

## PulteGroup Inc. (PHM)

**\$29.88** (As of 05/08/20)

Price Target (6-12 Months): **\$31.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/30/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: D

### Summary

PulteGroup Inc. reported first-quarter 2020 results, wherein earnings surpassed the Zacks Consensus Estimate but revenues lagged the same. Earnings and revenues grew 25.4% and 14.9% year over year, respectively, which is reflective of a strong housing market before the COVID outbreak. Higher demand owing to favorable housing dynamics in most part of the quarter, backed by lower interest rates and improved affordability, had a positive impact on PulteGroup's performance. However, housing demand is now under pressure from job losses, tighter credit market and a slower resale market as a result of the pandemic. Supply chain disruptions to restrict the virus spread are also putting pressure on housing supply. Earnings estimates have been revised downward over the past 30 days, reflecting analysts' concern over the company's prospects.

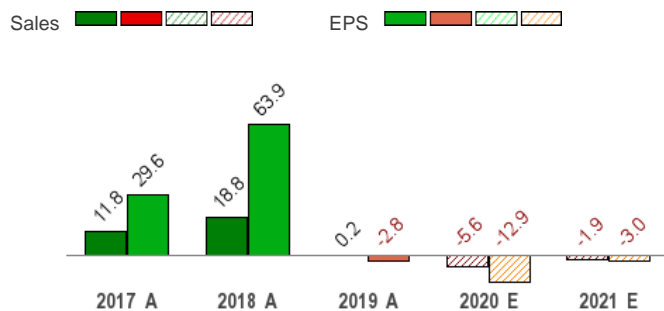
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$47.37 - \$17.12
20 Day Average Volume (sh)	4,586,776
Market Cap	\$8.0 B
YTD Price Change	-23.0%
Beta	1.27
Dividend / Div Yld	\$0.48 / 1.6%
Industry	<a href="#">Building Products - Home Builders</a>
Zacks Industry Rank	Bottom 8% (232 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.7%
Last Sales Surprise	-1.6%
EPS F1 Est- 4 week change	-23.8%
Expected Report Date	NA
Earnings ESP	-5.3%
P/E TTM	8.0
P/E F1	9.8
PEG F1	1.5
P/S TTM	0.8

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,035 E	2,548 E	2,695 E	2,850 E	9,462 E
2020	2,295 A	2,326 E	2,450 E	2,543 E	9,643 E
2019	1,997 A	2,489 A	2,710 A	3,017 A	10,213 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.50 E	\$0.74 E	\$0.89 E	\$1.04 E	\$2.95 E
2020	\$0.74 A	\$0.77 E	\$0.74 E	\$0.75 E	\$3.04 E
2019	\$0.59 A	\$0.86 A	\$1.01 A	\$1.14 A	\$3.49 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 05/08/2020. The reports text is as of 05/11/2020.

## Overview

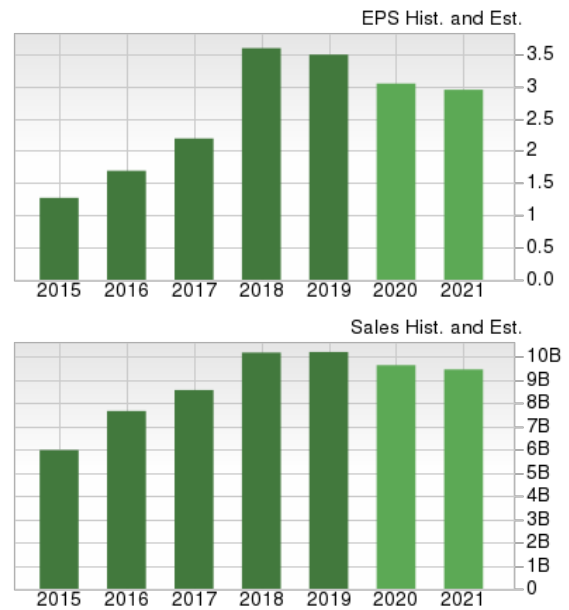
Based in Atlanta, GA, **PulteGroup Inc.** engages in homebuilding and financial services businesses, primarily in the United States. The company conducts operations through two primary business segments – Homebuilding (which accounted for 97.6% of first-quarter 2020 total revenues) and Financial Services (2.4%).

