

Company: DR Horton Inc.	Ticker: DHI	Current Price: \$96.24	Industry: Homebuilding	Sub Industry: Residential Construction
Target Price: \$96.98 Stop Loss: \$77 52 Week High/ Low: \$106.89/\$64.32	TTM P/E: 8.49 Forward P/E: 7.5 EPS: 13.01		Beta: 1.34 Credit Rating: BBB+ Rating Outlook:	Market Cap: 34,909M Avg Vol (12 M): 2.61M Dividend Yield: .84%

Company Background:

D.R. Horton is a national homebuilder founded in 1978 and headquartered in Texas. The company segments revenue into four categories: homebuilding, Forestar Group, financial services, and DHI Communities. 97% of revenue stems from their core homebuilding segment, which consists of four brands across a range of price points to appeal to a diverse customer base. Forestar Group is the company's second greatest source of revenue and stems from D R Horton's acquisition of the residential lot development company. In its other two segments, DHI obtains revenue from offering its own mortgage loans and also constructing dwellings housing 200-400 units with its new branch, DHI Communities.

Industry Outlook:

The homebuilding industry remains in a strong, stable position, and is anticipated to grow due to improving economic conditions and a shortage of existing homes, which was exacerbated by the pandemic. One indicator of long-term growth for homebuilding lies within month-over-month housing starts and permit authorizations, both of which have been growing at a steady rate since the subprime crisis, even remaining relatively resilient to the COVID-19 pandemic. Additionally, existing homes in inventory have been steadily declining for the past two decades, and only around 1M homes remain available in the country. With new household formations on the rise, it is critical for homebuilders to support supply. Since housing prices are historically high, however, build-to-rent homes are becoming increasingly attractive, which positions homebuilders that offer multi-unit construction very strongly. Last, usable land inventory is also declining, which might pose a challenge to most builders in getting deals signed.

Investment Thesis:

D.R. Horton is the leader in the homebuilding industry by number of homes closed. In 2020, they closed over 65,000 homes and in 2021 closed a record of nearly 82,000 homes. They are present in 96 markets across 30 states. Of the top 50 markets, they operate in 44, is number 1 in 15, and is the number 1 homebuilder in 4 of the top 5. DHI serves multiple types of homebuyers, and has brands that build homes for entry level or active adults, affordable or luxury housing, or even low maintenance homes for those customers who are in the later stages of their life. Their majority stake and relationship with the public land development company Forestar Group (NYSE: FOR) enhances operational efficiency and cash flow by eliminating a middle man. Land acquisition costs are lowered and a consistent pipeline of available land/lots for DHI to build off of is made available through the relationship. DHI has the best financial position among their peer group, with a debt to equity ratio of only 35% and a net debt/EBITDA of .43x. They have no senior notes due in the next 12 months and possess a 25% return on homebuilding inventory and a 31.25% return on their equity.

Investment Risks and Mitigants:

- Mortgage rates will most likely rise from all time lows, bringing down housing prices from their current inflated levels. However, these new rates will still be historically low and lower prices will help the demographics who have been price out of housing in the past year to finally afford a new home
- Supply Chain and Material Shortages
- Nationwide housing inventory is low, creating high demand for the available housing and increasing turnover. Having insufficient inventory levels could create cash flow to dry up. DHI upped their inventory levels to over 48,000 homes and their land/lot position to over 500,000 to satisfy potential demand.

3-5 take away from last quarter investor call transcript:

- Pre-tax income rose 80% year over year to \$5.4 billion on over \$27.6 billion in revenue
- Restricted home sales pace to manage inventory and production levels while some key materials face shortages and supply chain issues
- Homebuilding SG&A as a percentage of revenue is at an all time low in company history
- Forestar increased their lots sold by 53% during fiscal year 2021 and their lots controlled position rose 60%
- Have a remaining \$546 million authorized for a share repurchase program without expiration

Financial Performance:

<i>in millions</i>	2015	2016	2017	2018	2019	2020	2021
Revenue	10,824	12,157	14,091	16,068	17,593	20,311	27,774
Operating Profit	1,162.6	1,366	1,617	1,992	2,075	2,913	5,347
Net Income	750.7	886.3	1,038.4	1,460.3	1,618.5	2,373.7	4,175.8
Revenue Growth %	34.9%	12.3%	15.9%	14.0%	9.5%	15.5%	36.7%
EBITDA%	11.2%	11.7%	11.9%	12.8%	12.2%	14.7%	19.5%
Operating Profit %	10.7%	11.2%	11.5%	12.4%	11.8%	14.3%	19.3%
Net Income Margin	6.9%	7.3%	7.4%	9.1%	9.2%	11.7%	15.0%
D/E	56.55	41.19	37.06	34.98	33.02	35.64	35.57
EPS	2.16	2.43	2.81	3.77	4.25	6.08	11.48
PE Ratio	13.58	12.45	14.22	11.19	12.4	12.44	7.31
Current Ratio	6.37	6.46	6.56	6.79	6.69	6.09	5.82
ROE	13.64	13.97	14.28	17.46	17.03	21.72	31.25
ROA	7.04	7.81	8.75	11.11	10.89	13.75	19.45
Dividend Per share	\$0.25	\$0.32	\$0.40	\$0.50	\$0.60	\$0.70	\$0.80
FCF	644.3	531.9	282.9	406.9	668	1134.8	267

