

NVR, Inc. (NVR)

\$4,310.09 (As of 08/24/20)

Price Target (6-12 Months): **\$4,957.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**

(Since: 06/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: D

Summary

NVR's disciplined business model, and focus on maximizing liquidity and minimizing risks are likely to generate more returns for its shareholders in the long term. Moreover, the recent rebound of the housing market after the pandemic-led disruptions is encouraging. Higher demand for new homes backed by declining mortgage rates and low inventory levels bodes well. NVR's superior return on equity (ROE) also supports its growth potential. Although shares of NVR have underperformed the industry so far this year, earnings estimates for 2020 have moved north over the past 60 days, depicting analysts' optimism surrounding its earnings growth potential.

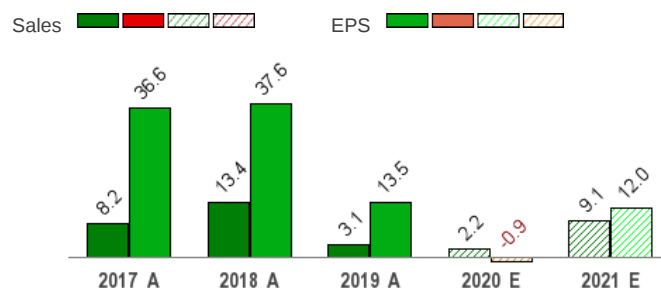
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$4,317.58 - \$2,043.01
20 Day Average Volume (sh)	21,626
Market Cap	\$16.0 B
YTD Price Change	13.2%
Beta	1.05
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Building Products - Home Builders
Zacks Industry Rank	Top 2% (5 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.3%
Last Sales Surprise	-3.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	10/16/2020
Earnings ESP	0.0%
P/E TTM	20.7
P/E F1	19.7
PEG F1	4.1
P/S TTM	2.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					8,053 E
2020	1,556 A	1,589 A	2,005 E	2,234 E	7,383 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					\$245.33 E
2020	\$44.96 A	\$42.50 A	\$61.22 E	\$76.43 E	\$219.02 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 08/24/2020. The reports text is as of 08/25/2020.

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.

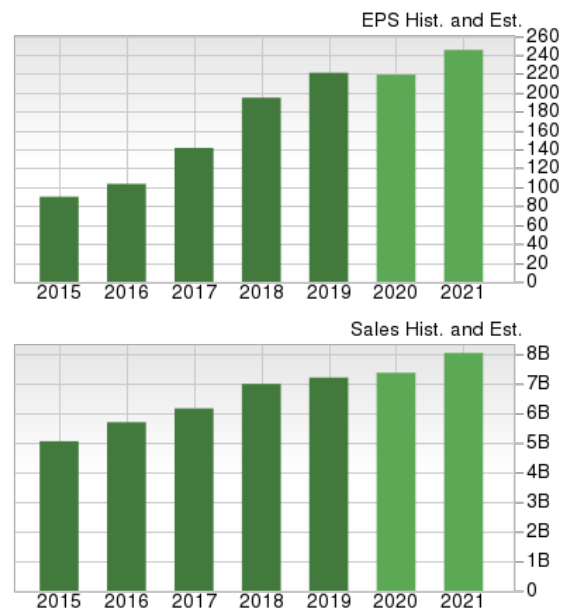
Homebuilding (accounting for 97.7% of 2019 total revenues) division builds and sells homes under the three brand names - Ryan Homes, NVHomes and Heartland Homes. The company currently operates in 32 metropolitan areas across 14 states. The two trade names - NVHomes and Heartland Homes, are mainly for 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 27% and 11% of homebuilding revenues in 2019 from Washington, DC and Baltimore metropolitan areas, respectively.

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:

- ▲ **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.

Although the company is concerned about future operational and financial performance owing to coronavirus pandemic, its solid business model has been gaining traction.

