

NVR, Inc. (NVR)

\$3,163.84 (As of 04/28/20)

Price Target (6-12 Months): **\$3,396.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/15/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: A

Momentum: F

Summary

NVR reported first-quarter 2020 results, wherein earnings topped the Zacks Consensus Estimate by 7%. However, earnings and revenues declined 6% each, owing to lower deliveries (down 6% year over year). Moreover, NVR remains concerned about its future operational and financial performance due to uncertainty regarding the extent of disruption to the business from COVID-19. Cancellation rate was 21% in the quarter compared with 14% in the year-ago period. Precisely, it experienced an increase in cancellations and a decrease in new orders due to the impact of the COVID-19 pandemic in March. Nonetheless, 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.

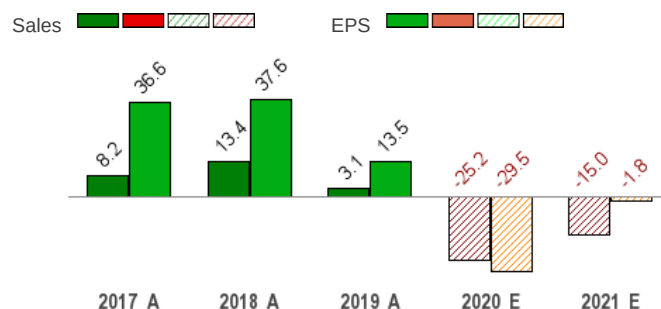
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$4,071.13 - \$2,043.01
20 Day Average Volume (sh)	33,713
Market Cap	\$11.7 B
YTD Price Change	-16.9%
Beta	0.92
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Building Products - Home Builders
Zacks Industry Rank	Bottom 8% (232 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.0%
Last Sales Surprise	-6.4%
EPS F1 Est- 4 week change	-22.8%
Expected Report Date	07/17/2020
Earnings ESP	0.0%
P/E TTM	14.5
P/E F1	20.3
PEG F1	1.9
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					4,590 E
2020	1,556 A	1,481 E	1,202 E	1,161 E	5,399 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					\$153.04 E
2020	\$44.96 A	\$37.42 E	\$22.81 E	\$21.51 E	\$155.85 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 04/28/2020. The reports text is as of 04/29/2020.

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.

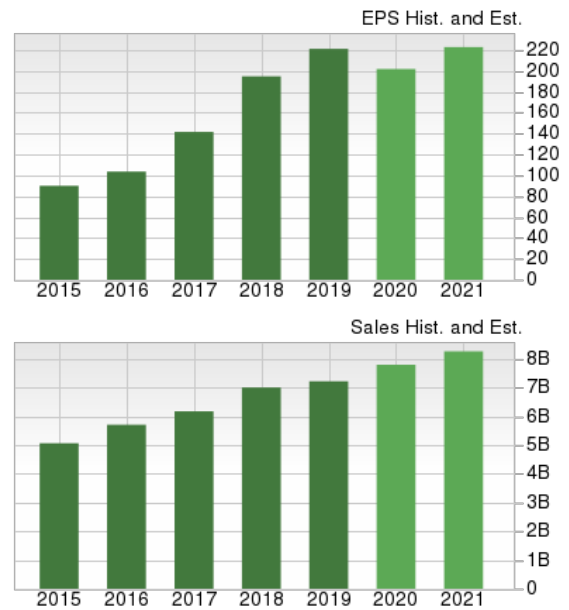
Homebuilding (accounting for 97.7% of 2019 total revenues) division builds and sells homes under the three brand names - Ryan Homes, NVHomes and Heartland Homes. The company currently operates in 32 metropolitan areas across 14 states. The two trade names - NVHomes and Heartland Homes, are mainly for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

- ▲ **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. Again, in first-quarter 2020, it bought back 57,611 shares for \$216.6 million.

- ▲ **Superior ROE:** NVR's superior return on equity (ROE) also supports its growth potential. The company's ROE currently stands at 37.4%. This compares favorably with ROE of 12.8% 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

Reasons To Sell:

▼ **Coronavirus-Led Shutdowns Likely to Weigh on Near-Term Results:** The coronavirus pandemic has caused shutdown of production units and infrastructure activities. NVR 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 coronavirus outbreak, and higher land and labor costs are likely to weigh on the bottom line.

The company has been witnessing slowdown in traffic and increased sales cancellation, which in turn will put pressure on the upcoming results.

