

# NAIC Mar 19<sup>th</sup> 2020 Meeting

New Stock Idea, Homebuilders

# Methodology Used

	A	B	C	D	E	F	G	H	I	J
1	Company	Symbol	Price	Growth	Proj P/E	Proj Yield	Fin Str	EPS Stab	Qty	PAR
2	Sudip's 1/31/21 List									
3	Alphabet (Google)	GOOGL	\$2,054.44	16.210%	36	0.0%	98%	98	99	15.6%
4	Alphabet (Google)	GOOG	\$2,066.49	16.210%	35	0.0%	98%	98	99	14.8%
5	NVIDIA Corp.	NVDA	\$527.65	17.713%	49	0.3%	96%	46	96	12.7%
6	Horton, DR	DHI	\$83.72	13.367%	11	1.0%	95%	57	96	12.4%
7	Meritage Homes	MTH	\$90.41	10.101%	10	0.0%	89%	73	88	12.2%
8	CBOE Global Markets	CBOE	\$104.80	7.562%	18	1.2%	94%	44	68	11.4%
9	Akamai Technologies	AKAM	\$99.99	8.425%	31	0.0%	91%	65	71	10.2%
10	Sprouts Farmers Market	SFM	\$24.81	9.206%	16	0.9%	40%	72	78	10.2%
11	Logitech Intl SA	LOGI	\$100.76	9.826%	23	1.0%	71%	37	86	8.8%
12	Costco Wholesale	COST	\$330.51	7.572%	32	0.9%	100%	90	87	8.2%
13	Comcast (A)	CMCSA	\$57.53	7.161%	16	1.5%	89%	92	94	7.7%
14	Dollar General	DG	\$194.10	8.287%	18	0.9%	96%	96	97	7.7%
15	LKQ Corp	LKQ	\$43.30	4.106%	13	0.0%	87%	99	91	3.5%

	Company	Symbol
Consumer Descretionary	Meritage Homes	MTH
Advertising	Alphabet (Google)	GOOGL
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Consumer Descretionary	Horton, DR	DHI
Consumer Staples	Sprouts Farmers Market	SFM
Semiconductors	NVIDIA Corp.	NVDA
Semiconductors	Taiwan Semi	TSM
Consumer Descretionary	Logitech Intl SA	LOGI
Consumer Staples	Dollar General	DG
Communication	American Tower	AMT
Consumer Staples	Costco Wholesale	COST
Consumer Descretionary	LKQ Corp	LKQ
		AKAM
		CBOE
		CMCSA
		CNXC
		INS
		NXST
		SJM
		SNA

1. We asked each team-member – what have you bought recently? What looks good?

- Sudip's replies above from late Jan in prep for Feb mtng (left)
- Good stock ideas, determined around 1/31 after our discussions (right)

# Methodology Used

	A	B	C	D	E	F	G	H	I	J
17	<b>Jim's 3/15/21 List</b>									
18	Adobe Systems	ADBE	\$447.59	15.321%	61	0.0%	94%	44	86.6	15.8%
19	Mercury Computer	MRCY	\$69.86	16.012%	28	0.0%	82%	49	95.2	15.7%
20	Axos Financial* [was BOI	AX	\$51.64	24.756%	13	0.0%	65%	93	94.7	15.5%
21	ASE Technology*	ASX	\$7.47	12.075%	14	3.1%	88%	75	78.9	14.6%
22	Universal Display	OLED	\$230.72	21.000%	66	0.4%	80%	49	95.4	14.4%
23	Tencent*	TCEHY	\$82.62	13.215%	60	0.2%	78%	85	85.9	14.0%
24	Monolithic Power	MPWR	\$341.64	16.473%	58	0.8%	71%	57	90.4	13.2%
25	Houlihan Lokey	HLI	\$68.22	12.269%	18	2.2%	100%	59	96.7	12.7%
26	PerkinElmer	PKI	\$126.63	9.984%	18	0.1%	93%	69	88.7	12.7%
27	AFLAC	AFL	\$52.14	10.782%	10.4	2.9%	93%	50	88.6	11.9%
28	UNUM Group	UNM	\$28.82	7.757%	7.5	3.5%	88%	88	88	11.9%
29	Globe Life	GL	\$101.18	13.538%	15	0.8%	99%	55	92.4	11.7%
30	MarketAxess	MKTX	\$525.41	15.732%	59	0.8%	82%	74	99.4	11.2%
31	Monster Beverage	MNST	\$89.31	11.491%	29	0.0%	84%	85	99.6	11.2%
32	Merck	MRK	\$76.23	5.365%	14	2.7%	87%	92	89.1	11.2%
33	Microsoft	MSFT	\$234.81	9.439%	35	1.2%	97%	93	95.8	10.9%
34	LCI Industries	LCII	\$146.31	11.071%	16	2.5%	94%	85	92.7	10.8%
35	Price T. Rowe	TROW	\$173.48	9.075%	18	2.9%	95%	77	97.4	10.6%
36	Lockheed Martin	LMT	\$346.41	6.006%	14	2.9%	95%	75	86.7	10.5%
37	Amerisource	ABC	\$113.86	6.867%	14	1.3%	42%	99	74.6	9.8%
38	Anthem	ANTM	\$342.81	8.090%	13	1.6%	88%	85	88.1	9.7%
39	Maximus	MMS	\$87.09	8.767%	19	1.3%	93%	93	94	9.5%
40	Thermo Fisher Sci	TMO	\$452.82	10.086%	26	0.6%	96%	63	83.8	9.1%
41	STERIS	STE	\$187.06	8.950%	27	1.0%	92%	79	86.8	8.9%
42	Check Point Software	CHKP	\$117.42	5.982%	19	0.0%	82%	100	95	7.9%

1. We asked each team-member – what have you bought recently? What looks good?
  - Jim's ideas, updated for PAR around 3/15

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2. In looking for industry we don't currently own & fits NAIC profile, homebuilders still look positive (~12% PAR; mypar—industry PAR in Manifest is about 5%)
3. While interest rates may go up, Fed likely to keep rates lower; historic lows
4. In post-WWI and WWII areas, many homes were built for years

# Methodology Used for Homebuilding

## Selection Process used

**Step 1** Idea = **Home Building**. It boomed after WWII and we are just getting out of another world war (with a virus)

**2** Ck related **Manifest Investing** screens for their ratings.

**3** Sort by **Quality**. Consider only companies with Quality = or > than 70. □

**4** Consider high **PAR and Financial Strength** = or > than 70.

**5** Ck **Value Line** and **S&P** opinions.

**6** Read Value Line, S&P and other reports.

**7** Do SSGs on top performers. □ □

# Various Building Industries Studied

## Discretionary: Residential Construction

Company	Symbol	Net Margin	Growth	Proj P/E	Price	Proj Yield	Fin Str	EPS Stab	Quality	PAR
Horton, DR	<a href="#">DHI</a>	11.0%	13.4%	11.0	\$82.68	1.0%	95%	57	96	12.6%
NVR	<a href="#">NVR</a>	11.7%	9.5%	17.0	\$4,421.85	0.0%	94%	65	93	9.8%
Meritage Homes	<a href="#">MTH</a>	7.7%	10.1%	10.0	\$86.68	0.0%	89%	73	88	13.2%
M/I Homes*	<a href="#">MHO</a>	8.0%	15.2%	6.6	\$54.65	0.0%	43%	77	79	15.6%
M.D.C. Holdings	<a href="#">MDC</a>	8.8%	12.9%	11.0	\$56.40	2.4%	47%	61	78	15.2%
LGI Homes*	<a href="#">LGIH</a>	13.7%	21.5%	9.8	\$141.01	0.0%	50%	88	76	17.2%
Cavco Industries*	<a href="#">CVCO</a>	9.0%	11.4%	20.9	\$217.00	0.0%	65%	62	74	11.8%
Legacy Housing*	<a href="#">LEGH</a>	17.3%	4.0%	11.7	\$16.35	0.0%	50%	81	73	0.6%
Toll Brothers	<a href="#">TOL</a>	7.0%	9.7%	11.0	\$53.89	1.1%	74%	53	72	7.9%
Lennar	<a href="#">LEN</a>	9.3%	5.4%	11.0	\$94.64	1.2%	69%	66	69	2.9%
Taylor Morrison	<a href="#">TMHC</a>	6.8%	11.3%	9.0	\$29.06	0.0%	81%	66	68	13.0%
Pulte Group	<a href="#">PHM</a>	10.9%	8.9%	11.0	\$48.25	1.1%	67%	29	67	12.1%
Century Communities*	<a href="#">CCS</a>	3.4%	18.5%	13.1	\$60.47	0.0%	50%	55	51	12.6%
Tri Pointe Group	<a href="#">TPH</a>	8.0%	8.0%	9.0	\$19.57	0.0%	58%	76	48	9.7%
Green Brick Partners*	<a href="#">GRBK</a>	10.8%	5.6%	9.0	\$22.49	0.0%	27%	63	47	1.5%
KB Home	<a href="#">KBH</a>	6.5%	10.1%	12.6	\$43.56	1.6%	25%	20	38	8.3%
Beazer Homes	<a href="#">BZH</a>	2.5%	3.9%	10.0	\$19.84	0.0%	3%	6	8	2.1%
New Home Company*	<a href="#">NWHM</a>	2.0%	-2.2%	12.6	\$5.55	0.0%	9%	19	1	-0.3%

