

NVR, Inc. (NVR)

\$4,029.00 (As of 02/21/20)

Price Target (6-12 Months): **\$4,636.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 01/29/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: B

Summary

Shares of NVR have outperformed the industry in the past year. The trend is expected to continue in the near-term courtesy of solid fourth-quarter 2019 results. NVR's fourth-quarter earnings not only topped the Zacks Consensus Estimate by 9.8% but also increased 10% year over year. Improved gross profit margin (up 70 basis points) is also encouraging. Moreover, higher deliveries on the back of improved housing market fundamental added to the upside. Also, NVR's disciplined business model as well as focus on maximizing liquidity and minimizing risks is likely to generate more returns for its shareholders. Estimates for 2020 have increased in the past seven days, reflecting analysts' optimism on its prospect. Yet, decline in revenues, given lower ASPs to attract more customers (mostly first-time), is a concern for company.

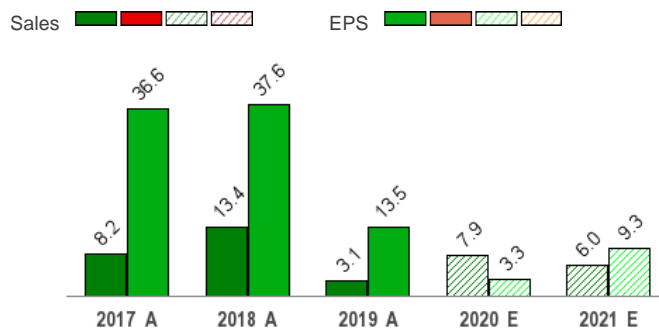
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$4,071.13 - \$2,586.54
20 Day Average Volume (sh)	23,852
Market Cap	\$14.8 B
YTD Price Change	5.9%
Beta	0.58
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Building Products - Home Builders
Zacks Industry Rank	Top 11% (28 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.8%
Last Sales Surprise	-3.9%
EPS F1 Est- 4 week change	2.6%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	18.2
P/E F1	17.6
PEG F1	1.6
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					8,262 E
2020	1,662 E	1,885 E	2,124 E	2,123 E	7,795 E
2019	1,643 A	1,757 A	1,873 A	1,947 A	7,221 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$249.55 E
2020	\$45.28 E	\$50.15 E	\$60.00 E	\$61.21 E	\$228.38 E
2019	\$47.64 A	\$53.09 A	\$56.11 A	\$64.41 A	\$221.13 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

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.

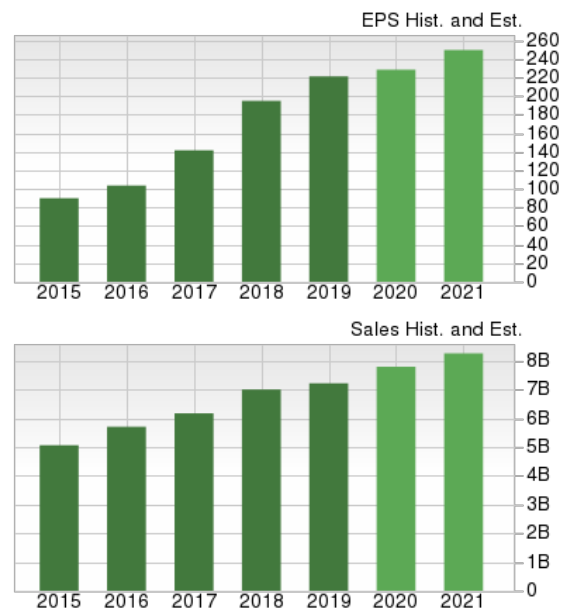
Homebuilding (accounting for 97.7% of 2019 total revenues) division builds and sells homes under the three brand names - Ryan Homes, NVHomes and Heartland Homes. The company currently operates in 32 metropolitan areas across 14 states. The two trade names - NVHomes and Heartland Homes, are mainly for 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 Dec 31, 2019, backlog totaled 8,233 units, with a potential value of about \$3.1 billion.

NVR's **Mortgage Banking** (2.3%) 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 2019, NVR's Homebuilding segment revenues increased 3% year over year. Also, settlements rose 7% from the year-ago period's level. The upside was mainly driven by higher deliveries.