Discounted Cash Flow

	2016-2021	2021-2025
Avg Revenue growth	13.4%	12.2%
Avg Gross Margin	22.8%	25.0%
Avg EBIT Margin	11.5%	14.1%
Avg NOPLAT Margin	8.1%	11.0%
Avg FCF / Margin	3.7%	4%
Tax Rate		22%
Hurdle Rate		9%
Perpetuity growth rate		3.5%

Analyst Opinion

Buy: 17	Hold: 4	Sell: 0
	Rating	Target
S&P Net Advantage	Buy	\$110
Bloomberg	Buy	\$108.98
Value Line	Timeliness: 2	\$116

Relative Valuation									Total Return																																						
<i>in millions</i>	DHI	LEN	TMHC	TOL	NVR	KBH	PHM	*Peer Group Avg																																							
P/E	8.49	8.09	8.37	11.21	16.8	7.79	8.48	9.89																																							
P/B	2.33	1.61	1.08	1.55	6.05	1.31	1.86	2.25																																							
Dividend Yield	0.84%	0.93%	N/A	1.06%	N/A	1.40%	1.08%	1.06%																																							
PEG Ratio	1.10	2.64	4.82	(5.26)	1,271.17	4.07	1.45	182.86																																							
EPS	11.48	13.29	3.86	5.71	309.06	5.48	7.14	50.86																																							
Revn Grth	36.7%	1.0%	28.7%	-2.0%	2.0%	-8.1%	8.1%	9.5%																																							
NI Grth	86.6%	36.9%	27.3%	-21.3%	2.6%	10.90%	33.1%	25.2%																																							
Operating Margin	19.30 %	14.19%	8.90%	8.56%	14.74%	8.50%	15.40%	12.80%																																							
Debt / Equity	35.57	41.68	80.26	82.86	51.24	65.54	49.55	58.10																																							
Market Cap	34,909	32,556	3,976	7,796	18,084	3,730	13,177	16,318																																							
Revenue TTM	27,774	25,523	6,553	8,295	9,065	5,244	12,761	13,602																																							
Net Income TTM	4,176	4,103	498	725	1,207	518	1,619	1,835																																							
FCF TTM	267	2,537	N/A	1,235	1,313	(235)	1,000	1,019																																							
*Includes Companies Listed									<table border="1"> <thead> <tr> <th></th> <th>DHI</th> <th>XHB</th> <th>S&P 500</th> </tr> </thead> <tbody> <tr> <td>YTD</td> <td>38.4%</td> <td>40.5%</td> <td>24.6%</td> </tr> <tr> <td>LTM</td> <td>46.7%</td> <td>51.2%</td> <td>31.9%</td> </tr> <tr> <td>Last 3 Years</td> <td>176.9%</td> <td>133.5%</td> <td>68.3%</td> </tr> <tr> <td>Last 5 Years</td> <td>246.6%</td> <td>144.5%</td> <td>115.9%</td> </tr> </tbody> </table> <p>CSR Characteristics</p> <table border="1"> <thead> <tr> <th></th> <th>DHI</th> <th>Peers</th> </tr> </thead> <tbody> <tr> <td>Governance Disclosure Score</td> <td>55.36</td> <td>54.8</td> </tr> <tr> <td>ESG Disclosure:</td> <td>18.18</td> <td>23.1</td> </tr> <tr> <td>Social Disclosure Score</td> <td>14.04</td> <td>24.6</td> </tr> <tr> <td>Environmental Disclosure Score</td> <td>3.88</td> <td>10.2</td> </tr> </tbody> </table> <p>Prepared by Nick Kinsella, Sanskriti Pandey, and Karolina Tarnacki using Bloomberg, Value Line, S&P Net Advantage, Morning Star, Yahoo Finance</p>					DHI	XHB	S&P 500	YTD	38.4%	40.5%	24.6%	LTM	46.7%	51.2%	31.9%	Last 3 Years	176.9%	133.5%	68.3%	Last 5 Years	246.6%	144.5%	115.9%		DHI	Peers	Governance Disclosure Score	55.36	54.8	ESG Disclosure:	18.18	23.1	Social Disclosure Score	14.04	24.6	Environmental Disclosure Score	3.88	10.2
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