

PulteGroup Inc. (PHM)

\$41.29 (As of 07/23/20)

Price Target (6-12 Months): **\$43.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/30/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: A

Summary

PulteGroup's second-quarter 2020 earnings and revenues handily surpassed the respective Zacks Consensus Estimate by 36.7% and 2%, buoyed by a recovery in demand. Low interest rates, a limited supply of existing homes, pent-up demand following economic shutdown and a desire to exit more densely populated urban centers are helping PulteGroup to gain further. Earnings and revenues grew 33.7% and 4.2% year over year, respectively, given 6% higher deliveries, partly offset by 3% decline in average selling price. Higher backlog and margins, along with a solid liquidity position were encouraging. However, rising land and labor costs are a pressing concern. Also, renewed fear of a second wave of COVID-19 may impact its performance going forward.

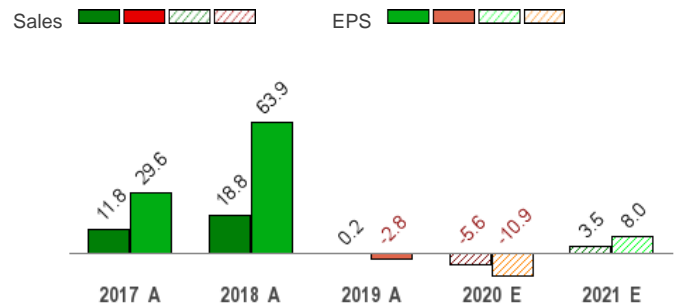
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.37 - \$17.12
20 Day Average Volume (sh)	3,437,747
Market Cap	\$11.1 B
YTD Price Change	6.4%
Beta	1.34
Dividend / Div Yld	\$0.48 / 1.2%
Industry	Building Products - Home Builders
Zacks Industry Rank	Top 6% (16 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	36.9%
Last Sales Surprise	2.0%
EPS F1 Est- 4 week change	0.9%
Expected Report Date	10/27/2020
Earnings ESP	7.3%
P/E TTM	10.2
P/E F1	13.3
PEG F1	2.0
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,118 E	2,531 E	2,750 E	3,098 E	9,974 E
2020	2,295 A	2,594 A	2,273 E	2,531 E	9,641 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	\$0.49 E	\$0.78 E	\$0.94 E	\$1.08 E	\$3.36 E
2020	\$0.74 A	\$1.15 A	\$0.79 E	\$0.83 E	\$3.11 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 07/23/2020. The reports text is as of 07/24/2020.

Overview

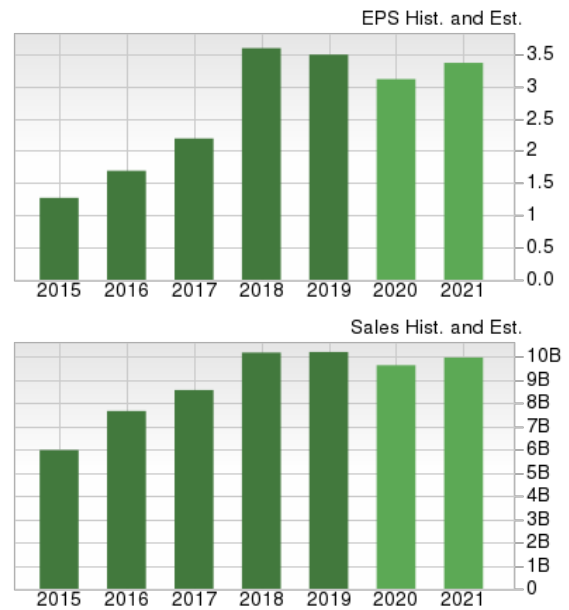
Based in Atlanta, GA, **PulteGroup Inc.** engages in homebuilding and financial services businesses, primarily in the United States. The company conducts operations through two primary business segments – Homebuilding (which accounted for 97.6% of first-quarter 2020 total revenues) and Financial Services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



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

Given improving demand conditions post pandemic-driven shutdowns, the company increased investment in both land development and the purchase of new land assets. It expects land investment for 2020 to be \$2.7 billion. Through the first six months of 2020, it invested approximately \$1.1 billion in land acquisition and related development. 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 second-quarter 2020 with 163,000 lots under control, of which 46% 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 31% of closings in second-quarter 2020 (compared with 28% a year ago). Notably, first-time orders increased 17% year over year in the second quarter.

▲ **Healthy Balance Sheet:** In response to unfavorable demand trends owing to the pandemic, the company has been focusing on protecting liquidity and closely managing cash flows. It ended the second quarter with \$1.7 billion of cash, after repaying \$700 million that it drew down from the revolving credit facility in March 2020. Evidently, its debt to total capitalization decreased to 32.1% (as of Jun 30, 2020) from 38.5% at first quarter-end and 35.1% at second quarter 2019-end.

