Buy, Sell, or Hold These 3 Homebuilder Stocks?

The homebuilding industry is poised for substantial expansion, propelled by robust demand for housing properties. Given this backdrop, let’s assess the prospects of homebuilder stocks D.R. Horton (DHI), Hovnanian Enterprises (HOV) and Lennar Corporation (LEN) to determine the best investment opportunity in this space. Read on….

As mortgage rates continue to descend, homebuilders are taking strides to accelerate production, enhancing affordability for prospective homeowners. Furthermore, the predicted interest rate reductions projected for this year are set to stimulate housing demand, reinforcing the potential advantages of investing in the quality homebuilder stocks Hovnanian Enterprises, Inc. (HOV) and Lennar Corporation (LEN). However, D.R. Horton, Inc. (DHI) should be kept on one’s watchlist for better entry opportunities in the stock.

Let’s first discuss why the homebuilder industry is poised for growth before delving deeper into the fundamentals of the stocks.

In 2023, an infusion of vitality swept over homebuilders’ stocks, responding to an escalating crisis where the mere attainability of housing reached historic lows in the U.S. Scores of American citizens found themselves on the sidelines or burdened with substantial monthly housing payments. Redfin data unveiled that only 15.5% of available homes were deemed financially accessible to the average household last year – a stark fall from the 20.7% prior year.

This notwithstanding, new single-family home sales, as per the U.S. Census Bureau’s data, demonstrated a subtle but noteworthy 1.4% year-over-year growth, reaching 590,000 in

November 2023. The National Association of Home Builders (NAHB)/Wells Fargo's Housing Market Index (HMI) unveiled a seven-point surge month-over-month in builder confidence, achieving 44 in January. The injection of confidence within builders has been attributed to sustained mortgage rates below 7% over the previous month.

A slight relaxation in market conditions is predicted for 2024. Forecasts predict that the forthcoming increase in stock availability, combined with a reduction in the "lock-in" effect – where current homeowners resist moving due to previously secured lower mortgage rates – will induce greater buying activity. However, persistent obstacles can be expected.

The presence of high mortgage rates remains an undeniable reality. Yet disproportionate supply and demand dynamics have inhibited home prices from the usual decline when borrowing costs heighten. For 2024, William Blair anticipates a more prosperous landscape with improved supply, declining mortgage rates, and a return of existing homeowners to the market, driven primarily by necessity.

Furthermore, a resurgence in the construction of new homes is apparent. Privately-owned housing starts in December exhibited a seasonally adjusted annual rate of 1,460,000, a 7.6% increase from the previous year. Builders are anticipated to construct more houses to meet escalating demand as long-term interest rates decline.

The global residential construction market is expected to grow at a CAGR of 4.8% to reach $8.31 billion by 2032.

The SPDR S&P Homebuilders ETF's (XHB) 49.8% rise over the past year, compared to the aggregate S&P 500's 21.8% rise, substantiates investors' interest in the housing sector.

Considering these trends, let's take a look at the fundamentals of the three Homebuilders stocks.

Stocks To Buy:

Hovnanian Enterprises, Inc. (HOV)

HOV designs, constructs, markets, and sells residential homes in the U.S. Its segment includes Homebuilding and Financial Services.

On January 15, HOV introduced Salerno Reserve, a new community of single-family homes in Stuart. Salerno Reserve offers LOOKS: a designer-curated collection of beautiful interiors. Buyers can choose between Loft, Farmhouse, Classic, or Elements LOOKS and enjoy cohesive style without the stress.

Salerno Reserve offers six home designs with up to 5 bedrooms, four baths, and 3,208 square feet, including options for the Extra Suite and Extra Suite Plus, designed for multigenerational living.

On December 14, 2023, HOV introduced Locke Landing, a new community of townhomes within the mixed-use development Baltimore Peninsula. Locke Landing is HOV’s first Baltimore community to offer LOOKS: designer-curated collections of beautiful interiors. Buyers can choose from 4 unique interiors: Loft, Farmhouse, Classic, or Elements, and enjoy cohesive style without the stress.

HOV’s trailing-12-month cash per share of $71.23 is significantly higher than the industry average of $2.33. Its trailing-12-month levered FCF and net income margins of 10.77% and 7.47% are 101.8% and 63.5% higher than the industry averages of 5.34% and 4.57%, respectively.