# Various Building Industries Studied

## Materials: Building Materials

Company	Symbol	Net Margin	Growth	Proj P/E	Price	Proj Yield	Fin Str	EPS Stab	Quality	PAR
Eagle Materials	<a href="#">EXP</a>	17.1%	6.3%	17.0	\$131.35	0.5%	87%	58	86	4.5%
Martin Marietta	<a href="#">MLM</a>	14.2%	6.2%	28.0	\$339.79	0.8%	92%	49	79	5.1%
Vulcan Materials	<a href="#">VMC</a>	15.3%	6.8%	27.0	\$168.05	1.0%	70%	38	69	6.0%
MDU Resources	<a href="#">MDU</a>	8.3%	3.4%	15.0	\$30.92	1.8%	77%	86	68	7.0%
U.S. Lime & Minerals*	<a href="#">USLM</a>	12.9%	1.8%	24.0	\$144.00	1.0%	56%	96	58	-7.8%
James Hardie Industries*	<a href="#">JHX</a>	11.2%	9.9%	29.0	\$29.64	3.7%	50%	39	41	5.7%
US Concrete*	<a href="#">USCR</a>	1.4%	12.4%	15.0	\$62.39	0.0%	12%	24	21	-13.4%
Cemex SA de CV	<a href="#">CX</a>	8.2%	2.1%	9.2	\$6.89	0.0%	2%	22	14	2.0%
Summit Materials	<a href="#">SUM</a>	9.4%	4.3%	16.0	\$27.52	0.0%	39%	62	13	5.8%

# Various Building Industries Studied

Materials: Lumber & Wood Production										
Company	Symbol	Net Margin	Growth	Proj P/E	Price	Proj Yield	Fin Str	EPS Stab	Quality	PAR
Stella-Jones	<a href="#">SJ-TO</a>	7.7%	7.4%	19.1	\$49.26	1.0%	71%	86	74	9.2%
Universal Forest	<a href="#">UFPI</a>	4.8%	10.1%	16.0	\$71.28	0.8%	85%	52	73	9.3%
Stella-Jones	<a href="#">STLJF</a>	7.7%	7.4%	18.8	\$40.00	1.0%	34%	86	58	5.0%
Enviva Partners*	<a href="#">EVA</a>	7.5%	18.2%	16.0	\$49.42	8.0%	13%	55	48	21.1%



# S&P Report Highlights DHI

Source: CFRA, S&P Global Market Intelligence

Past performance is not an indication of future performance and should not be relied upon as such.

Analysis prepared by **Kenneth Leon** on Jan 26, 2021 02:30 PM ET, when the stock traded at **USD 77.85**.

## Highlights

- ▶ We forecast 20% to 25% revenue growth in FY 21 (Sep.) with Covid-19 impact favorable for homebuilding. As one of the largest homebuilders, we think DHI has greater access to and lower cost of capital with a large balance sheet. Scale economies are evident in purchasing with volume discounts and rebates from materials suppliers and lower labor rates from subcontractors. Another benefit of scale is spreading fixed costs like general and administrative expenses over a larger footprint of new communities.
- ▶ In Q1 FY 21, new order value rose 62% with backlog value of \$8.9 billion (up 111%). A bullish sign is that DHI has accelerated the pace of home starts across most of its communities to ensure DHI has an adequate number of homes available for sale in each community to meet demand. In FY 21, DHI expects to generate total revenues in a range of \$25.2-\$25.8 billion, and to close 80,000-82,000 homes.
- ▶ DHI reported Q1 FY 21 EPS of \$2.14, a \$0.66 beat to our estimate. DHI's gross profit margin was 25.6%, up 900 basis points versus same quarter a year ago. Pretax margins widened 440 bps to 17.4% Y/Y. The company has total available inventory of 440,700 lots (28% owned and 72% optioned).

## Investment Rationale/Risk

- ▶ Our Strong Buy rating is based on higher earnings expectations for FY 21 and FY 22, as we believe DHI can outperform peers with the largest scale for affordable, entry-level homes. Changing buyer behavior favors DHI's profile of building high volume, affordable entry-level homes. We are witnessing a secular shift in the housing market to single-family homes from high rise rentals by millennial households, in our view. We like DHI's community profile in Sun Belt markets, and we believe DHI has proven business model to effectively manage a higher mix of speculative built homes.
- ▶ Risks to our rating include prolonged recession, weaker demand from Covid-19 impact, and lower consumer confidence.
- ▶ On January 26, we raised our target \$9 to \$99, using forward P/E of 11.3x our FY 21 (Sep.) earnings estimate, just below the 5-year historic average at 11.5x, driven by our higher earnings outlook. As we see strong demand and momentum in DHI's selling communities, we raised our FY 21 EPS \$1.00 to \$8.80 and FY 22's \$1.15 to \$9.50 a share. Total liquidity was nearly \$4 billion at December 31, 2020 that includes \$2.1 billion in cash and cash equivalents and \$1.8 billion in unused credit revolver facility.

# Valueline Report

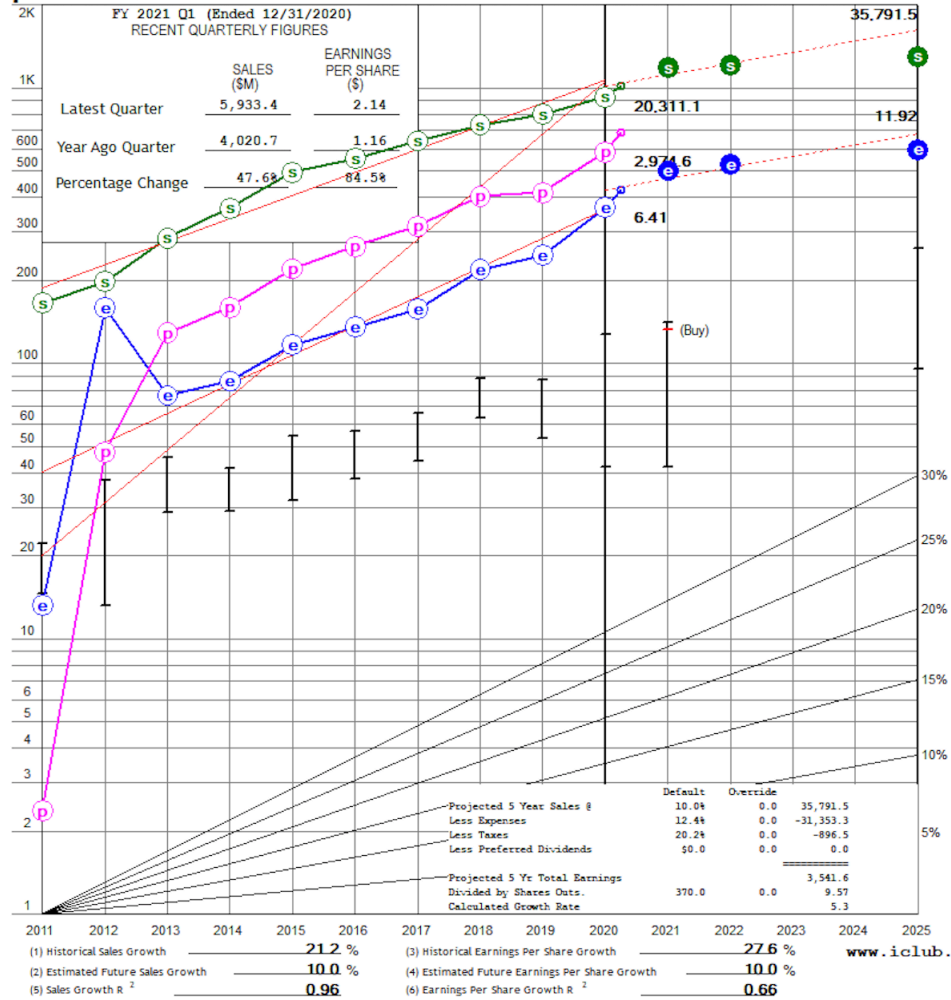
<b>D.R. HORTON, INC. NYSE-DHI</b>				RECENT PRICE	80.51	P/E RATIO	9.4	(Trailing: 10.9 Median: 13.0)	RELATIVE P/E RATIO	0.44	DIV'D YLD	1.0%	VALUE LINE	1127					
<b>TIMELINESS</b> 2 Lowered 2/26/21	High: 15.4	13.5	22.8	27.7	25.9	33.1	34.6	51.8	53.3	56.1	81.2	84.4							
<b>SAFETY</b> 3 Raised 4/1/11	Low: 9.4	8.0	12.7	17.5	19.3	22.1	23.0	27.2	32.4	34.1	25.5	64.3	<b>Target Price</b>	<b>Range</b>					
<b>TECHNICAL</b> 3 Raised 3/5/21	<b>LEGENDS</b> — 10.0 x "Cash Flow" p sh .... Relative Price Strength Options: Yes Shaded area indicates recession												2024	2025	2026				
<b>BETA</b> 1.15 (1.00 = Market)													120	100	80				
<b>18-Month Target Price Range</b>													64	48					
<b>Low-High Midpoint (% to Mid)</b>													32						
\$52-\$139 \$96 (20%)													24						
<b>2024-26 PROJECTIONS</b>													20						
Price Gain Ann'l Total													16						
High 110 (+35%) 9%													12						
Low 70 (-15%) -2%													8						
<b>Institutional Decisions</b>													<b>% TOT. RETURN 2/21</b>						
202020 3Q2020 4Q2020													THIS STOCK	VL ARITH. INDEX					
to Buy 350 365 423													1 yr. 45.9	50.1					
to Sell 388 379 377													3 yr. 90.0	45.4					
Hld's(000) 301689 299601 292669													5 yr. 204.9	108.8					
Percent shares traded	60	40	20																
2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	© VALUE LINE PUB. LLC	24-26
44.30	48.05	35.87	20.99	11.52	13.80	11.51	13.57	19.38	22.01	29.36	32.60	37.58	42.70	47.75	55.80	72.20	74.65	Sales per sh <sup>A</sup>	82.60
4.87	4.12	d2.06	d8.15	d1.65	.82	.29	.76	1.51	1.57	2.18	2.54	2.92	4.33	4.59	6.74	8.95	9.25	"Cash Flow" per sh	9.45
4.62	3.90	d2.27	d8.34	d1.73	.77	.23	.73	1.33	1.50	2.03	2.36	2.74	4.09	4.29	6.41	8.60	8.85	Earnings per sh <sup>A B</sup>	9.00
.31	.44	.60	.45	.15	.15	.15	.15	.19	.14	.25	.32	.40	.50	.60	.70	.80	.84	Div'ds Decl'd per sh <sup>C</sup>	1.04
.22	.27	.13	.02	.02	.06	.05	.10	.18	.27	.15	.23	.42	.37	.61	.79	.75	.70	Cap'l Spending per sh	80.85
17.13	20.60	17.74	8.95	7.53	8.20	8.29	11.19	12.57	14.03	15.99	18.21	20.66	23.88	27.20	32.53	39.80	47.55	Book Value per sh	75.05
312.94	313.25	314.91	316.66	317.48	318.82	316.04	320.89	322.94	364.59	368.65	372.92	374.99	376.26	368.43	364.00	360.00	355.00	Common Shs Outst'g <sup>D</sup>	345.00
6.9	7.7	--	--	--	15.1	49.3	20.8	16.3	14.4	13.0	12.9	11.8	11.0	9.7	8.6	8.6	8.6	Avg Ann'l P/E Ratio	10.0
.37	.42	--	--	--	.96	3.09	1.32	.92	.76	.65	.68	.59	.59	.52	.44	.44	.44	Relative P/E Ratio	.55
1.0%	1.5%	2.7%	3.4%	1.6%	1.3%	1.3%	1.0%	.9%	.6%	.9%	1.1%	1.2%	1.1%	1.4%	1.3%	1.3%	1.3%	Avg Ann'l Div'd Yield	1.0%
<b>CAPITAL STRUCTURE as of 12/31/20</b>				3636.8	4354.0	6259.3	8024.9	10824	12157	14091	16068	17593	20311	26000	26500	Sales (\$mill) <sup>A</sup>	28500		
<b>Total Debt</b> \$4225.6 mill. <b>Due in 5 Yrs</b> \$3861 mill.				2.1%	6.1%	10.6%	10.3%	10.7%	11.5%	11.6%	12.8%	12.0%	14.6%	16.0%	15.5%	Operating Margin	14.0%		
<b>LT Debt</b> \$3256.5 mill. <b>LT Interest</b> \$130.0 mill.				19.9	18.8	22.7	38.4	54.1	61.1	54.7	62.4	72.0	80.4	85.0	80.4	Depreciation (\$mill)	100		
(Total Interest Coverage: over 25.0X)				71.8	224.3	464.4	533.8	750.7	886.3	1038.4	1567.9	1618.5	2373.7	3140	3185	Net Profit (\$mill)	3155		
(21% of Cap'l)				--	7.7%	29.7%	34.5%	33.2%	34.5%	35.2%	23.8%	23.8%	20.2%	24.0%	23.0%	Income Tax Rate	23.0%		
<b>Leases, Uncapitalized Annual rentals</b> \$17.4 mill.				2.0%	5.2%	7.4%	6.7%	6.9%	7.3%	7.4%	9.8%	9.2%	11.7%	12.1%	12.0%	Net Profit Margin	11.1%		
<b>No Defined Benefit Pension Plan</b>				3394.6	4226.4	5687.1	6613.1	7278.5	7810.6	8323.2	9592.3	10259	11948	12750	14350	Working Cap'l (\$mill)	18700		
<b>Pfd Stock None</b>				1588.1	2305.3	3270.4	3323.6	3333.6	2798.3	2451.6	2565.8	2510.5	3150.7	3250	3750	Long-Term Debt (\$mill)	5500		
<b>Common Stock</b> 363,702,712 shs.				2620.6	3592.1	4058.5	5115.8	5894.3	6792.5	7747.1	8984.4	10021	11840	14335	16885	Shr. Equity (\$mill)	21470		
<b>as of 1/20/21</b>				2.8%	4.7%	7.2%	7.3%	8.9%	9.9%	10.7%	14.0%	13.3%	16.2%	18.0%	16.0%	Return on Total Cap'l	11.0%		
<b>MARKET CAP: \$29.3 billion (Large Cap)</b>				2.7%	6.2%	11.4%	10.4%	12.7%	13.0%	13.4%	17.5%	16.2%	20.0%	22.0%	19.0%	Return on Shr. Equity	13.0%		
<b>CURRENT POSITION</b> 2019 2020 12/31/20				.9%	4.9%	10.0%	9.5%	11.2%	11.3%	11.5%	15.4%	13.9%	17.9%	20.0%	17.0%	Retained to Com Eq	11.5%		
<b>(SMILL.)</b>				67%	21%	13%	9%	12%	13%	14%	12%	14%	11%	9%	All Div'ds to Net Prof	12%			