The **Homebuilding** segment offers a wide variety of home designs including single family detached, townhouses, condominiums and duplexes at different prices, with a variety of options and amenities to all major customer segments: first-time, move-up and active adult. Pulte's brand portfolio includes Pulte move-up brand, Centex first-time brand, Del Webb active adult, DiVosta Homes and John Wieland Homes and Neighborhoods.

The company operates in approximately 40 markets in 23 states across the United States. The homebuilding division is broken down into six reportable segments; Northeast, Southeast, Florida, Texas, Midwest and West.

Pulte's direct subsidiaries under the homebuilding segment include Pulte Diversified Companies Inc., Del Webb Corporation and Centex Corporation.

Pulte's **Financial Services** business includes mortgage banking and title operations through Pulte Mortgage and other subsidiaries. Pulte Mortgage arranges financing by originating mortgage loans for homebuyers.



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## Reasons To Buy:

▲ **Land Acquisition & Strategic Initiatives:** PulteGroup's annual land acquisition strategies have resulted in improved volumes, revenues and profitability for quite some time now. In January 2020, the company expanded off-site manufacturing in Florida with the acquisition of Innovative Construction Group, a provider of off-site solutions focused on single-family and multi-family wood framed construction. Off-site solutions are expected to deliver high-quality framing components with less waste that will help it address trade labor shortages, a persistent problem for the construction industry.

Prudent land investments, focus on entry-level buyers, returning more free cash flow to its shareholders raise hopes

In the first quarter of 2020, PulteGroup invested \$619 million in land acquisition and development. Notably, this reflects a decrease of \$152 million from the preceding quarter in order to adjust land spend, in view of the current operating environment arising from the coronavirus outbreak. In 2019, the company had spent \$3 billion on land acquisition and development. Over the past four years (through 2018), the company has invested more than \$10 billion in land acquisition and development, depicting its clear focus on building a more efficient land pipeline.

The company expects to realize higher returns on invested capital, given plans to moderate the rate of land spend, increase the use of land options where possible and accelerate inventory turns. PulteGroup's land strategy now emphasizes on investing on shorter-lived smaller land assets while expanding the use of land option agreements when possible, thereby mitigating market risk. Consistent with its efforts to improve overall asset efficiency and reduce land risks by optioning lots, the company has successfully reduced owned land. It ended first-quarter 2020 with 160,000 lots under control, of which 42% were controlled via option. The figure is expected to reach 50% in the near term. It continues to make steady progress toward the long-term goal of owning three years of land or less.

PulteGroup is also maximizing the value of its land assets by selling houses at higher prices and better margins, thereby using the resulting strong cash flow to invest in the business, pay off debt and systematically return to shareholders.

▲ **Focus on First-Time/Entry-Level Buyers:** PulteGroup remains focused on growing demand for entry-level homes, addressing the need for lower-priced homes, given affordability concerns prevailing in the U.S. housing market. The company has been reaping benefits from the successful execution of strategic initiatives to boost profitability, with focus on entry-level homes. In view of these strategic efforts, the growing share of first-time buyers is encouraging. First-time buyers represented 33% of closings in first-quarter 2020 (compared with 25% a year ago). Notably, first-time closings increased 55% year over year in the first quarter.

▲ **Healthy Balance Sheet:** In response to the unfavorable demand trends owing to the pandemic, the company has been focusing on protecting liquidity and closely managing cash flows. As a precautionary measure, the company has drawn \$700 million from the revolving credit facility in March. Evidently, its debt to total capitalization increased to 38.5% (as of Mar 31, 2020) from 33.6% at 2019-end. Nonetheless, the company has sufficient cash balance to manage the debt level during this uncertainty. The company had \$1,851 million of cash (including restricted cash) on Mar 31, 2020, higher than \$1,251 million as of Dec 31, 2019.

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## Reasons To Sell:

- ▼ **Coronavirus-Related Woes:** The coronavirus outbreak, which originated in China, has fast spread across nations and has taken the shape of a global crisis. The recent economic slowdown resulting from shutdowns due to the virus outbreak is a concern. Given uncertainties arising from the coronavirus outbreak, it experienced material slowdown in consumer traffic and sales activity beginning in mid-March, as the state and local government authorities implemented various restrictions and stay-in-place orders to restrict the virus spread.
- ▼ **Rising Labor & Land 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. More inflation is anticipated, going ahead. This is denting homebuilders' margins.
- ▼ **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.

The coronavirus outbreak, and rising labor and land costs are causes of concern.