Reasons To Sell:

▼ **Coronavirus-Led Shutdowns Weigh on Q2 Orders:** Owing to the coronavirus pandemic, the company's orders fell 53% in April from the comparable period last year. Although PulteGroup saw a meaningful improvement across all buyer groups and geographies as the quarter advanced, the company's new home orders decreased 4% year over year to 6,522 units in the second quarter. Home orders were down across all operating regions served (except Florida and Texas). Value of new orders also declined 7.4% from a year ago to \$2.68 billion.

While the worst of the pandemic seems to be over, given improved orders in June and the anticipation of persistent improvement in second-half 2020, renewed fears of a second wave of the virus may impact the company in the near term.

▼ **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.

Coronavirus-related disruptions, and rising labor and land costs are causes of concern.

Last Earnings Report

PulteGroup's (PHM) Q2 Earnings & Revenues Beat Estimates

PulteGroup Inc. reported second-quarter 2020 results, wherein earnings and revenues handily surpassed the Zacks Consensus Estimate, buoyed by a recovery in demand. Ryan Marshall, president and chief executive officer of PulteGroup, pointed out, "The recovery in demand reflects a number of factors, including: low interest rates, a restricted supply of existing-home inventory, pent-up demand following the economic shutdown, the appeal of single-family living in a new home and a desire among some buyers to exit more densely populated urban centers."

Quarter Ending 06/2020

Report Date	Jul 23, 2020
Sales Surprise	2.01%
EPS Surprise	36.90%
Quarterly EPS	1.15
Annual EPS (TTM)	4.04

Inside the Headlines

Adjusted earnings per share came in at \$1.15, beating the consensus mark of 84 cents by 36.9%. The bottom line also grew 33.7% year over year.

Total revenues of \$2.59 billion surpassed the consensus mark of \$2.54 billion by 2% and increased 4.2% from the year-ago figure of \$2.49 billion.

Segment Discussion

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

Revenues from the Homebuilding segment were up 2.7% year over year to \$2.5 billion. Home sale revenues of \$2.47 billion also improved 2.8% year over year, given higher deliveries. However, land sale revenues declined 8.5% from a year ago to \$27 million.

The number of homes closed increased 6% year over year to 5,937. Home closings grew across most of the operating regions served (barring Northeast and Midwest). Average selling price of homes delivered was \$416,000, down 3% year over year due to the company's shift in the product mix to include more first-time homebuyers.

Importantly, its backlog — which represents orders yet to be closed — was 13,214, up 12% year over year. In addition, potential housing revenues from backlog increased 13.3% from the prior-year quarter to \$5.79 billion.

However, new home orders decreased 4% year over year to 6,522 units in the quarter. Home orders were down across all operating regions served (except Florida and Texas). Value of new orders also declined 7.4% from a year ago to \$2.68 billion.

Margins

Home sales gross margin was up 80 basis points (bps) year over year to 23.9% in the quarter. Furthermore, operating margin expanded 370 bps to 16%. Adjusted operating margin also expanded 160 bps year over year to 13.9% in the quarter.

Adjusted homebuilding SG&A expenses — as a percentage of home sale revenues — were 10%, down 80 bps from the prior-year quarter.

Revenues from the Financial Services segment improved 69.4% year over year to \$94.8 million. The segment generated a pre-tax income of \$60.4 million, up 140.9% from \$25.1 million a year ago. Mortgage capture rate in the second quarter increased to 87% from 81% last year.

Financials

As of Jun 30, 2020, cash and cash equivalents were \$1.66 billion, up from \$1.22 billion at 2019-end. It repaid the \$700 million that it borrowed from the revolving credit facility in March 2020. Given economic uncertainties, it has opted to suspend all stock repurchase activities.

Q3 Guidance

Deliveries are expected within 6,000-6,300 homes. That said, at the midpoint, the guided range represents a decrease from 6,186 in the year-ago period. ASP is projected between \$425,000 and \$435,000, compared with \$426,000 registered a year ago. SG&A expense for quarter is expected to be 9.9-10.4% of home sale revenues.

Homebuilding gross margin for the quarter is guided in the range of 23.9-24.2% (compared with 23.4% in the year-ago period). It expects gross margins to remain strong through the back half of 2020.

2020 Guidance

ASP is expected between \$420,000 and \$430,000 (compared with \$427,000 in 2019). Home closing or deliveries are expected within 23,500 — 24,000 homes, compared with 23,232 in 2019.

Homebuilding gross margin is guided in the range of 23.8-24.1% (compared with 22.8% in 2019). Adjusted SG&A expense for the full year is expected to be 10.3-10.7% of home sale revenues.

Valuation

PulteGroup shares are up 6.4% in the year-to-date period and 29.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 12.6% and 0.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 29% and 13.1%, respectively.

The S&P 500 index is up 0.6% in the year-to-date period and 8.5% in the past year.