NVR has been generating higher revenues from the homebuilding business over the last few quarters. Although NVR's total revenues missed the consensus mark in the fourth quarter 2019, the metric topped analysts' expectations in five of the trailing six quarters. Meanwhile, shares of NVR have outperformed its industry over a year. Estimates for 2020 have moved north over the past 30 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 Dec 31, 2019, NVR repurchased 91,286 shares of its common stock for approximately \$333 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 40.3%. This compares favorably with ROE of 12.3% 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 & 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. New orders in 2019 increased 7% from year-ago period's level to 19,536 units.

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.

Risks

- **Higher Costs, Lower Backlog:** Higher land and labor costs are putting pressure on margins, as these limit homebuilders' pricing power. In 2019, cost of sales grew 2.8% 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 fourth quarter 2019 decreased 1.6% from the comparable year-ago period to 8,233. Potential housing revenues from backlog also declined 1% year over year to \$3.1 billion. We believe that its lower ability to drive revenues in 2020 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 18.42, which is significantly higher than the industry's 12.36. This implies that the stock is overvalued compared to peers.
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Last Earnings Report

NVR's Q4 Earnings Top Estimates, Revenue Miss

NVR, Inc. reported mixed fourth-quarter 2019 financial numbers, with earnings beating the Zacks Consensus Estimate and revenues missing the same.

The country's leading homebuilding and mortgage banking company reported earnings of \$64.41 per share, which surpassed the consensus mark of \$58.65 by 9.8%. Also, the reported figure increased 10% from the prior-year quarter's figure.

Total revenues (Homebuilding & Mortgage Banking fees combined) amounted to \$1.99 billion during the reported quarter. The figure declined 0.2% on a year-over-year basis due to lower average selling prices.

Segment Details

Homebuilding: Revenues in the segment totaled \$1,946.9 million, down 0.4% from the year-ago quarter's level. Settlements rose 3% year over year to 5,331 units. However, average settlement price was \$365,200, down 3.1% year over year.

New orders during the quarter increased 14% from the prior-year quarter's period to 4,392 units. Also, average sales price of new orders inched up 1% from the prior-year quarter to \$381,100.

In the quarter under review, gross margin improved 90 basis points to 19.5%. Also, income before tax increased 6% from the year-ago quarter's level. Selling, general and administrative expenses were \$109.6 million, up 2% from the prior-year quarter's level.

As of Dec 31, 2019, backlog (homes sold but not settled) declined 2% from the year-ago period's level to 8,233 units and 1% (on a dollar basis) to \$3.1 billion. At the end of the reported quarter, average community count was 487, up from the prior-year quarter's level of 463 units.

Mortgage Banking: Mortgage banking fees increased 8% year over year to \$43.3 million. Moreover, mortgage closed loan production totaled \$1.42 billion, up 5% year over year.

Financials

As of Dec 31, 2019, NVR had cash and cash equivalents for Homebuilding and Mortgage Banking of \$1,111 million and \$29.4 million compared with \$688.8 million and \$23.1 million, respectively, at 2018-end.

2019 Highlights

In 2019, Homebuilding revenues amounted to \$7.2 billion, up 3.1% year over year.

Earnings per share for the year ended Dec 31, 2019 was reported at \$221.13 compared with \$194.80 in 2018.

Average settlement price was \$367,100 for 2019 compared with \$379,700 in 2018.

Quarter Ending 12/2019

Report Date	Jan 28, 2020
Sales Surprise	-3.87%
EPS Surprise	9.82%
Quarterly EPS	64.41
Annual EPS (TTM)	221.25

Valuation

NVR shares are up 5.9% in the year-to-date period and 52.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 19.2% and 3.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 48.2% and 25.6%, respectively.

The S&P 500 index is up 3.8% in the year-to-date period and 21.1% in the past year.