# Valueline

MARKET CAP: \$29.3 billion (Large Cap)					.9%	4.9%	10.0%	9.5%	11.2%	11.3%	11.5%	15.4%	13.9%	17.9%	20.0%	17.0%	Retained to Com Eq	11.5%	
CURRENT POSITION	2019	2020	12/31/20		67%	21%	13%	9%	12%	13%	14%	12%	14%	11%	9%	9%	All Div'ds to Net Prof	12%	
<b>(SMILL.)</b>																			
Cash Assets	1514.0	3040.1	2474.9																
Receivables	--	--	--																
Inventory <sup>E</sup>	11282.0	12237.4	13576.5																
Other	263.8	310.2	347.4																
Current Assets	13059.8	15587.7	16398.8																
Accts Payable <sup>F</sup>	1912.1	2507.5	2784.5																
Debt Due	888.9	1132.6	969.1																
Current Liab.	2801.0	3640.1	3753.6																
<b>ANNUAL RATES</b>																			
Past of change (per sh)	10 Yrs.	Past 5 Yrs.	Est'd '18-'20 to '24-'26																
Sales	12.0%	15.5%	9.0%																
"Cash Flow"	--	24.5%	10.5%																
Earnings	--	25.0%	10.5%																
Dividends	9.0%	25.5%	9.5%																
Book Value	13.0%	14.5%	16.5%																
<b>Fiscal Year Ends</b>																			
<b>QUARTERLY SALES (\$ mill.)<sup>A</sup></b>																			
	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year														
2018	3332.9	3794.7	4435.3	4505.1	16068.0														
2019	3519.0	4128.7	4906.3	5038.9	17592.9														
2020	4020.7	4500.0	5390.0	6400.4	20311.1														
2021	5933.4	6150	6700	7216.6	26000														
2022	6100	6300	6800	7300	26500														
<b>Fiscal Year Ends</b>																			
<b>EARNINGS PER SHARE<sup>A B</sup></b>																			
	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year														
2018	.78	.91	1.18	1.22	4.09														
2019	.76	.93	1.26	1.34	4.29														
2020	1.16	1.30	1.72	2.24	6.41														
2021	2.14	2.15	2.30	2.01	8.60														
2022	2.05	2.10	2.25	2.45	8.85														
<b>Cal-endar</b>																			
<b>QUARTERLY DIVIDENDS PAID<sup>C</sup></b>																			
	Mar.31	Jun.30	Sep.30	Dec.31	Full Year														
2017	.10	.10	.10	.125	.43														
2018	.125	.125	.125	.15	.53														
2019	.15	.15	.15	.175	.63														
2020	.175	.175	.175	.20	.73														
2021	.20																		
<b>BUSINESS:</b> D.R. Horton, Inc. and its subsidiaries are engaged primarily in the construction and sale of single-family homes. Operates in 88 markets in 29 states, under the names of D.R. Horton, Emerald Homes, Express Homes, Freedom Homes, and Pacific Ridge Homes. It also provides mortgage financing and title services. Homes range in size from 1,000 to over 4,000 square feet, in price from \$150,000 to more than \$1,000,000. Sold 65,388 homes at an avg. price of \$299,100 in fiscal 2020. Has about 9,715 empls. Horton Family & Affiliates owns 7.8% of common stock; off./dir. less than 1%; The Vanguard Group, 10.6% (12/20 Proxy). CEO & Pres.: David V. Auld. Inc.: DE. Addr.: 1341 Horton Circle, Arlington, TX 76011. Tel.: 817-390-8200. Internet: www.drhorton.com.																			
<b>D.R. Horton got off to a superb start in fiscal 2021 (year ends September 30th).</b> The Texas-based homebuilder posted December-quarter earnings of \$2.14 a share, on an impressive 48% revenue advance. The bottom-line figure far exceeded our estimate of \$1.70 a share and was nearly 85% above the previous-year tally. The primary catalyst was a 45% jump in the number of homes sold, and it is worth noting that the value of those sales contracts were at a higher average price. D.R. Horton, like most of its homebuilding peers, is benefiting from pent-up demand pushed back from the coronavirus-driven shutdowns last spring, an overall short supply of new properties, and historically low lending rates.																			
<b>We expect the good times to continue over the next few years.</b> In fact, new home orders and the backlog of homes under construction were up an eye-popping 56% and 107%, respectively, in the fiscal first quarter. This, along with some of the positive aforementioned industry dynamics, augurs well for revenue and earnings visibility over the next six to 12 months. We also think that D.R. Horton, given its immense size compared to its competitors, has the ability to negotiate more favorable land, labor, and raw materials deals than most homebuilders. This may be a noteworthy competitive advantage, especially as lumber prices and the costs of other construction materials are on the rise in recent months and may continue to be over the coming quarters. Based on these assumptions, we are raising our fiscal 2021 earnings call by \$0.75, to \$8.60 a share, which would represent a roughly 40% climb. <b>The homebuilder's finances are in great shape.</b> At the start of calendar 2021, D.R. Horton had nearly \$2.5 billion of cash on its balance sheet and a low debt-to-total capital ratio of 21%. This gives management the financial might to pounce if any attractive land deals or acquisition opportunities arise that would enhance DHI's diverse product portfolio. <b>These shares are ranked 2 (Above Average) for Timeliness.</b> That said, the rally in price since last year's COVID-19-driven selloff discounts a good deal of the earnings growth we envision to 2024-2026. <i>William G. Ferguson March 19, 2021</i>																			
<b>(A)</b> Fiscal year ends Sept. 30th. <b>(B)</b> Dil. egs. Excl. nonrec. gains (losses): '18, (28¢). Quarterly egs. may not sum to total due to change in shr. count. '12 excludes a one-time tax benefit of \$2.04 a share. Next egs. report due late April. <b>(C)</b> Div'ds recently paid in early March, mid-May, late August, and mid-December. <b>(D)</b> In millions, adjusted for stock splits. <b>(E)</b> Specific identification. <b>(F)</b> Includes accrued expenses.																			
<b>Company's Financial Strength</b>					A+														
<b>Stock's Price Stability</b>					50														
<b>Price Growth Persistence</b>					90														
<b>Earnings Predictability</b>					85														