The stock is currently trading at 12.93X forward 12-month earnings, which compares to 12.26X for the Zacks sub-industry, 19.87X 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 15.58X and as low as 4.24X, with a 5-year median of 9.95X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$43 price target reflects 13.5X 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	12.93	12.26	19.87	23.05
	5-Year High	15.58	14.36	19.87	23.05
	5-Year Low	4.24	6.34	10.74	15.25
	5-Year Median	9.95	10.72	15.86	17.52
P/B TTM	Current	2	1.46	4.15	4.49
	5-Year High	2.49	2.29	6.74	4.56
	5-Year Low	0.88	0.66	1.71	2.83
	5-Year Median	1.62	1.49	3.29	3.71
P/S F12M	Current	1.15	1.1	2.06	3.62
	5-Year High	1.21	1.21	2.12	3.62
	5-Year Low	0.42	0.57	1.17	2.53
	5-Year Median	0.85	0.92	1.63	3.02

As of 07/23/2020

Industry Analysis Zacks Industry Rank: Top 6% (16 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
D.R. Horton, Inc. (DHI)	Outperform	1
Meritage Homes Corporation (MTH)	Outperform	1
NVR, Inc. (NVR)	Outperform	1
Beazer Homes USA, Inc. (BZH)	Neutral	3
KB Home (KBH)	Neutral	3
Lennar Corporation (LEN)	Neutral	3
Taylor Morrison Home Corporation (TMHC)	Neutral	2
Toll Brothers Inc. (TOL)	Neutral	3

Industry Comparison Industry: Building Products - Home Builders				Industry Peers		
	PHM	X Industry	S&P 500	DHI	LEN	TOL
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	3	3
VGM Score	A	-	-	D	A	A
Market Cap	11.07 B	3.08 B	22.58 B	23.22 B	21.88 B	4.60 B
# of Analysts	7	5	14	17	3	6
Dividend Yield	1.16%	0.00%	1.81%	1.10%	0.71%	1.20%
Value Score	C	-	-	B	A	A
Cash/Price	0.19	0.19	0.06	0.13	0.07	0.17
EV/EBITDA	8.60	8.94	13.13	11.15	11.18	9.52
PEG Ratio	2.03	3.81	3.04	1.38	2.12	NA
Price/Book (P/B)	1.89	1.17	3.15	2.16	1.32	1.01
Price/Cash Flow (P/CF)	10.58	9.17	12.33	13.89	11.56	7.76
P/E (F1)	13.73	13.37	22.09	13.02	11.07	13.46
Price/Sales (P/S)	1.04	0.71	2.41	1.26	0.97	0.65
Earnings Yield	7.53%	7.48%	4.30%	7.69%	9.03%	7.43%
Debt/Equity	0.47	0.46	0.76	0.40	0.45	0.94
Cash Flow (\$/share)	3.90	3.90	7.01	4.60	6.06	4.72
Growth Score	A	-	-	F	A	B
Hist. EPS Growth (3-5 yrs)	32.78%	20.52%	10.82%	23.17%	15.69%	21.87%
Proj. EPS Growth (F1/F0)	-10.89%	-14.12%	-9.01%	14.34%	10.28%	-32.55%
Curr. Cash Flow Growth	-2.58%	-2.58%	5.47%	3.66%	-6.27%	-11.99%
Hist. Cash Flow Growth (3-5 yrs)	15.54%	18.38%	8.55%	23.21%	22.34%	13.21%
Current Ratio	1.13	3.18	1.31	7.25	14.21	6.84
Debt/Capital	32.13%	32.45%	44.41%	28.63%	31.07%	48.38%
Net Margin	10.94%	6.93%	10.46%	10.26%	9.30%	6.85%
Return on Equity	20.10%	12.67%	15.13%	17.70%	13.08%	9.91%
Sales/Assets	0.98	0.98	0.54	1.15	0.77	0.66
Proj. Sales Growth (F1/F0)	-5.60%	0.00%	-2.06%	5.29%	-5.73%	-10.26%
Momentum Score	A	-	-	B	D	D
Daily Price Chg	4.69%	-0.71%	-0.20%	-1.42%	-1.20%	-0.25%
1 Week Price Chg	6.54%	5.93%	3.82%	8.22%	6.65%	5.42%
4 Week Price Chg	26.73%	17.36%	6.02%	18.06%	17.27%	19.92%
12 Week Price Chg	46.06%	40.26%	10.03%	35.28%	39.96%	52.37%
52 Week Price Chg	29.60%	14.71%	-2.89%	43.55%	46.73%	2.41%
20 Day Average Volume	3,437,747	281,500	2,026,477	3,260,841	3,225,942	1,946,084
(F1) EPS Est 1 week change	1.26%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.86%	0.30%	0.15%	3.57%	-0.16%	0.60%
(F1) EPS Est 12 week change	-5.76%	-0.46%	-3.24%	8.65%	4.85%	-22.62%
(Q1) EPS Est Mthly Chg	6.75%	0.00%	0.00%	6.82%	-1.03%	-1.87%

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	A
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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