The stock is currently trading at 17.41X 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 24.1X and as low as 10.64X, with a 5-year median of 15.23X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$4,636 price target reflects 20.02X 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 F12M	Current	17.41	11.65	16.3	19.09
	5-Year High	24.1	15.14	18.86	19.34
	5-Year Low	10.64	7.33	10.71	15.18
	5-Year Median	15.23	10.98	16	17.47
P/B TTM	Current	6.33	1.48	3.94	4.83
	5-Year High	8.51	2.29	7.23	4.9
	5-Year Low	4.28	1.02	2.19	2.85
	5-Year Median	5.5	1.56	3.43	3.62
P/S F12M	Current	1.89	1.09	1.97	3.51
	5-Year High	2.09	1.24	2.23	3.51
	5-Year Low	0.9	0.65	1.25	2.54
	5-Year Median	1.34	0.93	1.65	3

As of 02/21/2020

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



Top Peers

KB Home (KBH)	Outperform
Meritage Homes Corporation (MTH)	Outperform
PulteGroup, Inc. (PHM)	Outperform
Lennar Corporation (LEN)	Neutral
Persimmon Plc (PSMMY)	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 Outperform	X Industry	S&P 500	LEN Neutral	PHM Outperform	TOL Neutral
VGM Score	A	-	-	A	A	C
Market Cap	14.83 B	2.92 B	24.03 B	22.32 B	12.53 B	6.28 B
# of Analysts	2	3	13	6	6	7
Dividend Yield	0.00%	0.00%	1.76%	0.71%	1.03%	0.92%
Value Score	C	-	-	A	A	A
Cash/Price	0.11	0.11	0.04	0.05	0.10	0.21
EV/EBITDA	13.79	10.08	14.08	11.55	10.08	10.37
PEG Ratio	1.61	1.08	2.08	1.11	1.08	1.35
Price/Book (P/B)	6.33	1.35	3.29	1.39	2.30	1.31
Price/Cash Flow (P/CF)	16.49	10.15	13.42	11.65	11.89	10.15
P/E (F1)	17.64	11.30	19.00	11.34	11.26	12.20
Price/Sales (P/S)	2.05	0.79	2.64	1.00	1.23	0.87
Earnings Yield	5.67%	8.85%	5.26%	8.82%	8.88%	8.19%
Debt/Equity	0.29	0.49	0.70	0.49	0.51	0.77
Cash Flow (\$/share)	244.50	3.90	7.03	6.06	3.90	4.72
Growth Score	A	-	-	B	B	D
Hist. EPS Growth (3-5 yrs)	29.04%	20.35%	10.84%	15.42%	33.03%	25.00%
Proj. EPS Growth (F1/F0)	3.28%	9.84%	7.09%	8.54%	18.15%	-2.69%
Curr. Cash Flow Growth	10.03%	0.17%	6.72%	-6.27%	-2.58%	-11.99%
Hist. Cash Flow Growth (3-5 yrs)	23.91%	22.63%	8.25%	22.34%	15.54%	13.21%
Current Ratio	4.62	3.35	1.22	14.37	0.81	7.06
Debt/Capital	22.60%	32.66%	42.37%	32.66%	33.63%	43.38%
Net Margin	12.17%	6.81%	11.56%	8.31%	9.95%	8.17%
Return on Equity	40.25%	12.25%	16.80%	12.00%	19.38%	11.83%
Sales/Assets	1.98	0.98	0.55	0.76	0.99	0.69
Proj. Sales Growth (F1/F0)	7.94%	4.02%	3.90%	1.74%	9.95%	1.03%
Momentum Score	B	-	-	B	A	F
Daily Price Chg	-0.16%	-0.25%	-0.83%	-0.53%	-0.56%	-0.62%
1 Week Price Chg	1.84%	1.83%	1.65%	1.97%	1.28%	-0.79%
4 Week Price Chg	0.07%	3.53%	-0.37%	5.02%	5.84%	3.35%
12 Week Price Chg	5.99%	15.92%	3.74%	18.24%	16.55%	18.50%
52 Week Price Chg	52.47%	42.02%	14.14%	43.54%	68.15%	28.26%
20 Day Average Volume	23,852	305,925	1,992,841	2,589,600	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	2.63%	1.00%	-0.02%	1.51%	5.38%	0.00%
(F1) EPS Est 12 week change	3.81%	1.47%	-0.17%	4.06%	4.83%	-3.32%
(Q1) EPS Est Mthly Chg	NA%	0.00%	-0.48%	-0.16%	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	C
Growth Score	A
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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