# SSG, DHI

## 1 Growth Analysis



## 2 QUALITY ANALYSIS

Company: D\_R\_Horton (DHI) 03/12/21

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	5 YEAR AVG.	TREND UP/DOWN
A % Pre-tax Profit on Sales	0.3	5.6	10.5	10.1	10.4	11.1	11.4	12.8	12.1	14.6	12.4	UP
B % ROE (Avg.)		28.9	11.6	11.7	14.1	14.4	14.7	17.9	17.5	22.7	17.4	UP
C % LT Debt to Equity	64.5	63.9	79.5	73.7	67.5	49.9	38.2	36.6	34.4	38.4	39.5	DOWN

## 3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

CURRENT PRICE (P/E) **80.69 (10.9)** 52-WEEK HIGH (P/E) **85.00 (11.5)** 52-WEEK LOW (P/E) **25.51 (3.4)**

Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield
1 2016	34.6	23.0	2.36	14.7	9.7	0.320	13.6	1.4
2 2017	40.0	26.7	2.74	14.6	9.7	0.400	14.6	1.5
3 2018	53.3	38.6	3.81	14.0	10.1	0.500	13.1	1.3
4 2019	53.1	32.4	4.29	12.4	7.6	0.600	14.0	1.9
5 2020	77.5	25.5	6.41	12.1	4.0	0.700	10.9	2.7
6 AVERAGE		29.2		13.3	7.8		13.2	
AVERAGE P/E RATIO	10.9	10.6	PROJECTED P/E RATIO	9.9	TTM EPS	7.40		
CURRENT P/E RATIO	10.9	PEG RATIO	1.0	FTM EPS	8.14			
RELATIVE VALUE	100.0%	103.3%	PROJ. RELATIVE VALUE	90.9%	94.0%	AVG TTM + FTM EPS	7.77	

## 4 EVALUATING REWARD AND RISK for the next 5 years

**A FUTURE HIGH PRICE ANALYSIS - NEXT 5 YEARS**  
 Selected High P/E **13.3** X Estimated High Earnings/Share **11.92** = Forecast High Price \$ **158.5**

**B FUTURE LOW PRICE ANALYSIS - NEXT 5 YEARS**  
 (a) Sel. Low P/E **7.8** X Estimated Low Earnings/Share **6.41** = \$ **57.7**  
 (b) Average 5-Year Low Price = **29.2**  
 (c) Recent Severe Low Price = **25.5**  
 (d) Price Dividend Will Support = Present Divd. + High Yield = **0.80 + 0.027 = 29.1**  
 Selected Estimated Low Price = \$ **57.7**

**C PRICE RANGES**  
 Forecast High Price **158.5** - Estimated Low Price **57.7** = Range **100.8** 25% of Range = **25.2**

BUY (Lower 25% of Range) = **57.7** to **82.9**  
 MAYBE (Middle 50% of Range) = **82.9** to **133.3**  
 SELL (Upper 25% of Range) = **133.3** to **158.5**

Current Price **80.69** is in the **Buy** Range

**D REWARD/RISK ANALYSIS (Potential Gain vs. Risk of Loss)**  
 (Forecast High Price **158.5** - Current Price **80.69**) / (Current Price **80.69** - Estimated Low Price **57.7**) = **3.4** To 1

## 5 TOTAL RETURN ANALYSIS

**A CURRENT YIELD**  
 Present Full Year's Dividend \$ **0.800** + Current Price of Stock \$ **80.69** = **1.0%** Present Yield or % Returned on Purchase Price

**B AVERAGE YIELD - USING FORECAST HIGH P/E**  
 Avg. % Payout **13.2** + Forecast High P/E **13.3** = Avg. Yield **1.0**

**AVERAGE YIELD - USING FORECAST AVERAGE P/E**  
 Avg. % Payout **13.2** + Forecast Avg P/E **10.6** = Avg. Yield **1.3**

**C % COMPOUND ANNUAL TOTAL RETURN - USING FORECAST HIGH P/E**  
 Average Yield **1.0** % + Annual Appreciation **14.5** % = Compound Annual Total Return **15.4** %

**D % PROJECTED AVERAGE TOTAL RETURN - USING FORECAST AVERAGE P/E**  
 Average Yield **1.3** % + Annual Appreciation **9.3** % = Projected Average Total Return **10.5** %

# DR Horton Business Summary, S&P

## D.R. Horton, Inc.

**Business Summary** Jan 26, 2021

**CORPORATE OVERVIEW.** D.R. Horton was founded in 1978. It went public in 1992 to gain broader access to capital markets, which has helped fuel its subsequent growth beyond its base in the Dallas/Fort Worth area. With operating divisions in 29 states and 90 metropolitan markets, D.R. Horton is one of the largest domestic builder by number of homes closed in FY 20 (September), and the most geographically diversified.

**CORPORATE STRATEGY.** DHI targets the broadest segments of the population. DHI's starter homes are among the most affordable of all public builders. As one of the largest builders in many of the markets in which it operates, we believe this provides DHI with benefits that may not be available to smaller to midsize peers. We think DHI has greater access to and lower cost of capital with a large balance sheet and lower cost of capital. Scale economies are evident in purchasing with volume discounts and rebates from materials suppliers and lower labor rates sometimes from certain subcontractors. Another benefit of scale is spreading fixed costs like general and administrative expenses over a larger footprint with one of the most new home communities.

**COMPETITIVE LANDSCAPE.** The homebuilding industry is highly competitive, especially during housing downturns. DHI competes in each of its markets with numerous other national, regional and local builders for homebuyers. In the recent housing downturn, competition among builders greatly intensified, especially as to pricing and incentives, as builders attempt to maximize sales volume despite the slowdown in housing demand.

Near term, we think that housing market conditions will continue to grow, and mortgage finance lending with low rates is favorable for new and existing homebuyers. We think pricing will continue to improve in 2021, with some concerns on household affordability in select markets. The pace of new orders unit growth remains strong for DHI with a presence in mostly Sunbelt states, while those builders with a concentrated presence in the CA markets and Seattle are seeing higher average selling pricing more than new unit orders contribute to revenue growth.

**MARKET PROFILE.** While significant changes in market conditions may influence market trends and seasonal patterns, DHI generally closes more homes and generates greater revenues and operating income in Q3 and Q4 of its fiscal year. Again, this is factored in our FY 21 and FY 22 quarterly earnings estimates. The seasonal nature of the business can also cause variations in working capital requirements in both homebuilding and financial services operations. As a result of seasonal activity, we take a broader view of DHI's performance beyond a given quarter that sometimes is not representative of normalized results.

**IMPACT OF MAJOR DEVELOPMENTS.** On June 29, 2017, DHI announced a cash purchase of Forestar Group at \$17.75 a share for a 75% equity ownership interest in one of the largest U.S. land developers. This was a competing bid after FOR agreed to sell to Starwood Capital Group in April 2017. DHI ended up paying a higher premium than its initial bid for about \$520 million to make the offer much greater than Starwood's offer. In October 2017, the company used cash on hand to purchase 75% of the outstanding shares of Forestar for \$558.3 million.

# Industry Outlook, S&P → Favorable

## Sub-Industry Outlook

Our outlook is positive, as families living in high-rise condos or apartment rentals seek single-family homes. Normally, the winter months are the quiet period for homebuilding hibernating until the industry kicks off the spring selling season. We think the pandemic has sparked a multi-year secular shift to a new normal in housing from expensive urban living to the suburbs. In December, market data shows vibrant customer traffic, higher new orders, and rising contract backlog values. The question is whether the industry can keep up with demand.

During the fourth quarter of 2020, U.S. housing economic data has shown continued strength in new housing sales, housing starts and permits, as well as home deliveries, surprising even homebuilders with the current market strength. We think the new normal in housing will lead to higher order growth and backlog value during the slow months ahead. Most homebuilders have an order backlog that can produce solid home deliveries in 2021.

On December 16, the NAHB/Wells Fargo Housing Market Index (HMI), a monthly survey of homebuilders, dipped to 86, down 4 points from November, which marked the 12-month high. The HMI was as low as 30 in April and 37 in May; a reading below 50 is viewed to be negative. Homebuilders need new selling communities to replace those that are being quickly completed. We think most builders are in negotiations with land developers to reaccelerate lot delivery. To manage and control the pace of building homes, homebuilders are raising pricing.

So far, the supply chain has not been impaired by the coronavirus, but we think input costs may rise further on lumber and building material like copper piping or roofing material. Lumber costs, which have risen twofold in 2020, are being passed on as higher new home selling prices. Large homebuilders do not have risks with skilled labor since they benefit from large subcontractor contracts.

what can go wrong with one of the strongest housing markets in the last 30 years. Since the March trough from Covid-19, consumer confidence, the stock market, and job employment have risen, which boosted homebuyer demand. In 2021, mortgage rates are likely to stay near record lows, evidenced by 30-year fixed rate mortgages in the 2.8% to 3.0% range.

Homebuilders best positioned to entry-level and first move up customers are likely to outpace their peers. A secular demand story is taking hold with millennials, the largest population segment at 42%, with a median age of 36, according to Zillow. Millennial households with two-wage earners and a growing family need more space than multifamily rentals.

U.S. geography for the housing market may often vary by region. The South and West regions are the traditional growth markets for new homes, with nearly 80% of total single unit housing permits issued. The Southeast and Southwest are the sweet spots for new builds with abundant available land, high job growth, and population migration. CA markets and Seattle have cost of living risks with household incomes that can't keep up with rising home prices. Scarcity along coastal areas keeps new home prices elevated, but contract orders have been strong for new selling communities.