## Last Earnings Report

### PulteGroup (PHM) Q1 Earnings Beat Estimates, Revenues Miss

PulteGroup Inc. reported first-quarter 2020 results, wherein earnings surpassed the Zacks Consensus Estimate but revenues lagged the same. Higher demand owing to favorable housing dynamics in most part of the quarter, backed by lower interest rates and improved affordability, had a positive impact on PulteGroup's performance.

#### Inside the Headlines

Earnings per share came in at 74 cents, beating the consensus mark of 70 cents by 5.7%. The bottom line also grew 25.4% year over year.

Total revenues of \$2.29 billion lagged the consensus mark of \$2.33 billion by 1.6% but increased 14.9% from the year-ago figure of \$1.99 billion.

#### Segment Discussion

PulteGroup primarily operates through two business segments — Homebuilding and Financial Services.

Revenues from the Homebuilding segment were up 14.7% year over year to \$2.24 billion.

Home sale revenues of \$2.22 billion also improved 13.9% year over year, given higher deliveries. Also, land sale revenues grew 536% to \$18.9 million from \$2.9 million a year ago.

The number of homes closed increased 16% year over year to 5,373. Home closings grew across most of the operating regions served (barring Midwest). Average selling price of homes delivered was \$413,000, down 2% year over year due to changes in the product and geographic mix of homes closed in the quarter.

Importantly, the company's backlog — which represents orders yet to be closed — was 12,629, up 19.7% year over year. In addition, potential housing revenues from backlog increased 20.8% from the prior-year quarter to \$5.58 billion.

New home orders also increased 16% year over year to 7,495 units in the quarter. Home orders were up across all operating regions served (except Midwest), given increased community count and higher absorption pace. Value of new orders also grew 19% from a year ago to \$3.3 billion.

#### Margins

Home sales gross margin was up 30 basis points (bps) year over year to 23.7% in the quarter. Furthermore, adjusted operating margin also expanded 130 bps to 11.8%.

Homebuilding SG&A expenses — as a percentage of home sale revenues — were 11.9%, down 110 bps from the prior-year quarter.

Revenues from the Financial Services segment improved 24.4% year over year to \$54.6 million. The segment generated pre-tax income of \$20 million, up from \$12 million a year ago. Mortgage capture rate in the quarter was 87%, reflecting an increase from 80% in the year-ago period.

#### Financials

As of Mar 31, 2020, cash and cash equivalents were \$1.82 billion, up from \$1.22 billion at the end of 2019. During the quarter, it repurchased 2.8 million common shares for \$96 million, or an average price of \$33.86 per share. However, given economic uncertainties, it has opted to suspend all stock repurchase activities.

#### 2020 Guidance Revoked

Given the uncertainties arising from the coronavirus outbreak, PulteGroup revoked its guidance for 2020. The company also intends to suspend providing guidance for the foreseeable future.

It experienced material slowdown in consumer traffic and sales activity beginning in mid-March, as the state and local government authorities implemented various restrictions and stay-in-place orders to restrict the virus spread.

Nonetheless, the company acknowledged the fact the U.S. housing industry started 2020 on a solid note and the momentum continued until the devastating effects of the COVID-19 pandemic began impacting the country.

Quarter Ending **03/2020**

Report Date	Apr 23, 2020
Sales Surprise	-1.62%
EPS Surprise	5.71%
Quarterly EPS	0.74
Annual EPS (TTM)	3.75

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## Valuation

PulteGroup shares are down 23% in the year-to-date period and 4.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are down 13.8% and 19.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 1% and 5%, respectively.

The S&P 500 index is down 9% in the year-to-date period but up 4% in the past year.

The stock is currently trading at 9.94X forward 12-month earnings, which compares to 10.12X for the Zacks sub-industry, 16.92X for the Zacks sector and 21.15X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.58X and as low as 4.24X, with a 5-year median of 9.97X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$31 price target reflects 10.3X forward 12-month earnings.

