlog:** Higher land and labor costs are putting pressure on margins, as these limit homebuilders' pricing power. In the first nine months of 2019, cost of sales grew 4.4% from the corresponding period of 2018 due to the above-mentioned headwinds.

Labor shortages are leading to higher wages while land prices are inflating due to limited availability. More inflation is anticipated, going ahead. This is denting homebuilders' margins considering that home price increases are moderating.

Meanwhile, backlog at the end of the third quarter decreased 6% from the comparable year-ago period to 9,172. Potential housing revenues from backlog also declined 7% year over year to \$3.4 billion. We believe that its lower ability to drive revenues in the remainder of 2019 will impact the company's near-term performance.

- ▼ **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 may hurt both the economy and the housing market.

Although strong economy and labor market strength provide the basis for strong demand, any increase in interest and mortgage rates may influence the rate-sensitive homebuilding industry. High mortgage rates dilute the demand for new homes, as mortgage loans become expensive. This lower purchasing power of buyers hurts volumes, revenues and profits of homebuilders.

- ▼ **Overvalued Compared to Peers:** The company's stretched valuation is another concern. The company's trailing 12-month price to earnings (P/E) ratio is 18.7, which is significantly higher than the industry's 12.28. This implies that the stock is overvalued compared to peers.
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Rising land, labor & material costs may hamper the NVR's overall profitability

Last Earnings Report

NVR's Q3 Earnings Beat Expectations, Up Y/Y, Orders Increase

NVR, Inc. reported solid results in third-quarter 2019. The company's earnings not only surpassed the Zacks Consensus Estimate but also improved on a year-over-year basis.

The country's leading homebuilding and mortgage banking company reported earnings of \$56.11 per share, which surpassed the consensus mark of \$51.78 by 8.4%. Also, the reported figure increased 16.2% from the prior-year quarter.

Total revenues (Homebuilding & Mortgage Banking fees combined) came in at \$1.91 billion during the reported quarter, up 3% year over year on higher deliveries, partially offset by lower selling prices.

Segment Details

Homebuilding: In the reported quarter, Homebuilding segment's revenues totaled \$1.87 billion, up 11% from the year-ago period. Settlements grew 8% year over year to 5,124 units. However, average settlement price was \$365.5k, reflecting a decrease of 1.3% year over year.

New orders during the quarter increased 11% from the prior-year period to 4,766 units. However, average sales price of new orders declined 1% from the prior-year quarter to \$369,200, mainly due to a continued shift to smaller and lower-priced products. A shift to markets with lower average sales prices added to the woes.

In the quarter under review, gross margin improved 40 basis points to 19%. Also, income before tax increased 10% from the year-ago quarter. Selling, general and administrative expenses were \$110 million, up 0.5% from the prior-year quarter.

As of Sep 30, 2019, backlog (homes sold but not settled) declined 6% from the year-ago period to 9,172 units and 7% (on a dollar basis) to \$3.4 billion. At the end of the reported quarter, average community count was 473, down from the prior-year level of 479 units.

Mortgage Banking: Mortgage banking fees fell 12% year over year to \$37.9 million due to the timing of loan sales and a decrease in the fair value measurement adjustment. Moreover, mortgage closed loan production totaled \$1.37 billion, up 10% year over year.

Financials

As of Sep 30, 2019, NVR had cash and cash equivalents for Homebuilding and Mortgage Banking of \$1,068 million and \$26.8 million compared with \$688.8 million and \$23.1 million, respectively, at 2018-end.

Quarter Ending 09/2019

Report Date	Oct 18, 2019
Sales Surprise	3.36%
EPS Surprise	8.36%
Quarterly EPS	56.11
Annual EPS (TTM)	215.41

Valuation

NVR shares are up 60.1% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 49.8% and 34%, over the past year, respectively.

The S&P 500 index is up 23.9% in the past year.

The stock is currently trading at 17.56X forward 12-month price to earnings, which compares to 10.42X for the Zacks sub-industry, 15.54X for the Zacks sector and 17.96X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.1X and as low as 10.64X, with a 5-year median of 15.16X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$4,230 price target reflects 18.44X forward 12-month earnings.