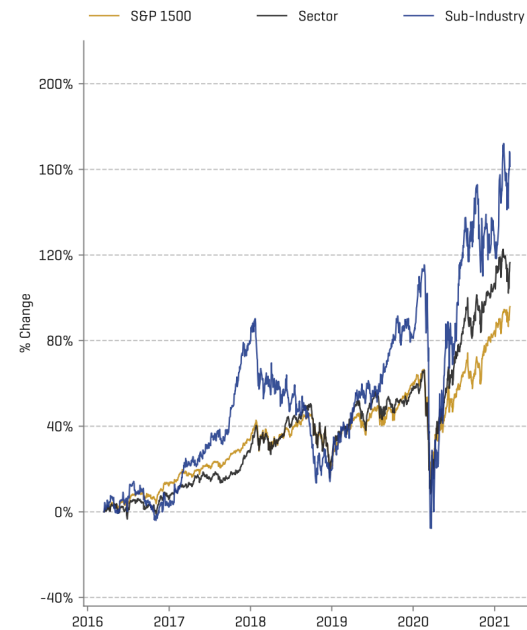
In 2020, the homebuilding sub-industry rose 23.9% versus the S&P 1500 up 15.8%. In 2019, the sub-industry rose 52.0% versus the S&P 1500 up 28.3%.

/ Kenneth Leon

## Industry Performance

**GICS Sector: Consumer Discretionary**  
**Sub-Industry: Homebuilding**

Based on S&P 1500 Indexes  
Five-Year market price performance through Mar 13, 2021



NOTE: A sector chart appears when the sub-industry does not have sufficient historical index data.  
All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS).  
Past performance is not an indication of future performance and should not be relied upon as such.

Source: CFRA, S&P Global Market Intelligence

# S&P, 1/26/21 Update; High EPS; Large Growth

## D.R. Horton, Inc.

### Analyst Research Notes and other Company News

#### January 26, 2021

10:31 AM ET... CFRA Reiterates Strong Buy Opinion on Shares of D.R. Horton, Inc. [DHI 79.71\*\*\*\*\*]:

We raise our target \$9 to \$99, using forward P/E of 11.3x our FY 21 [Sep.] earnings estimate, just below the 5-year historic average at 11.5x, driven by our higher earnings outlook. As we see strong demand and momentum in DHI's selling communities, we raise our FY 21 EPS \$1.00 to \$8.80 and FY 22's \$1.15 to \$9.50 a share. DHI reported Q1 FY 21 EPS of \$2.14, a \$0.66 beat to our estimate. Pretax margins widened 440 bps to 17.4% Y/Y. As the largest U.S. home builder, DHI is focused on offering affordable, entry-level homes. We are seeing strong housing demand through the seasonally slow winter period with the secular shift to single-family home ownership. In Q1 FY 21, DHI was well positioned for higher demand and customer traffic, realizing new order value at \$8.9 billion, up 111%, and order units up 107%. In FY 21, DHI is targeting up to 82,000 homes delivered and estimated revenue of \$25.8 billion, or 27% growth. The company has total available inventory of 440,700 lots [28% owned and 72% optioned]. / Kenneth Leon

# S&P Report Highlights DHI

Source: CFRA, S&P Global Market Intelligence

Past performance is not an indication of future performance and should not be relied upon as such.

Analysis prepared by **Kenneth Leon** on Jan 29, 2021 11:58 AM ET, when the stock traded at **USD 81.39**.

## Highlights

- ▶ We forecast total revenue growth of 23% to 25% in 2021, as most markets realized strong entry-level and move-up homebuyer demand. In Q4 2020, net order value rose 51%, while average selling price (ASP) declined 4% to \$376,000. Ending backlog value was \$1.8 billion, up 65% versus a year ago.
- ▶ We expect MTH to have 80% of its total communities dedicated to entry-level homes by the end of 2021. Entry level homes were 72% of total orders versus 24% move-up homes and 4% other in Q4 2020. AZ, CA, and TX remain key markets in the quarter that we thought would level off, but accelerated further in Q4 2020. All regions showed positive new order values, with the West up 39% (38% of total revenue), followed by Texas +46% (28%), and East +73% (34%).
- ▶ With \$506 million in land acquisitions in Q4 2020, we think MTH can reach its target of adding new selling communities. MTH ended Q4 with 195 communities. MTH is targeting 235-250 selling communities that could produce up to \$4.6 billion in 2021 total home sales. We see the gross margin in 22%-23% range vs. 24% in Q4 2020. Fewer incentives on new homes widened margins, and the Q4 2020 gross margin was best margin since 2006, despite rising costs of lumber.

## Investment Rationale/Risk

- ▶ We think MTH's fundamental outlook remains strong for higher growth, even though the share price corrected in January. MTH has created an attractive business model geared to selling entry-level homes in Sun Belt markets. We forecast MTH can expand selling communities, which will likely boost second half results in 2021. MTH has been able to take advantage of the market opportunity of millennial households seeking single-family homes. Affordability with record low mortgage rates near 3.0% has enabled MTH to realize significant homebuyer demand and new orders.
- ▶ Risks to our recommendation include severe recession, prolonged high unemployment, and lower household income that sharply hurts housing demand.
- ▶ On January 28, we lowered our target by \$5 to \$115 on forward P/E of 9.7x, below the company's 5-year historic rate at 10.0x. We reduced our 2021 EPS estimate by \$0.15 to \$11.85 and introduced 2022's at \$13.25. MTH reported Q4 2020 EPS of \$3.97, a \$0.61 beat to consensus. Covid-19 is the catalyst for a secular shift to owning single-family homes -- a multiyear trend, in our view, coming from millennials seeking MTH's entry-level or first move-up home categories in the Sun Belt.



# Valueline Report

<b>MERITAGE HOMES NYSE-MTH</b>				RECENT PRICE	88.15				P/E RATIO	7.3 (Trailing: 8.0 Median: 11.0)				RELATIVE P/E RATIO	0.34		DIV'D YLD	Nil	VALUE LINE	1131			
<b>TIMELINESS</b> 3	Lowered 12/11/20			High:	25.4	27.4	42.6	52.9	50.3	49.9	41.2	55.5	54.9	76.8	117.1	97.9			<b>Target Price Range</b>	2024	2025	2026	
<b>SAFETY</b> 3	New 6/28/13			Low:	15.2	13.7	23.2	37.8	32.4	31.7	25.5	33.4	32.0	36.0	25.2	78.0							
<b>TECHNICAL</b> 3	Lowered 3/19/21			<b>LEGENDS</b>																			
<b>BETA</b> 1.35	(1.00 = Market)			12.0 x "Cash Flow" p sh																			
				Relative Price Strength																			
				Options: Yes																			
				Shaded area indicates recession																			
<b>18-Month Target Price Range</b>																							
<b>Low-High</b>		<b>Midpoint (% to Mid)</b>																					
\$48-\$146		\$97 (10%)																					
<b>2024-26 PROJECTIONS</b>																							
	<b>Price</b>	<b>Gain</b>	<b>Ann'l Total Return</b>																				
<b>High</b>	190	(+115%)	21%																				
<b>Low</b>	125	(+40%)	9%																				
<b>Institutional Decisions</b>																							
	2Q2020	3Q2020	4Q2020																				
<b>to Buy</b>	131	143	152																				
<b>to Sell</b>	129	139	146																				
<b>Hlds(000)</b>	36543	37113	36894																				
	Percent shares traded																						
	90																						
	60																						
	30																						
<b>% TOT. RETURN 2/21</b>																							
	THIS STOCK	VLARITH. INDEX																					
1 yr.	32.9	50.1																					
3 yr.	98.8	45.4																					
5 yr.	159.7	108.8																					
© VALUE LINE PUB. LLC 24-26																							
<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	© VALUE LINE PUB. LLC 24-26					
110.43	132.39	89.27	49.62	30.49	29.30	26.51	33.52	50.07	55.42	64.74	75.67	80.01	92.28	95.56	119.49	<b>136.80</b>	<b>148.55</b>	<b>Revenues per sh</b>	<b>164.30</b>				
10.79	9.53	2.56	d9.00	d2.00	.54	d.43	3.18	3.71	3.93	3.60	4.13	3.97	6.68	7.27	12.12	<b>12.80</b>	<b>13.65</b>	<b>"Cash Flow" per sh</b>	<b>15.20</b>				
9.59	8.32	1.97	d9.95	d2.31	.29	d.65	3.00	3.25	3.46	3.09	3.55	3.43	5.58	6.42	11.00	<b>11.85</b>	<b>12.35</b>	<b>Earnings per sh<sup>A</sup></b>	<b>13.20</b>				
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	<b>Nil</b>	<b>Nil</b>	<b>Div'd Decl'd per sh</b>	<b>Nil</b>			
31.31	38.51	27.81	17.17	15.26	15.56	15.05	19.49	23.21	28.34	31.74	35.51	39.10	45.20	51.68	62.59	<b>68.75</b>	<b>74.30</b>	<b>Book Value per sh</b>	<b>83.55</b>				
27.18	26.14	26.25	30.70	31.82	32.14	32.49	35.61	36.24	39.15	39.67	40.03	40.33	38.07	38.20	37.51	<b>36.00</b>	<b>35.00</b>	<b>Common Shares Outst'g<sup>B</sup></b>	<b>35.00</b>				
7.3	6.1	13.4	--	--	NMF	--	10.7	13.5	11.8	13.3	9.8	12.2	7.8	8.8	7.0	<i>Bold figures are Value Line estimates</i>		<b>Avg Ann'l P/E Ratio</b>	<b>12.0</b>				
.39	.33	.71	--	--	NMF	--	.68	.76	.62	.67	.51	.61	.42	.47	.36			<b>Relative P/E Ratio</b>	<b>.65</b>				
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--			<b>Avg Ann'l Div'd Yield</b>	<b>Nil</b>				
<b>CAPITAL STRUCTURE as of 12/31/20</b>						861.2	1193.7	1814.7	2169.6	2568.1	3029.2	3226.8	3513.4	3650.5	4482.1	<b>4925</b>	<b>5200</b>	<b>Revenues (\$mill)</b>	<b>5750</b>				
<b>Total Debt \$997.0 bill. Due in 5 Yrs \$522 mill.</b>						2.8%	5.5%	9.9%	9.4%	7.9%	6.9%	7.4%	7.8%	8.6%	12.1%	<b>12.0%</b>	<b>12.0%</b>	<b>Operating Margin</b>	<b>12.5%</b>				
<b>LT Debt \$9967.0 mill. LT Interest None<sup>D</sup></b>						--	--	30.0%	31.8%	32.1%	31.4%	42.1%	19.7%	17.6%	20.6%	<b>21.0%</b>	<b>21.0%</b>	<b>Income Tax Rate</b>	<b>21.0%</b>				
<b>(30% of Cap'l)</b>						d21.1	105.2	124.5	142.2	128.7	149.5	143.3	227.3	249.7	423.5	<b>425</b>	<b>435</b>	<b>Net Profit (\$mill)</b>	<b>460</b>				
<b>Leases, Uncapitalized: Annual rentals \$8.6 mill.</b>						NMF	8.8%	6.9%	6.6%	5.0%	4.9%	4.4%	6.5%	6.8%	9.4%	<b>8.7%</b>	<b>8.3%</b>	<b>Net Profit Margin</b>	<b>8.0%</b>				
<b>No Defined Benefit Pension Plan</b>						730.3	1035.4	1334.1	740.8	902.1	1288.1	1129.2	1820.1	1372.1	1313.7			<b>Homes Inventory (\$mill)</b>					
<b>Pfd Stock None</b>						85.1	77.8	71.2	1136.8	1196.2	1134.0	1602.2	910.9	1371.3	1464.3			<b>Land Inventory (\$mill)</b>					
<b>Common Stock 37,512,127 shs.</b>						930.6	1237.5	1643.9	1833.4	2209.4	2451.5	2720.9	2851.8	2773.0	3221.3	<b>3200</b>	<b>3300</b>	<b>Working Cap'l (\$mill)</b>	<b>2575</b>				
						606.4	722.8	905.1	904.5	1127.8	1127.3	1283.8	1310.1	1019.0	1021.1	<b>850</b>	<b>800</b>	<b>Long-Term Debt (\$mill)</b>	<b>750</b>				
						488.9	694.2	841.4	1109.5	1258.9	1421.5	1576.8	1720.8	1974.0	2347.9	<b>2475</b>	<b>2600</b>	<b>Shr. Equity (\$mill)</b>	<b>2925</b>				
						1.4%	9.0%	8.6%	8.6%	7.1%	7.3%	6.5%	7.5%	8.5%	12.6%	<b>14.0%</b>	<b>13.5%</b>	<b>Return on Total Cap'l</b>	<b>13.5%</b>				
						NMF	15.1%	14.8%	12.8%	10.2%	10.5%	9.1%	13.2%	12.6%	18.0%	<b>17.0%</b>	<b>16.5%</b>	<b>Return on Shr. Equity</b>	<b>16.0%</b>				
<b>MARKET CAP: \$3.3 billion (Mid Cap)</b>						NMF	15.1%	14.8%	12.8%	10.2%	10.5%	9.1%	13.2%	12.6%	18.0%	<b>17.0%</b>	<b>16.5%</b>	<b>Retained to Com Eq</b>	<b>16.0%</b>				
<b>CURRENT POSITION (\$MILL.)</b>				<b>2018</b>	<b>2019</b>	<b>12/31/20</b>																	
<b>Cash Assets</b>				311.5	319.5	745.6																	