▼ **Higher Costs, Tepid Backlog:** 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. More inflation is anticipated, going ahead. This is somewhat exerting pressure on homebuilders' margins considering that home prices are moderately increasing. Apart from labor/material costs, the company is witnessing pressure from contract land deposit impairments charges.

In first-quarter 2020, gross margin declined 170 basis points year over year. The downside was mainly due to contract land deposit impairments of approximately \$36,400,000, or 234 bps, as a percentage of revenues.

Backlog at the end of the first quarter remained flat with the comparable year-ago period at 9,018 units and \$3.44 billion on a dollar basis. The backlog included 1,178 units in Pennsylvania and New York, where governments have currently put some restrictions on residential construction. Notably, the company believes that this backlog may experience a higher level of cancellation due to the company's inability to deliver these units on time.

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.

Last Earnings Report

NVR Q1 Earnings Top Estimates, Revenues Down Y/Y

NVR, Inc.'s first-quarter 2020 earnings topped the Zacks Consensus Estimate. The company noted that the coronavirus significantly impacted all facets of the business. It remains concerned about its future operational and financial performance due to uncertainty regarding the extent and timing of disruption to the business from COVID-19.

In the quarter under review, the company reported earnings of \$44.96 per share, which surpassed the consensus mark of \$42.01 by 7%. However, the reported figure declined 6% from the prior-year figure.

Total revenues (Homebuilding & Mortgage Banking fees combined) amounted to \$1.58 billion during the reported quarter. The figure declined 6% on a year-over-year basis.

Segment Details

Homebuilding: Revenues in the segment came in at \$1.56 billion, down 5.3% from the year-ago level. Cancellation rate was 21% in the quarter compared with 14% in the year-ago period, due to increase in sales cancellations during March, thanks to the impact of the COVID-19 pandemic. Settlements fell 6% year over year to 4,230 units.

New orders during the quarter fell 2% from the prior year to 5,015 units. However, average sales price of new orders inched up 1% from the prior-year quarter to \$372,300.

As of Mar 31, 2020, backlog (homes sold but not settled) was flat with the year-ago quarter's 9,018 units and \$3.44 billion on a dollar basis. The backlog includes 1,178 units in Pennsylvania and New York, where governments have currently put some restrictions on residential construction. Notably, the company believes that this backlog may experience a higher level of cancellations due to the company's inability to deliver these units on time.

Gross margin contracted 170 basis points (bps) to 16.8%. The downside was mainly due to contract land deposit impairments of approximately \$36,400,000, or 234 bps, as a percentage of revenues.

Mortgage Banking: Mortgage banking fees decreased 38.8% year over year to \$26.8 million. Moreover, mortgage closed loan production totaled \$1.13 billion, down 1% year over year due to reduction in fair value of mortgage servicing rights as a result of disruptions in the economy.

Financials

At the end of the first quarter, NVR had cash and cash equivalents for Homebuilding and Mortgage Banking of \$1,078.6 million and \$13.4 million compared with \$1,110.9 million and \$29.4 million, respectively, at 2019-end.

Quarter Ending 03/2020

Report Date	Apr 23, 2020
Sales Surprise	-6.39%
EPS Surprise	7.02%
Quarterly EPS	44.96
Annual EPS (TTM)	218.57

Valuation

NVR shares are down 15.1% in the year-to-date period but up 2.6% in the and trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are down 22.8% and 27.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 18.7% and 17.2%, respectively.

The S&P 500 index is down 12% in the year-to-date period and 4.2% in the past year.

The stock is currently trading at 15.16X forward 12-month earnings, which compares to 9.32X for the Zacks sub-industry, 13.52X for the Zacks sector and 20.17X 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 15.2X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$3,396 price target reflects 15.92X 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	15.16	9.32	15.13	20.17
	5-Year High	24.1	14.36	17.94	20.17
	5-Year Low	9.62	6.27	10.76	15.19
	5-Year Median	15.2	10.72	15.87	17.45
P/B TTM	Current	4.83	1.05	2.38	3.78
	5-Year High	8.51	2.29	6.73	4.55
	5-Year Low	3.42	0.66	1.7	2.84
	5-Year Median	5.53	1.53	3.28	3.64
P/S F12M	Current	1.47	0.78	1.57	3.21
	5-Year High	2.09	1.21	2.12	3.44
	5-Year Low	0.9	0.57	1.17	2.54
	5-Year Median	1.36	0.92	1.39	3.01

