Friday Favorites- D.R. Horton (DHI)

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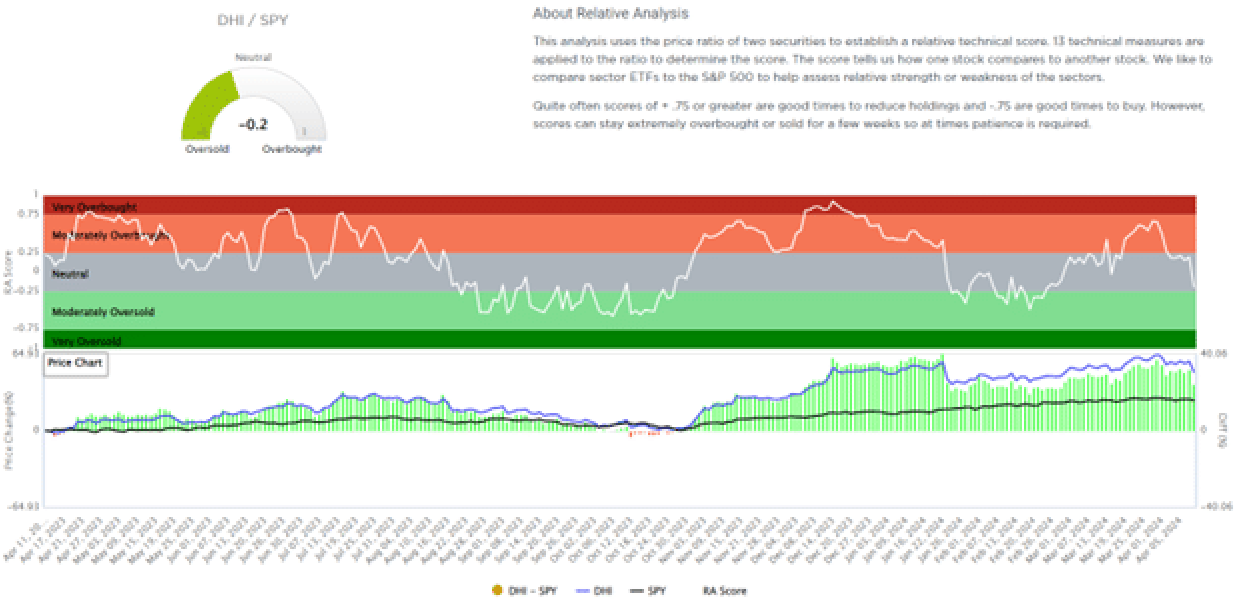
D.R. Horton (DHI) is a homebuilding company with a presence in 118 markets across 33 states. It also provides mortgage financing services and other related services.

The homebuilding industry has substantially outperformed the S&P 500 over the past year. YTD, however, the homebuilding industry has underperformed the index by roughly 10%. As shown below in the SimpleVisor relative analysis tool, DHI is in neutral territory and trending towards oversold versus the index.



The Fed?s interest rate hikes following more than a decade of low rates have proven to be a disincentive for existing home sales. Homeowners are reluctant to abandon their rock-bottom mortgage rate to take on a new, higher-rate mortgage. The resulting lack of inventory has worked to the benefit of new home builders.

We do not own a position in homebuilders in either our Equity or Sector rotation models.