# Valueline

MARKET CAP: \$3.3 billion (Mid Cap)					11/1%	12/1%	13/1%	14/1%	15/1%	16/1%	17/1%	18/1%	19/1%	20/1%	21/1%						
					NMF	15.1%	14.8%	12.8%	10.2%	10.5%	9.1%	13.2%	12.6%	18.0%	17.0%	16.5%	Return on Shr. Equity	16.0%			
CURRENT POSITION					NMF	15.1%	14.8%	12.8%	10.2%	10.5%	9.1%	13.2%	12.6%	18.0%	17.0%	16.5%	Retained to Com Eq	16.0%			
(\$MILL.)					--	--	--	--	--	--	--	--	--	--	Nil	Nil	All Div'ds to Net Prof	Nil			
Cash Assets	311.5	319.5	745.6		<b>BUSINESS:</b> Meritage Homes Corp. engages in the designing and building of single-family detached homes primarily in the western and southern United States. Operations break down into three regions and nine states: West (California, Arizona, and Colorado; 40% of 2020 sales), Central (Texas; 29%), and East (Florida, Georgia, Tennessee, and the Carolinas; 31%). As of 12/31/20,													Meritage sold homes in 195 communities with base prices ranging from \$191,000 to \$921,000. Has about 1,510 emplys. Off./dirs. own 2.0% of common; BlackRock, 15.5%; The Vanguard Group, 11.0%; Dimen. Fund 8.4% (3/20 proxy). Chairman: Steven J. Hilton. Inc.: MD. Addr.: 8800 E. Raintree Drive, Suite 300, Scottsdale, AZ 85260. Tel.: (480) 515-8100. Internet: www.meritagehomes.com.			
Receivables	77.3	88.5	98.6		<b>Meritage Homes delivered stellar financial results to conclude 2020.</b> Fourth-quarter revenues of \$1.4 billion surged 24% on both a year-over-year and sequential basis, handily topping expectations. Likewise, earnings of \$3.97 a share vastly exceeded consensus forecasts. Notably, sales orders soared more than 50% compared to the fourth quarter of 2019, home closing gross margins expanded roughly 420 basis points, and SG&A, as a percentage of total revenues, ticked lower by about 80 basis points. The standout performance can be attributed largely to robust entry-level and first-time move-up demand, which drove strong sales of its LiVE.NOW and Design Collections homes. Attractive borrowing terms and large-scale flocking from crowded urban areas also supported the impressive showing. <b>The company is apt to perform well this year and next.</b> Indeed, present tailwinds are likely to remain in place, which ought to build upon strong entry-level homebuying demand. On balance, we are adding \$200 million and \$0.95 to our current-year revenue and profit projec-													tions, to \$4.925 billion and \$11.85 a share, respectively. Meanwhile, our preliminary 2022 top- and bottom-line estimates suggest moderate expansion is in the cards next year. <b>Management is making strong moves to position the company for the long haul.</b> Land acquisition ought to be a primary focus this year, as leadership races to keep pace with burgeoning entry-level and first-time move-up demand by replacing recently closed-out communities (Meritage spent more than \$500 million on lot acquisition and development in the December period alone). Going forward, the majority of the company's community development, in our view, will likely be skewed toward affordable units. All told, near-term land purchases ought to support community expansion three to five years out. Over that time frame, we envision a healthier economic landscape, an improved job market, and attractive, albeit slightly higher mortgage rates. <b>At the recent quotation, capital appreciation potential over the pull to mid-decade is enticing.</b>			
Inventory <sup>C</sup>	2742.6	2744.4	2778.0																		
Other	26.5	25.9	36.0																		
Current Assets	3157.9	3178.3	3658.2																		
Accts Payable	128.2	155.0	175.3																		
Debt Due	--	--	--																		
Other	177.9	250.3	321.2																		
Current Liab.	306.1	405.3	496.5																		
ANNUAL RATES																					
of change (per sh)																					
Sales																					
"Cash Flow"																					
Earnings																					
Dividends																					
Book Value																					
Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year																
	Mar.31	Jun.30	Sep.30	Dec.31																	
2018	742.6	877.5	884.6	1008.7	3513.4																
2019	708.1	864.6	940.9	1136.9	3650.5																
2020	901.0	1033.1	1138.1	1409.9	4482.1																
2021	1085	1165	1250	1425	4925																
2022	1160	1250	1300	1490	5200																
Cal-endar	EARNINGS PER SHARE <sup>A</sup>				Full Year																
	Mar.31	Jun.30	Sep.30	Dec.31																	
2018	1.07	1.31	1.33	1.91	5.58																
2019	.65	1.31	1.79	2.65	6.42																
2020	1.83	2.38	2.84	3.97	11.00																
2021	2.45	2.65	2.95	3.80	11.85																
2022	2.55	2.75	3.00	4.05	12.35																
Cal-endar	QUARTERLY DIVIDENDS PAID				Full Year																
	Mar.31	Jun.30	Sep.30	Dec.31																	
2017	NO CASH DIVIDENDS BEING PAID																				
2018																					
2019																					
2020																					
2021																					
(A) Diluted earnings. 2012 includes a \$71.5 million tax benefit (\$1.60/sh.) May not sum to total due to a change in share count. Next earnings report due early May.					(B) In millions. Adjusted for stock splits.										Company's Financial Strength					B+	
					(C) Specific identification.										Stock's Price Stability					30	
					(D) Interest expense capitalized.										Price Growth Persistence					45	
															Earnings Predictability					70	

Nicholas P. Patrikis March 19, 2021

# MTH Business Summary, S&P

## Meritage Homes Corporation

**Business Summary** Jan 29, 2021

**CORPORATE OVERVIEW.** Meritage Homes is the product of the 1997 merger of Texas-based Legacy Homes and Arizona-based Monterey Homes. MTH designs, builds, and sells single-family homes ranging from entry-level to semi-custom luxury. In 2020, Meritage delivered 11,834 homes (up 27.7% from 9,267 in 2019), with a total value of \$4.5 billion (up 23.9% from \$3.6 billion in 2019).

**CORPORATE STRATEGY.** Typically, MTH purchases land only after all necessary entitlements have been obtained, including zoning and utility services, focusing on developments with expected time to completion in a 3- to 4-year range, and controlling lots through non-recourse options.

MTH develops a design and marketing concept for each project, acts as the project's general contractor, and then uses its own full-time, commissioned sales representatives. Typically, homes are completed within four to nine months. The homes are often built in master planned communities that are along or near a major amenity, such as a golf course.