- ▲ **Strong Orders & Backlog:** NVR's business has been witnessing strong orders and pent-up demand. During second-quarter 2020, new orders increased 13% from the prior year to 5,901 units. Average sales price of these orders also inched up 2% from the prior-year quarter to \$365,400. Quarter-end backlog — on a unit and dollar basis — was up 11% and 14% from the year-ago quarter to 10,623 units and \$4.01 billion, respectively. An improving housing market scenario and a solid business model supported the growth.
 - ▲ **Housing Market Fundamentals Remain Steady:** The U.S. housing market has started gaining strength of late, after the government eased the restrictions that were imposed to contain the COVID-19 pandemic. Historically lower mortgage rates, rising mortgage applications and increasing buyer traffic, along with moderately high home prices have been adding to the positives.
 - ▲ **Superior ROE:** NVR's superior return on equity (ROE) also supports its growth potential. The company's ROE currently stands at 33.7%. This compares favorably with ROE of 13% for the industry it belongs to. This indicates efficiency in using its shareholders' funds.
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NVR's solid business model will drive growth. Commitment toward boosting shareholder value through share buybacks raises optimism

Risks

- **Coronavirus Woes:** Although the market has started operating in full strength, economic uncertainty of the pandemic remains a concern. NVR also noted that the coronavirus significantly impacted all facets of the business. It remains concerned about future operational and financial performance due to uncertainty regarding the extent of disruption to the business from COVID-19.

The company has been witnessing increased sales cancellation, which in turn may put pressure on the upcoming results.

- **Higher Costs:** Higher labor costs are threatening margins, as they limit homebuilders' pricing power. Labor shortages are leading to higher wages and delays in construction, which eventually hurts the number of homes delivered.

Also, land prices are increasing due to limited availability. This is somewhat exerting pressure on homebuilders' margins considering that home prices are moderately increasing. 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.
 - **Overvalued Compared to Peers:** NVR's stretched valuation is another concern. Its trailing 12-month price to earnings ratio is 20.72, which is higher than the industry's 12.16. This implies that the stock is overvalued than its peers.
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Last Earnings Report

NVR Q2 Earnings Lag Estimates, Order & Backlog Solid

NVR, Inc. delivered a lackluster performance in second-quarter 2020, wherein both earnings and homebuilding revenues lagged the Zacks Consensus Estimate and declined year over year.

Meanwhile, the impact of COVID-19 — which has significantly impacted all facets of the business — on future operational and financial performance is still unpredictable.

Inside the numbers

The company reported earnings of \$42.50 per share, which lagged the consensus mark of \$44.89 by 5.3%. Also, the reported figure declined 19.9% from the prior-year figure of \$53.09 per share.

Total revenues (Homebuilding & Mortgage Banking fees combined) amounted to \$1.62 billion during the reported quarter. The figure declined 10% on a year-over-year basis due to increase in sales cancellations during the pandemic.

Segment Details

Homebuilding: Revenues in the segment totaled \$1.59 billion, down 9.6% from the year-ago level. The metric also missed the consensus estimate of \$1.65 billion by 3.5%.

Nonetheless, new orders increased 13% from the prior year to 5,901 units. Average sales price of new orders also inched up 2% from the prior-year quarter to \$365,400. Cancellation rate was 16% in the quarter compared with 13% in the year-ago period. Settlements were down 9% year over year to 4,296 units.

Quarter-end backlog — on a unit and dollar basis — was up 11% and 14% from the year-ago quarter to 10,623 units and \$4.01 billion, respectively.

Gross margin improved 30 basis points to 19.2%.

Mortgage Banking: Mortgage banking fees decreased 26.1% year over year to \$31.6 million. Moreover, mortgage closed loan production totaled \$1.14 billion, down 7% year over year due to reduction in secondary marketing gains on sales of loans owing to disruption caused by the COVID-19 pandemic.

Financials

At the end of the reported quarter, NVR had cash and cash equivalents for Homebuilding and Mortgage Banking of \$1,982.9 million and \$18 million compared with \$1,110.9 million and \$29.4 million, respectively, at 2019-end.

Quarter Ending	06/2020
Report Date	Jul 22, 2020
Sales Surprise	-3.47%
EPS Surprise	-5.32%
Quarterly EPS	42.50
Annual EPS (TTM)	207.98

Valuation

NVR shares are up 13.2% in the year-to-date period and 19.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector is up 30.8% and 8.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 42.9% and 24.4%, respectively.

The S&P 500 index is up 6.5% in the year-to-date period and 19.5% in the past year.