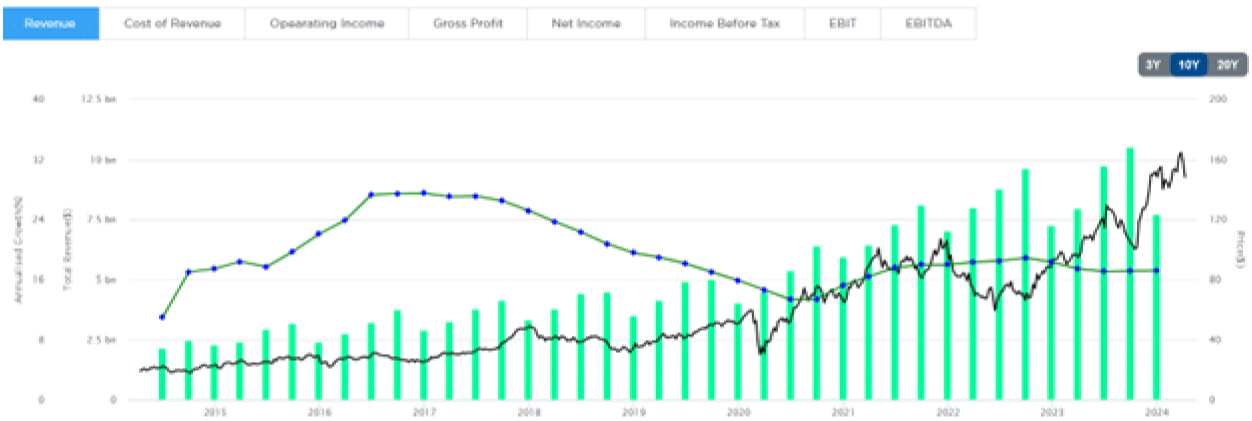
Valuations

DHI has a P/E of 10.66, near its low end of the pre-covid era. The bear market in 2022, combined with booming EPS, culminated in a very low P/E of 4 heading into the fourth quarter of that year. Since then, declining EPS combined with an increase in the stock price has resulted in multiple expansion.

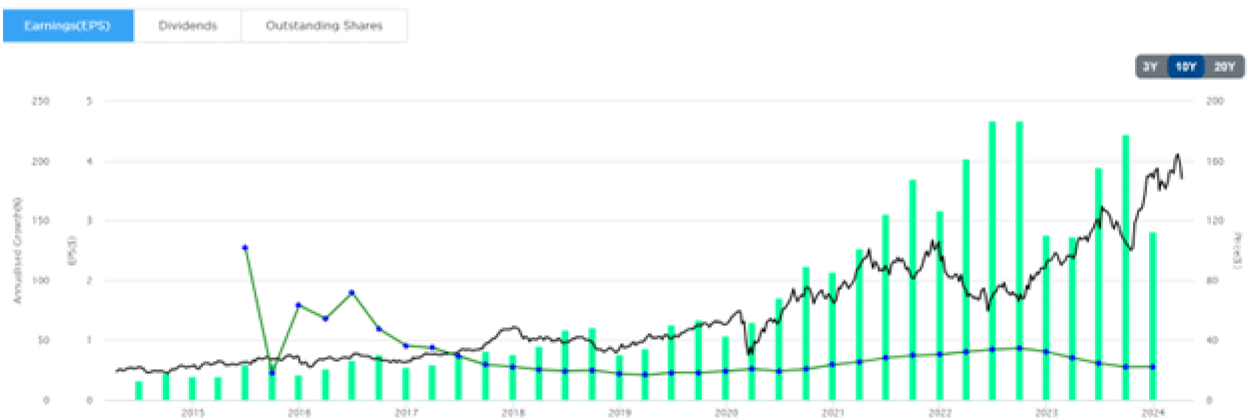
DHI has a moderate PEG ratio of 1.94 and a Debt-to-Equity ratio of 23.3%, which aligns with other major competitors.

Fundamental

As shown in the chart below, DHI has relatively fast revenue growth. Over the past 5 years, it has increased by 17% annually. Growth has slowed from where it was before the pandemic, but DHI is still growing revenue at a decent clip.

