

Company: Meritage Homes	Ticker: MTH	Current Price: 89.64	Sector: Consumer Discretionary	Industry: Homebuilding
Target Price: \$109.54 Stop Loss: \$71.75 52 Week Low / High: \$84.05-\$125.01	TTM P/E: 4.65x Forward P/E: 4.11x TTM EPS: \$19.29		Beta: 1.75 Credit Rating: BB+ (S&P)	Market Cap: 3.331B Dividend Yield: N/A

Investment Thesis:

It is in our opinion that the company Meritage Homes Corporation (NYSE: MTH) is a buy at its current price based on the following value drivers:

1. Supply / Demand Housing Imbalance
2. Strong Economic / Consumer Backdrop
3. Company Expansion
4. Inventory Surplus + Backlog

Company Overview:

Meritage Homes Corporation (MTH) is an American homebuilder which primarily focuses on building energy efficient homes in the southern part of the United States. Their business is divided into two distinct segments, financial services and homebuilding. Over 99% of revenues come from their homebuilding segment at \$5.1 billion in 2021. MTH's target market consists of environmentally conscious, first time and move-up home buyers. Their financial services segment provides much needed in-house services such as title insurance, mortgage brokering, and escrow. All of these functions work to make the homebuying experience exceptional and efficient for their customers. Currently, they operate in 9 states primarily in the Southeastern and Southwestern part of the United States with future plans to expand into neighboring areas. Through this expansion. We believe that MTH will experience healthy revenue growth in both their financial services and homebuilding segments.

Industry Analysis:

Meritage Homes Corporation engages in the hyper competitive homebuilding industry within the United States. The vast majority of homes built are done so through private small-business contractors. Subsequently, MTH is the nations 6th largest homebuilding trailing behind companies like D.R Horton, Toll Brother, Lennar Corporation, Pulte Group, NVR, and Taylor Morrison. All of these companies operate within the United States and subsequent regions in which they specialize. In general, the United States has seen a housing shortage due to housing being underbuilt since the Great Financial Crisis of 2008. From 2022-2026, the U.S. Homebuilding industry is expected to grow at a CAGR of 5%, supporting strong demand and faster growth than the overall U.S. economy. Meritage Homes Corporation will be in a unique position to capture this market momentum through their massive supply of buildable lots in desirable areas and their positioning to attract first-time home buyers with a spin on energy efficiency designs. Beyond 20226, we firmly believe that energy efficiency will play a larger role in home-buyer purchasing decisions, in which Meritage Homes Corporation will have an innate advantage when compared to its competitors.

Investment Risks:

1. **Housing Cyclical:** Homebuilding is very cyclical and coincides with the overall economy. MTH has a strong financial position and a robust backlog to combat this risk.
2. **Rising Interest Rates:** Housing starts and interest rates tend to be correlated. Today we have historically low rates with a FED committed to a gradual rate increase. With rising rates consumers have incentive to buy now to lock in lower mortgages.
3. **Inflation of Input Prices:** Costs of labor and raw materials like lumber have spiked recently and have hovered at these new highs. For the most part MTH has been able to pass price increases on to consumers while even adding a premium. Over time we believe these inflationary pressures will fade as most of this is largely supply chain related.
4. **Consumers Preferences:** MTH business model relies on the ability to purchase lots in profitable areas so those properties can be eventually sold. If management fails to execute in this area, the company may face financial difficulties. To combat this risk, MTH uses land options. Also, with the current supply shortage, consumers have less bargaining power.

Financial Performance:

Numbers in Thousands

	2017	2018	2019	2020	2021
Revenue	3,240,975	3,528,581	3,666,944	4,501,217	5,141,317
Revenue Growth %	6.55%	8.87%	3.92%	22.75%	14.22%
Gross Profit	574,696	637,861	689,295	970,854	1,429,319
Gross Margin %	17.73%	18.08%	21.57%	27.80%	25.90%
Operating Income	251,372	284,039	316,950	535,683	973,340
EBIT	234,668	257,073	289,027	504,631	947,095
FCF	-150,444	112,332	219,676	385,665	-196,483
EPS	3.56	5.71	6.53	11.00	19.67

Company	52 Week Range	Ticker	Market Capitalization (Millions)	Inventory Turnover	Current Price	ROE	ROA	ROIC	Net Debt	EPS 2021	Trailing P/E	Forward P/E
Meritage Homes	\$84.05-\$125.01	MTH	\$3,411	1.14	\$92.35	27.35%	17.01%	20.74%	\$568	\$19.67	4.69	4.11
KB Home	\$33.94-\$52.48	KBH	\$3,336	1.03	\$37.79	19.77%	10.09%	14.76%	\$1,394	\$6.15	6.14	3.69
Toll Brothers	\$47.17-\$75.61	TOL	\$6,014	0.88	\$51.27	16.39%	7.38%	8.42%	\$2,041	\$7.02	7.30	5.05
D.R. Horton	\$83.11-\$110.45	DHI	\$29,337	1.39	\$82.79	31.25%	19.45%	22.57%	\$2,239	\$11.48	7.21	5.25
Lennar Corporation	\$79.52-\$117.54	LEN	\$25,994	1.09	\$88.33	22.56%	14.03%	15.77%	\$3,620	\$14.28	6.19	5.55
PulteGroup	\$43.10-\$63.90	PHM	\$11,535	1.21	\$46.39	27.45%	15.23%	20.62%	\$969	\$7.74	5.99	4.53
Averages:				1.12		24.13%	13.87%	17.15%	\$1,805		6.26	4.70
MTH				1.14		27.35%	17.01%	20.74%	\$568		4.69	4.11

Team Blue: Devin Stachelsky, Jeremy Szawerda, Connor Avallone

Sources: Bloomberg, TD Ameritrade, Yahoo Finance, Statista

Discounted Cash Flow:

	2016-2021	2022-2030
Avg Revenue growth	11.26%	8.37%
Avg Net Income Margin	7.82%	9.41%
Avg FCF / Margin	1.86%	0.71%
Tax Rate		24.40%
Hurdle Rate / Perpetual Growth Rate		9.00 / 3.00%

Analyst Opinion

Buy: 5	Hold: 6	Sell: 0
Rating		Target
Average Consensus		Buy
		\$126.00

Returns

	5 Year Return	1 Year Return
MTH	146.96%	4.66%
S&P 500	91.25%	14.83%

CSR Characteristics