As of 04/28/2020

Industry Analysis Zacks Industry Rank: Bottom 8% (232 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Taylor Morrison Home Corporation (TMHC)	Outperform	4
KB Home (KBH)	Neutral	3
Lennar Corporation (LEN)	Neutral	3
Meritage Homes Corporation (MTH)	Neutral	4
PulteGroup, Inc. (PHM)	Neutral	4
Persimmon Plc (PSMMY)	Neutral	4
Toll Brothers Inc. (TOL)	Neutral	3
Taylor Wimpey PLC Unsponsored ADR (TWODY)	Neutral	5

Industry Comparison Industry: Building Products - Home Builders				Industry Peers		
	NVR	X Industry	S&P 500	LEN	PHM	TOL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	3
VGM Score	C	-	-	B	B	D
Market Cap	11.67 B	1.84 B	20.14 B	15.46 B	7.77 B	3.11 B
# of Analysts	2	5	14	7	7	7
Dividend Yield	0.00%	0.00%	2.13%	1.01%	1.66%	1.80%
Value Score	D	-	-	B	C	B
Cash/Price	0.15	0.21	0.06	0.06	0.27	0.19
EV/EBITDA	10.08	7.10	12.15	9.11	6.23	7.71
PEG Ratio	1.88	1.04	2.43	0.99	1.33	0.63
Price/Book (P/B)	4.83	0.83	2.68	0.95	1.41	0.68
Price/Cash Flow (P/CF)	12.94	6.31	10.78	8.17	7.43	5.20
P/E (F1)	20.57	9.11	19.06	8.59	9.53	6.98
Price/Sales (P/S)	1.64	0.49	2.12	0.68	0.74	0.43
Earnings Yield	4.93%	11.00%	5.11%	11.63%	10.49%	14.32%
Debt/Equity	0.28	0.50	0.72	0.50	0.50	0.86
Cash Flow (\$/share)	244.50	3.90	7.01	6.06	3.90	4.72
Growth Score	A	-	-	C	B	F
Hist. EPS Growth (3-5 yrs)	27.65%	20.24%	10.88%	15.42%	32.78%	23.82%
Proj. EPS Growth (F1/F0)	-29.52%	-11.53%	-6.33%	0.42%	-12.85%	-12.83%
Curr. Cash Flow Growth	10.03%	-3.09%	5.92%	-6.27%	-2.58%	-11.99%
Hist. Cash Flow Growth (3-5 yrs)	24.62%	21.78%	8.55%	22.34%	15.54%	13.21%
Current Ratio	4.82	4.26	1.23	12.65	0.81	6.82
Debt/Capital	22.01%	33.26%	43.90%	33.38%	33.26%	46.17%
Net Margin	12.14%	7.34%	11.13%	8.77%	10.02%	7.44%
Return on Equity	37.44%	12.80%	16.47%	12.76%	19.53%	10.81%
Sales/Assets	1.88	0.98	0.55	0.78	0.99	0.68
Proj. Sales Growth (F1/F0)	-25.22%	0.00%	-1.35%	1.61%	-5.58%	0.50%
Momentum Score	F	-	-	B	F	B
Daily Price Chg	5.79%	6.90%	1.10%	9.17%	6.42%	3.81%
1 Week Price Chg	-2.41%	-0.06%	-1.74%	-0.12%	0.47%	1.15%
4 Week Price Chg	23.15%	26.39%	11.80%	29.63%	29.88%	27.33%
12 Week Price Chg	-16.56%	-33.98%	-17.28%	-24.54%	-34.23%	-44.95%
52 Week Price Chg	0.36%	-16.29%	-10.69%	-4.82%	-7.85%	-35.67%
20 Day Average Volume	33,713	422,683	2,660,864	3,432,793	5,012,855	2,844,037
(F1) EPS Est 1 week change	-22.77%	0.00%	0.00%	0.00%	-21.38%	0.00%
(F1) EPS Est 4 week change	-22.77%	-18.21%	-6.46%	0.00%	-23.77%	0.00%
(F1) EPS Est 12 week change	-31.05%	-21.46%	-12.81%	-6.08%	-25.01%	-10.42%
(Q1) EPS Est Mthly Chg	-25.39%	-16.42%	-10.84%	0.00%	-24.48%	0.00%

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	D
Growth Score	A
Momentum Score	F
VGM Score	C

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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