The table below shows summary valuation data for PHM

Valuation Multiples - PHM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.94	10.12	16.92	21.15
	5-Year High	15.58	14.36	17.94	21.15
	5-Year Low	4.24	6.34	10.76	15.19
	5-Year Median	9.97	10.7	15.88	17.45
P/S F12M	Current	0.84	0.83	1.65	3.3
	5-Year High	1.21	1.21	2.12	3.44
	5-Year Low	0.42	0.57	1.17	2.54
	5-Year Median	0.85	0.92	1.6	3.02
P/B TTM	Current	1.45	1.05	3.03	3.85
	5-Year High	2.49	2.29	6.73	4.55
	5-Year Low	0.88	0.66	1.7	2.84
	5-Year Median	1.59	1.53	3.27	3.64

As of 05/08/2020

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



## Top Peers

Company (Ticker)	Rec	Rank
DR Horton Inc (DHI)	Neutral	3
KB Home (KBH)	Neutral	4
Lennar Corporation (LEN)	Neutral	3
Meritage Homes Corporation (MTH)	Neutral	4
NVR Inc (NVR)	Neutral	4
Taylor Morrison Home Corporation (TMHC)	Neutral	3
Toll Brothers Inc (TOL)	Neutral	3
Beazer Homes USA Inc (BZH)	Underperform	5

Industry Comparison Industry: Building Products - Home Builders				Industry Peers		
	PHM	X Industry	S&P 500	DHI	LEN	TOL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	B	-	-	C	B	D
Market Cap	8.01 B	2.18 B	20.19 B	18.03 B	16.86 B	3.47 B
# of Analysts	7	5	14	16	7	7
Dividend Yield	1.61%	0.00%	2.12%	1.41%	0.93%	1.61%
Value Score	C	-	-	B	B	B
Cash/Price	0.25	0.20	0.06	0.17	0.05	0.17
EV/EBITDA	6.40	7.21	11.95	8.79	9.67	8.12
PEG Ratio	1.45	1.49	2.60	1.14	1.49	0.71
Price/Book (P/B)	1.45	0.99	2.75	1.68	1.04	0.76
Price/Cash Flow (P/CF)	7.65	6.72	10.78	10.78	8.91	5.80
P/E (F1)	9.83	9.83	19.85	10.82	9.37	7.79
Price/Sales (P/S)	0.76	0.55	2.03	0.98	0.74	0.48
Earnings Yield	10.17%	10.17%	4.83%	9.24%	10.66%	12.83%
Debt/Equity	0.50	0.50	0.75	0.40	0.50	0.86
Cash Flow (\$/share)	3.90	3.90	7.01	4.60	6.06	4.72
Growth Score	A	-	-	D	B	F
Hist. EPS Growth (3-5 yrs)	32.78%	21.16%	10.87%	23.17%	15.42%	23.82%
Proj. EPS Growth (F1/F0)	-12.85%	-12.54%	-9.87%	6.83%	0.42%	-12.83%
Curr. Cash Flow Growth	-2.58%	-3.09%	5.88%	3.66%	-6.27%	-11.99%
Hist. Cash Flow Growth (3-5 yrs)	15.54%	21.78%	8.55%	23.21%	22.34%	13.21%
Current Ratio	0.81	4.63	1.24	7.25	12.65	6.82
Debt/Capital	33.26%	33.26%	44.23%	28.63%	33.38%	46.17%
Net Margin	10.02%	7.23%	10.68%	10.26%	8.77%	7.44%
Return on Equity	19.53%	12.76%	16.36%	17.70%	12.76%	10.81%
Sales/Assets	0.99	0.98	0.55	1.15	0.78	0.68
Proj. Sales Growth (F1/F0)	-5.58%	0.00%	-2.26%	3.38%	1.61%	0.50%
Momentum Score	D	-	-	B	C	B
Daily Price Chg	6.03%	5.01%	2.40%	5.15%	6.24%	5.80%
1 Week Price Chg	6.24%	12.18%	0.53%	13.68%	15.35%	8.02%
4 Week Price Chg	13.44%	14.30%	2.68%	20.83%	20.56%	15.16%
12 Week Price Chg	-36.00%	-32.95%	-19.20%	-19.59%	-22.58%	-43.15%
52 Week Price Chg	-5.23%	-10.95%	-8.44%	13.69%	4.31%	-28.35%
20 Day Average Volume	4,586,776	450,125	2,398,409	4,556,579	3,130,367	2,350,099
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.30%	0.00%	0.00%
(F1) EPS Est 4 week change	-23.77%	-8.22%	-6.95%	-2.41%	0.00%	0.00%
(F1) EPS Est 12 week change	-25.59%	-23.71%	-15.68%	-13.00%	-7.35%	-10.42%
(Q1) EPS Est Mthly Chg	-24.48%	-4.92%	-13.12%	-4.92%	0.00%	0.00%

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## 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.

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### 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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### Disclosures

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