The stock is currently trading at 18.26X forward 12-month earnings, which compares to 11.94X for the Zacks sub-industry, 18.71X for the Zacks sector and 23.05X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.1X and as low as 9.62X, with a 5-year median of 15.32X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$4,957 price target reflects 21X 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	18.26	11.94	18.71	23.05
	5-Year High	24.1	14.36	19.19	23.05
	5-Year Low	9.62	6.34	10.74	15.25
	5-Year Median	15.32	10.72	15.86	17.58
P/B TTM	Current	6.11	1.63	4.42	4.64
	5-Year High	8.51	2.29	6.74	4.64
	5-Year Low	3.42	0.66	1.71	2.83
	5-Year Median	5.57	1.49	3.31	3.76
P/S F12M	Current	2.04	1.18	2.14	3.76
	5-Year High	2.25	1.18	2.14	3.76
	5-Year Low	0.9	0.57	1.18	2.53
	5-Year Median	1.43	0.92	1.63	3.05

As of 08/24/2020

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



Top Peers

Company (Ticker)	Rec	Rank
D.R. Horton, Inc. (DHI)	Outperform	1
Meritage Homes Corporation (MTH)	Outperform	1
PulteGroup, Inc. (PHM)	Outperform	1
KB Home (KBH)	Neutral	3
Persimmon Plc (PSMMY)	Neutral	2
Taylor Morrison Home Corporation (TMHC)	Neutral	3
Toll Brothers Inc. (TOL)	Neutral	2
Taylor Wimpey PLC Un-sponsored ADR (TWODY)	Underperform	5

Industry Comparison Industry: Building Products - Home Builders				Industry Peers		
	NVR	X Industry	S&P 500	DHI	TOL	TWODY
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Neutral	Underperform
Zacks Rank (Short Term)	2	-	-	1	2	5
VGM Score	B	-	-	B	C	B
Market Cap	15.96 B	3.40 B	23.81 B	27.70 B	5.74 B	5.62 B
# of Analysts	2	5	14	19	6	2
Dividend Yield	0.00%	0.00%	1.64%	0.92%	0.96%	5.04%
Value Score	C	-	-	C	B	C
Cash/Price	0.15	0.15	0.07	0.14	0.13	0.14
EV/EBITDA	13.88	10.22	13.37	12.74	10.85	4.40
PEG Ratio	4.07	1.41	3.02	0.95	6.38	NA
Price/Book (P/B)	6.11	1.21	3.17	2.45	1.25	1.20
Price/Cash Flow (P/CF)	17.63	10.23	12.77	16.56	9.69	5.86
P/E (F1)	19.68	11.80	21.72	13.09	16.47	18.48
Price/Sales (P/S)	2.29	0.80	2.48	1.46	0.82	NA
Earnings Yield	5.08%	8.49%	4.44%	7.64%	6.06%	5.38%
Debt/Equity	0.49	0.46	0.76	0.38	0.94	0.03
Cash Flow (\$/share)	244.50	3.90	6.93	4.60	4.72	2.63
Growth Score	A	-	-	C	C	A
Hist. EPS Growth (3-5 yrs)	25.78%	21.30%	10.41%	23.36%	21.87%	NA
Proj. EPS Growth (F1/F0)	-0.96%	7.70%	-5.05%	35.68%	-31.18%	-67.64%
Curr. Cash Flow Growth	10.03%	-2.58%	5.20%	3.66%	-11.99%	-8.63%
Hist. Cash Flow Growth (3-5 yrs)	24.62%	18.38%	8.50%	23.21%	13.21%	NA
Current Ratio	5.80	4.02	1.33	6.82	6.84	4.44
Debt/Capital	32.78%	32.45%	44.50%	27.50%	48.38%	3.08%
Net Margin	11.77%	7.19%	10.13%	10.82%	6.85%	NA
Return on Equity	33.66%	13.03%	14.66%	18.53%	9.91%	NA
Sales/Assets	1.71	0.98	0.51	1.13	0.66	NA
Proj. Sales Growth (F1/F0)	2.24%	0.00%	-1.45%	12.73%	-11.56%	-38.86%
Momentum Score	D	-	-	C	F	F
Daily Price Chg	2.04%	-0.10%	1.32%	-1.04%	2.31%	0.00%
1 Week Price Chg	4.42%	5.77%	-1.45%	7.82%	12.36%	0.00%
4 Week Price Chg	10.18%	7.38%	3.38%	14.42%	18.25%	-9.67%
12 Week Price Chg	34.52%	29.81%	7.69%	38.52%	42.13%	-15.37%
52 Week Price Chg	19.77%	29.16%	3.85%	54.79%	28.06%	-15.09%
20 Day Average Volume	21,626	341,312	1,873,293	3,690,497	1,671,641	62
(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%	9.40%	1.00%	20.04%	2.02%	-21.60%
(F1) EPS Est 12 week change	24.92%	28.95%	3.40%	28.38%	-12.36%	-38.83%
(Q1) EPS Est Mthly Chg	0.00%	12.86%	0.00%	44.82%	3.17%	NA

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	A
Momentum Score	D
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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