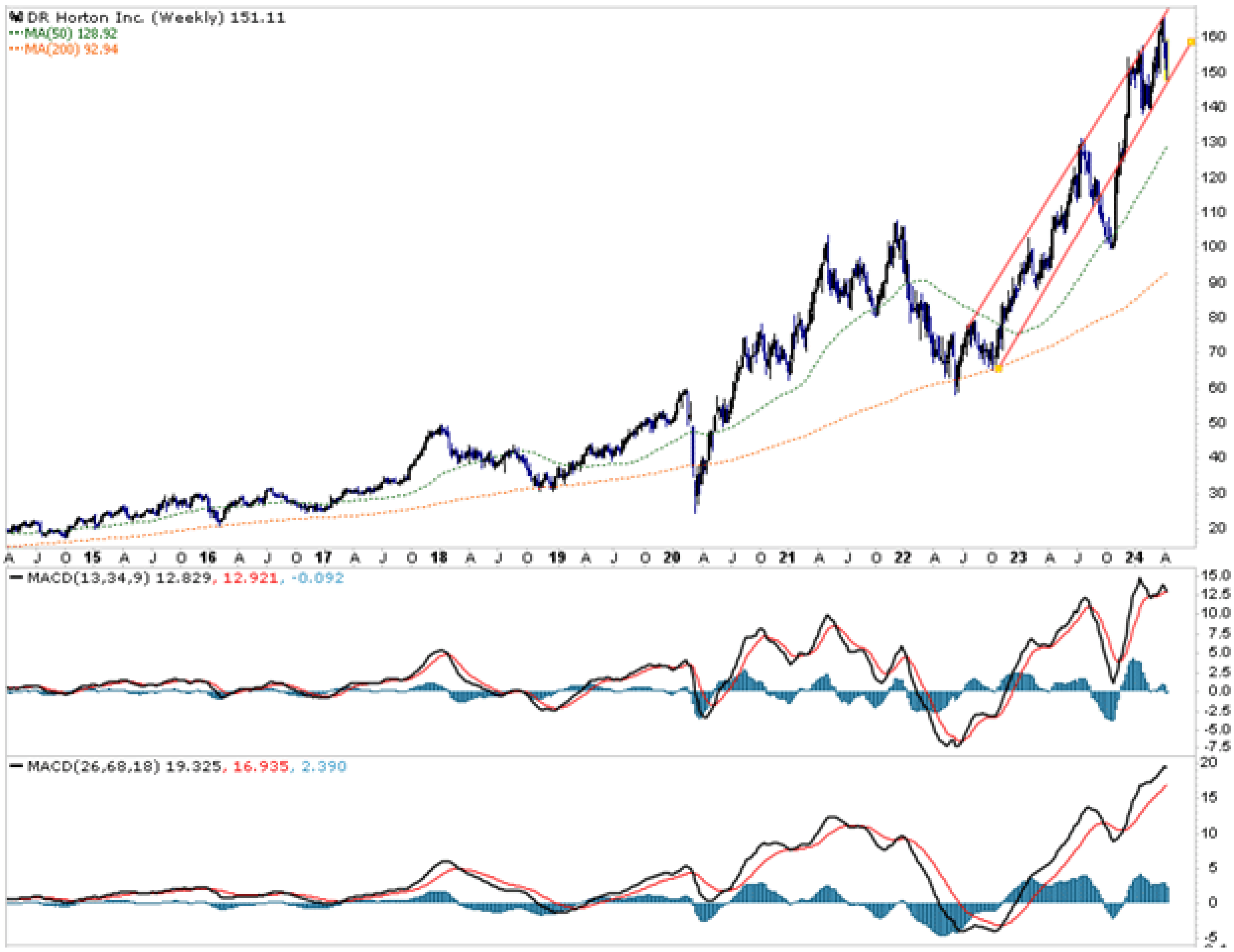


The following two graphs show DHI?s EPS growth and shares outstanding, respectively. EPS is growing at a significantly faster rate (27.9%) than revenue, primarily due to a combination of rising margins and share repurchases. As shown below, share repurchases have been accelerating in recent years.



Technical

The weekly chart below shows that DHI has been in a long-term uptrend. The 200-week moving average has provided key support for the price, while more recently, the stock caught support at the 50-week moving average. The trading channel highlighted in red has provided reliable resistance and support over the past year. A break of this trend could result in a test of the 50-week moving average approximately 13% below the current price.



Disclosure

This report is not a recommendation to buy or sell the named securities. We intend to elicit ideas about stocks meeting specific criteria and investment themes. Please read our disclosures carefully and do your own research before investing.