**MARKET PROFILE.** The company has operations in three regions: West; Central; and East, which comprise nine states: Arizona, California, Nevada, Texas, Colorado, North and South Carolina, Georgia, and Florida. MTH's homebuilding and marketing activities are conducted under the names Meritage Homes, Monterey Homes, and Legendary Communities. As of December 31, 2020, the company was actively selling homes in 195 communities, down 19.4% from 242 communities a year earlier as MTH is closing out communities at a faster than expected pace and shifting to mostly new communities tied to it LiveNow entry-level homes. Spending \$1.5 billion annually, the community count growth will continue into Q1 and Q2 of 2022 when management anticipates achieving their goal of operating 300 communities by June 2022.

**OPERATING PROFILE.** In 2020, MTH purchased primarily partially-developed or undeveloped lots as the opportunity to purchase substantially finished lots in desired locations is more limited. Finished lots are those properties where development has already been completed by a third party, and are ready for MTH to immediately commence home construction.

MTH intends to build entirely on a speculative basis in these communities, making it more efficient to build while also allowing buyers to move in quickly and choose their new homes. As a result of MTH's strategy to focus on entry-level with more specs, the company's total closings from spec homes increased to 70% in 2020. We believe increasing spec homes has risks should market conditions reverse to weaker housing demand. However, MTH builds a limited number of model types in entry-level communities that are fully or partially built for millennials renting or empty nesters downsizing to move quickly to new homes. Thus, the increasing speculative home count will continue to rise until the economy weakens and MTH stops building.

For the full year 2021, MTH projects 11,500 to 12,500 total home closings, revenue between \$4.2-\$4.6 billion, home closing gross margin of 22.0%-23.0%, and an effective tax rate of 23.0%. MTH expects to close out 2021 with 235-245 communities and realize diluted EPS in the \$10.50-\$11.50 range. As for Q1 2021, we project total closings to be between 2,600 and 2,900 units, home closing revenue of \$950 million to \$1.05 billion, home closing gross margin of approximately 22.5%, and diluted EPS in the range of \$2.25 to \$2.50.

# Industry Peer Group, S&P → DHI, One of the Best

## Sub-Industry: Homebuilding Peer Group\*: Homebuilding

Peer Group	Stock Symbol	Exchange	Currency	Recent Stock Price	Stk. Mkt. Cap. (M)	30-Day Price Chg. (%)	1-Year Price Chg. (%)	P/E Ratio	Fair Value Calc.	Yield (%)	Return on Equity (%)	LTD to Cap (%)
<b>D.R. Horton, Inc.</b>	<b>DHI</b>	<b>NYSE</b>	<b>USD</b>	<b>83.31</b>	<b>30,300.0</b>	<b>1.8</b>	<b>82.6</b>	<b>13.0</b>	<b>248.62</b>	<b>1.0</b>	<b>21.2</b>	<b>16.8</b>
Bellway p.l.c.	BLWY.Y	OTCPK	USD	40.57	4,997.0	N/A	N/A	19.0	N/A	N/A	6.5	0.5
KB Home	KBH	NYSE	USD	44.43	4,075.0	1.3	66.2	14.0	94.11	1.4	11.7	39.9
Lennar Corporation	LEN	NYSE	USD	90.99	27,746.0	-2.2	70.4	12.0	310.68	1.1	14.5	23.0
M.D.C. Holdings, Inc.	MDC	NYSE	USD	60.00	4,217.0	9.0	90.8	12.0	110.85	2.5	18.8	31.7
NVR, Inc.	NVR	NYSE	USD	4,584.74	16,877.0	-2.4	34.4	20.0	5,639.67	N/A	33.1	34.1
PulteGroup, Inc.	PHM	NYSE	USD	48.25	12,829.0	-1.9	36.5	9.0	121.97	1.2	23.4	28.5

## Sub-Industry: Homebuilding Peer Group\*: Homebuilding

Peer Group	Stock Symbol	Exchange	Currency	Recent Stock Price	Stk. Mkt. Cap. (M)	30-Day Price Chg. (%)	1-Year Price Chg. (%)	P/E Ratio	Fair Value Calc.	Yield (%)	Return on Equity (%)	LTD to Cap (%)
<b>Meritage Homes Corporation</b>	<b>MTH</b>	<b>NYSE</b>	<b>USD</b>	<b>90.50</b>	<b>3,395.0</b>	<b>2.8</b>	<b>67.6</b>	<b>8.0</b>	<b>243.35</b>	<b>N/A</b>	<b>19.6</b>	<b>30.2</b>
Countryside Properties PLC	CSPL.F	OTCPK	USD	5.54	2,979.0	N/A	N/A	NM	N/A	N/A	-0.4	2.4
Installed Building Products, Inc.	IBP	NYSE	USD	115.00	3,380.0	-6.6	131.8	35.0	N/A	1.0	34.2	61.4
KB Home	KBH	NYSE	USD	44.43	4,075.0	1.3	66.2	14.0	94.11	1.4	11.7	39.9
LGI Homes, Inc.	LGIH	NasdaqGS	USD	138.41	3,458.0	17.3	100.6	11.0	N/A	N/A	32.6	32.2
M.D.C. Holdings, Inc.	MDC	NYSE	USD	60.00	4,217.0	9.0	90.8	12.0	110.85	2.5	18.8	31.7

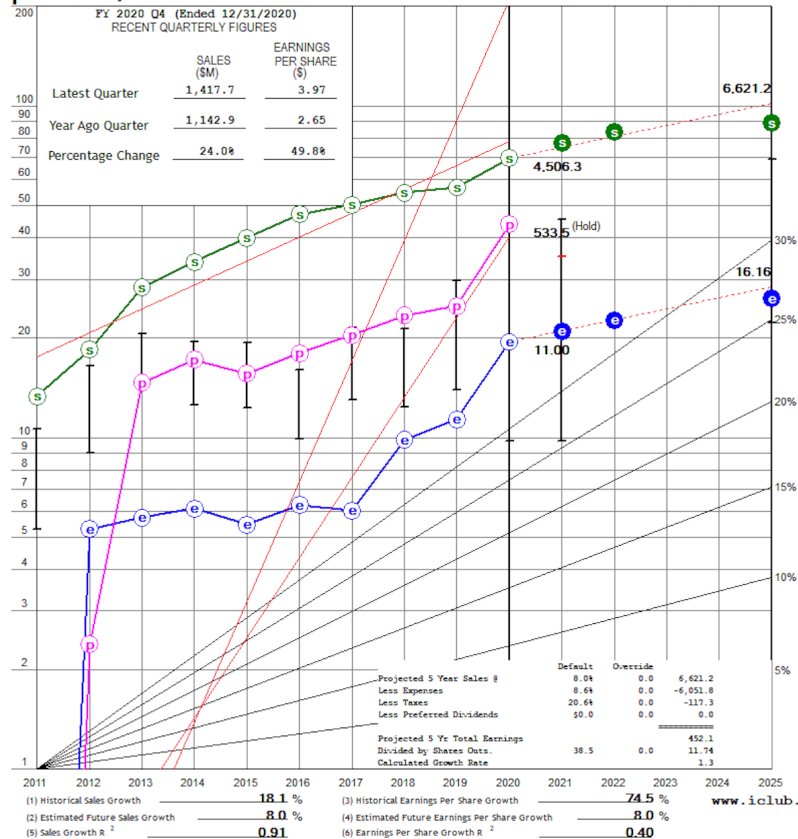
# SSG, MTH



## Stock Study

Company	Meritage Homes Corp	Price Date	03/15/21
Study by	Jim	Data Date	03/15/21
Sector	Consumer Cyclical	Last Judgment	03/16/21
Industry	Residential Construction	Data Source	BI
Preferred(\$M)	0.0	Reference	Morningstar
Diluted(M Shares)	38.5	% Insiders	1.3
Total Debt(\$M)	1,048.3	% Institutions	74.0
% Tot Debt to Tot Cap	30.9	Quality	

### 1 Growth Analysis



### 2 QUALITY ANALYSIS

Company Meritage Homes Corp (MTH) 03/15/21

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	5 YEAR AVG.	TREND UP / DOWN
A % Pre-tax Profit on Sales	-2.4	2.4	9.7	9.5	7.3	7.1	7.6	8.0	8.2	11.8	8.6	UP
B % ROE (Avg)		17.2	15.7	14.2	10.8	11.0	9.4	13.4	13.7	20.4	13.6	UP
C % LT Debt to Equity	122.2	105.4	106.7	83.3	88.2	77.5	79.7	71.5	53.4	45.2	65.5	DOWN

### 3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

CURRENT PRICE (P/E) **90.41 (8.2)** 52-WEEK HIGH (P/E) **117.06 (10.6)** 52-WEEK LOW (P/E) **25.24 (2.3)**

Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield
1 2016	41.2	25.5	3.55	11.6	7.2	0.000	0.0	0.0
2 2017	55.5	33.4	3.41	16.3	9.8	0.000	0.0	0.0
3 2018	54.9	32.0	5.58	9.8	5.7	0.000	0.0	0.0
4 2019	76.8	36.0	6.42	12.0	5.6	0.000	0.0	0.0
5 2020	117.1	25.2	11.00	10.6	2.3	0.000	0.0	0.0
6 AVERAGE		30.4		11.0	5.2		0.0	

AVERAGE P/E RATIO	9.1-8.1	PROJECTED P/E RATIO	7.6	TTM EPS	11.02
CURRENT P/E RATIO	8.2	PEG RATIO	0.9	FTM EPS	11.90
RELATIVE VALUE	90.2% 101.3%	PROJ RELATIVE VALUE	83.5% 93.8%	AVG TTM + FTM EPS	11.46

### 4 EVALUATING REWARD AND RISK over the next 5 years

**A FUTURE HIGH PRICE ANALYSIS - NEXT 5 YEARS**  
 Selected High P/E **11.0** X Estimated High Earnings/Share **16.16** = Forecast High Price \$ **177.8**