The table below shows summary valuation data for NVR

Valuation Multiples - NVR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	17.56	10.42	15.54	17.96
	5-Year High	24.1	15.08	18.83	19.31
	5-Year Low	10.64	7.3	10.63	15.14
	5-Year Median	15.16	11.07	16.25	17.4
P/B TTM	Current	6.25	1.52	3.94	4.54
	5-Year High	8.51	2.27	7.22	4.55
	5-Year Low	4.28	1.01	2.19	2.85
	5-Year Median	5.45	1.56	3.41	3.61
P/S F12M	Current	1.93	1.05	1.94	3.56
	5-Year High	2.09	1.23	2.23	3.56
	5-Year Low	0.9	0.65	1.25	2.54
	5-Year Median	1.32	0.92	1.63	3

As of 01/23/2020

Industry Analysis Zacks Industry Rank: Top 26% (66 out of 255)



Top Peers

KB Home (KBH)	Outperform
Persimmon Plc (PSMMY)	Outperform
Lennar Corporation (LEN)	Neutral
Meritage Homes Corporation (MTH)	Neutral
PulteGroup, Inc. (PHM)	Neutral
Taylor Morrison Home Corporation (TMHC)	Neutral
Toll Brothers Inc. (TOL)	Neutral
Taylor Wimpey PLC Unsponsored ADR (TWODY)	Neutral

Industry Comparison Industry: Building Products - Home Builders				Industry Peers		
	NVR Neutral	X Industry	S&P 500	LEN Neutral	PHM Neutral	TOL Neutral
VGM Score	B	-	-	B	A	B
Market Cap	14.82 B	2.75 B	24.46 B	21.37 B	11.88 B	6.42 B
# of Analysts	2	3	13	8	7	7
Dividend Yield	0.00%	0.00%	1.75%	0.74%	1.09%	0.95%
Value Score	C	-	-	B	A	A
Cash/Price	0.11	0.10	0.04	0.04	0.07	0.21
EV/EBITDA	13.91	10.54	14.11	12.71	9.92	10.54
PEG Ratio	1.65	1.06	2.04	1.06	1.36	1.31
Price/Book (P/B)	6.28	1.37	3.40	1.38	2.29	1.27
Price/Cash Flow (P/CF)	17.82	9.94	13.66	10.68	11.23	9.82
P/E (F1)	18.08	11.13	19.10	10.96	11.31	11.80
Price/Sales (P/S)	2.05	0.75	2.67	0.96	1.17	0.89
Earnings Yield	5.52%	9.00%	5.23%	9.13%	8.85%	8.47%
Debt/Equity	0.29	0.62	0.72	0.59	0.53	0.77
Cash Flow (\$/share)	226.10	3.60	6.94	6.30	3.90	4.72
Growth Score	B	-	-	B	B	D
Hist. EPS Growth (3-5 yrs)	29.89%	16.06%	10.60%	15.42%	32.47%	25.00%
Proj. EPS Growth (F1/F0)	3.25%	12.95%	7.59%	6.93%	9.39%	-2.69%
Curr. Cash Flow Growth	31.22%	18.07%	13.90%	106.81%	48.12%	-11.99%
Hist. Cash Flow Growth (3-5 yrs)	23.91%	23.21%	9.00%	32.93%	12.16%	13.21%
Current Ratio	4.73	4.04	1.22	14.19	0.57	7.06
Debt/Capital	22.38%	36.98%	42.99%	36.98%	34.62%	43.38%
Net Margin	11.82%	6.29%	11.35%	8.31%	9.01%	8.17%
Return on Equity	41.69%	12.16%	17.10%	12.16%	20.02%	11.83%
Sales/Assets	2.07	0.97	0.55	0.76	1.00	0.69
Proj. Sales Growth (F1/F0)	5.45%	4.83%	4.03%	1.74%	7.75%	0.45%
Momentum Score	B	-	-	C	C	B
Daily Price Chg	2.45%	2.06%	0.26%	2.28%	2.26%	2.43%
1 Week Price Chg	2.96%	3.76%	2.29%	5.64%	4.50%	6.90%
4 Week Price Chg	5.71%	14.19%	2.24%	20.08%	12.49%	16.34%
12 Week Price Chg	10.77%	12.64%	7.79%	12.87%	11.75%	16.39%
52 Week Price Chg	59.77%	45.05%	21.61%	49.92%	64.23%	30.69%
20 Day Average Volume	24,662	221,684	1,536,379	3,867,757	2,630,060	2,098,977
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	1.81%	0.00%	0.04%
(F1) EPS Est 12 week change	0.27%	0.24%	-0.23%	2.52%	0.14%	-3.32%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	-3.08%	0.00%	5.30%

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	B
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.

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