**B FUTURE LOW PRICE ANALYSIS - NEXT 5 YEARS**  
 (a) Sel. Low P/E **5.2** (as adj) X Estimated Low Earnings/Share **11.00** **11.02** = \$ **57.3**  
 (b) Average 5-Year Low Price = **30.4**  
 (c) Recent Severe Low Price = **25.2**  
 (d) Price Dividend Will Support = Present Div. = High Yield = **0.00** = **0.000** = **0.0**  
 Selected Estimated Low Price = **57.3**

**C PRICE RANGES**  
 Forecast High Price **177.8** - Estimated Low Price **57.3** = Range **120.5** 25% of Range = **30.1**  
 BUY (Lower 25% of Range) = **57.3** to **87.4**  
 MAYBE (Middle 50% of Range) = **87.4** to **147.7**  
 SELL (Upper 25% of Range) = **147.7** to **177.8**  
 Current Price **90.41** is in the **Hold** Range

**D REWARD/RISK ANALYSIS (Potential Gain vs. Risk of Loss)**  
 (Forecast High Price **177.8** - Current Price **90.41**) ÷ (Current Price **90.41** - Estimated Low Price **57.3**) = **2.6** To 1

### 5 TOTAL RETURN ANALYSIS

**A CURRENT YIELD**  
 Present Full Year's Dividend \$ **0.000** = Current Price of Stock \$ **90.41** = **0.0%** Present Yield or % Returned on Purchase Price

**B AVERAGE YIELD - USING FORECAST HIGH P/E**  
 Avg. % Payout **0.0** = Forecast High P/E **11.0** = Avg. Yield **0.0**

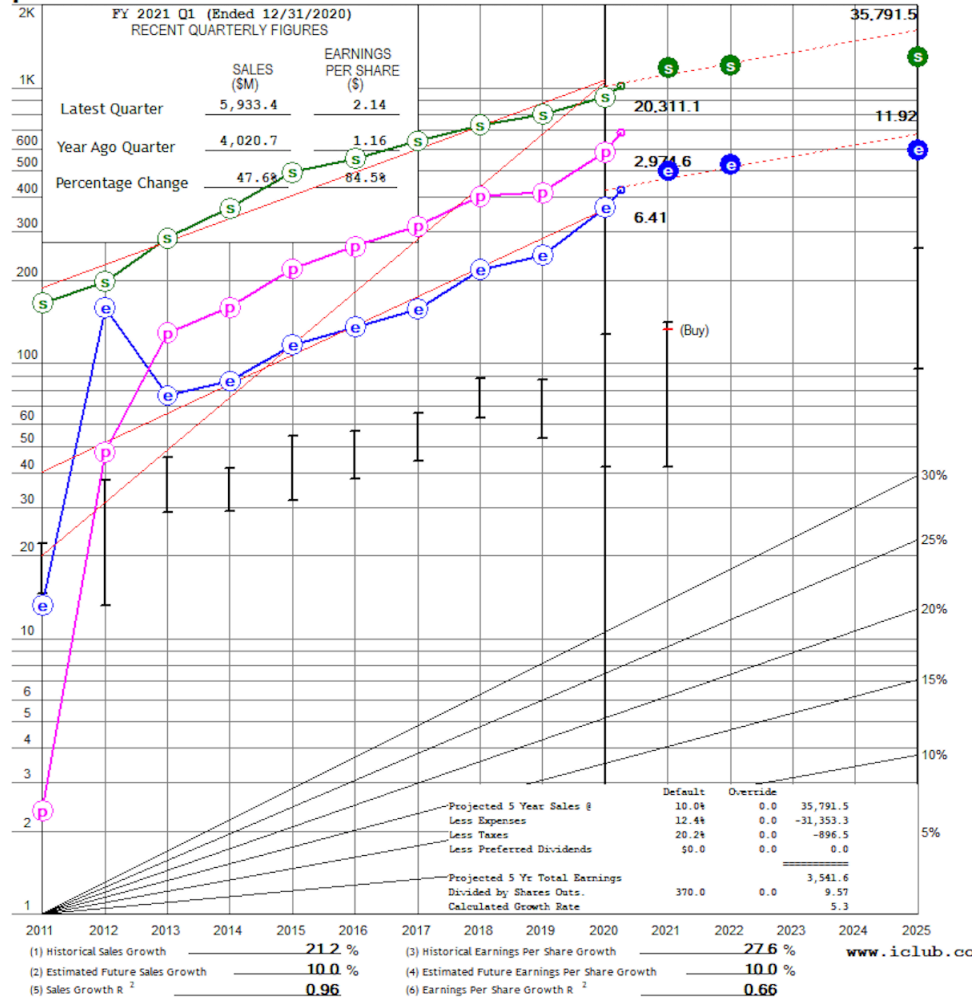
**AVERAGE YIELD - USING FORECAST AVERAGE P/E**  
 Avg. % Payout **0.0** = Forecast Avg P/E **8.1** = Avg. Yield **0.0**

**C % COMPOUND ANNUAL TOTAL RETURN - USING FORECAST HIGH P/E**  
 Average Yield **0.0** % + Annual Appreciation **14.5** % = Compound Annual Total Return **14.5** %

**D % PROJECTED AVERAGE RETURN - USING FORECAST AVERAGE P/E**  
 Average Yield **0.0** % + Annual Appreciation **7.7** % = Projected Average Total Return **7.7** %

# SSG, DHI

## 1 Growth Analysis



## 2 QUALITY ANALYSIS

Company: D\_R\_Horton (DHI) 03/12/21

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	5 YEAR AVG.	TREND UP/DOWN
A % Pre-tax Profit on Sales	0.3	5.6	10.5	10.1	10.4	11.1	11.4	12.8	12.1	14.6	12.4	UP
B % ROE (Avg.)		28.9	11.6	11.7	14.1	14.4	14.7	17.9	17.5	22.7	17.4	UP
C % LT Debt to Equity	64.5	63.9	79.5	73.7	67.5	49.9	38.2	36.6	34.4	38.4	39.5	DOWN

## 3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

CURRENT PRICE (P/E) 80.69 (10.9) 52-WEEK HIGH (P/E) 85.00 (11.5) 52-WEEK LOW (P/E) 25.51 (3.4)

Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield
1 2016	34.6	23.0	2.36	14.7	9.7	0.320	13.6	1.4
2 2017	40.0	26.7	2.74	14.6	9.7	0.400	14.6	1.5
3 2018	53.3	38.6	3.81	14.0	10.1	0.500	13.1	1.3
4 2019	53.1	32.4	4.29	12.4	7.6	0.600	14.0	1.9
5 2020	77.5	25.5	6.41	12.1	4.0	0.700	10.9	2.7
6 AVERAGE		29.2		13.3	7.8		13.2	
AVERAGE P/E RATIO	10.9	10.6	PROJECTED P/E RATIO	9.9	TTM EPS	7.40		
CURRENT P/E RATIO	10.9	PEG RATIO	1.0	FTM EPS	8.14			
RELATIVE VALUE	100.0%	103.3%	PROJ. RELATIVE VALUE	90.9%	94.0%	AVG TTM + FTM EPS	7.77	

## 4 EVALUATING REWARD AND RISK for the next 5 years

A FUTURE HIGH PRICE ANALYSIS - NEXT 5 YEARS  
 Selected High P/E 13.3 X Estimated High Earnings/Share 11.92 = Forecast High Price \$ 158.5

B FUTURE LOW PRICE ANALYSIS - NEXT 5 YEARS  
 (a) Sel. Low P/E 7.8 X Estimated Low Earnings/Share 6.41 = \$ 57.7  
 (b) Average 5-Year Low Price = 29.2  
 (c) Recent Severe Low Price = 25.5  
 (d) Price Dividend Will Support = Present Divd. + High Yield = 0.80 + 0.027 = 29.1  
 Selected Estimated Low Price = \$ 57.7

C PRICE RANGES  
 Forecast High Price 158.5 - Estimated Low Price 57.7 = Range 100.8 25% of Range = 25.2  
 BUY (Lower 25% of Range) = 57.7 to 82.9  
 MAYBE (Middle 50% of Range) = 82.9 to 133.3  
 SELL (Upper 25% of Range) = 133.3 to 158.5  
 Current Price 80.69 is in the Buy Range

D REWARD/RISK ANALYSIS (Potential Gain vs. Risk of Loss)  
 (Forecast High Price 158.5 - Current Price 80.69) / (Current Price 80.69 - Estimated Low Price 57.7) = 3.4 To 1

## 5 TOTAL RETURN ANALYSIS

A CURRENT YIELD  
 Present Full Year's Dividend \$ 0.800 + Current Price of Stock \$ 80.69 = 1.0% Present Yield or % Returned on Purchase Price

B AVERAGE YIELD - USING FORECAST HIGH P/E  
 Avg. % Payout 13.2 + Forecast High P/E 13.3 = Avg. Yield 1.0  
 AVERAGE YIELD - USING FORECAST AVERAGE P/E  
 Avg. % Payout 13.2 + Forecast Avg P/E 10.6 = Avg. Yield 1.3

C % COMPOUND ANNUAL TOTAL RETURN - USING FORECAST HIGH P/E  
 Average Yield 1.0% + Annual Appreciation 14.5% = Compound Annual Total Return 15.4%

D % PROJECTED AVERAGE TOTAL RETURN - USING FORECAST AVERAGE P/E  
 Average Yield 1.3% + Annual Appreciation 9.3% = Projected Average Total Return 10.5%

# Summary of Recommendation

**MANIFEST INVESTING SCREEN:**

Symbol	Quality	PAR
<a href="#">DHI</a>	96	12.6%
<a href="#">NVR</a>	93	9.8%
<a href="#">MTH</a>	88	13.2%

**VALUE LINE SCREEN:**

Safety	Timeliness	Financial Strength
3	2	A+
3	3	A-
3	3	B+

**S&P SCREEN:**

Recommendation
5* Strong Buy
4* Buy
5* Strong Buy

Top Performers	Pro's	Con's
X	-More diversified in price ranges & geography	Large cap
X	-Mid-cap; 3B mkt - More return potential being smaller player?	-Limited # of states; slightly more risky

Recommendation/Questions?