For the fiscal fourth quarter that ended October 31, 2023, HOV’s total revenues increased marginally year-over-year to $887.03 million, while non-GAAP net income before income taxes, excluding land-related charges and loss on extinguishment of debt increased 38.4% year-over-year to $143.56 million.

For the same quarter, its net income available to common stockholders and net income per common share stood at $94.60 million and $13.05, up 78.6% and 80.2% from the prior-year quarter, respectively. Moreover, its adjusted EBITDA increased 25.5% from the year-ago quarter to $181.22 million.

For the first quarter of fiscal 2024, the company expects total revenues between $525 million and $625 million, and adjusted EBITDA is expected to be between $55 million and $70 million.

The stock has gained 214.3% over the past year to close the last trading session at $161.62. Over the past three months, it has gained 133.4%.

HOV's solid fundamentals are reflected in its POWR Ratings. The stock has an overall rating of B, translating to Buy in our proprietary rating system. The POWR Ratings are calculated by considering 118 distinct factors, with each factor weighted to an optimal degree.

HOV has an A grade for Value and Momentum and a B for Growth. Within the B-rated Homebuilders industry, it is ranked #5 out of 23 stocks.

Beyond what we've stated above, we have also rated the stock for Stability, Sentiment, and Quality. Get all ratings of HOV here.

Lennar Corporation (LEN)

LEN operates as a homebuilder primarily under the Lennar brand in the United States. It operates through Homebuilding East; Homebuilding Central; Homebuilding Texas; Homebuilding West; Financial Services; Multifamily; and Lennar Other segments.

On January 9, LEN's Board of Directors announced a quarterly dividend of $0.50 per share for both Class A and Class B common stock. The dividend is payable to holders on February

7.

Its annualized dividend rate of $2 per share translates to a dividend yield of 1.29% on the current share price. Its four-year average yield is 1.11%. LEN’s dividend payments have grown at CAGRs of 29.4% and 59% over the past three and five years, respectively.

LEN also announced that its Board of Directors authorized an increase to the company’s stock repurchase program to enable the company to repurchase up to an additional $5 billion in value of its outstanding Class A or Class B common stock.

LEN’s trailing-12-month cash from operations of $5.30 billion is significantly higher than the industry average of $262.60 million. Its trailing-12-month levered FCF and net income margins of 13.29% and 11.50% are 149% and 151.8% higher than the industry averages of 5.34% and 4.57%, respectively.

For the fiscal fourth quarter that ended November 30, 2023, LEN’s total revenues and EBIT increased 7.8% and 1.7% year-over-year to $10.97 billion and $1.85 billion, respectively.

For the same quarter, its net earnings attributable to LEN and earnings per share stood at $1.36 billion and $4.82, up 2.9% and 5.9% from the prior-year quarter, respectively. As of November 30, 2023, LEN’s cash and cash equivalents stood at $6.27 billion, compared to $4.62 billion as of November 30, 2022.

Street expects LEN’s revenue and EPS for the fiscal first quarter of 2024 (ending February 2024) to increase 13.9% and 4.5% year-over-year to $7.39 billion and $2.22, respectively. The company surpassed consensus revenue and EPS estimates in each of the trailing four quarters, which is impressive.

The stock has gained 60.1% over the past year to close the last trading session at $155.27. Over the past three months, it has gained 49.1%.

LEN’s robust prospects are reflected in its POWR Ratings. The stock has an overall B rating, equating to Buy in our proprietary rating system.

LEN has an A grade for Momentum and a B for Sentiment and Quality. It is ranked #4 within the same industry.

Click here for the additional POWR Ratings for LEN (Growth, Value, and Stability).

Stock To Hold:

D.R. Horton, Inc. (DHI)

DHI operates as a homebuilding company in the East, North, Southeast, South Central, Southwest, and Northwest regions in the U.S. The company’s segments include Homebuilding; Rental; Forestar; Financial Services; and Others.

On November 28, 2023, DHI paid stockholders a quarterly cash dividend of $0.30 per common share, an increase of 20% compared to its most recent dividend paid. Its annualized dividend rate of $1.20 per share translates to a dividend yield of 0.76% on the current share price.

Its four-year average yield is 1.02%. DHI’s dividend payments have grown at CAGRs of 13.1% and 14.9% over the past three and five years, respectively.

Additionally, the company repurchased 3.50 million shares of common stock for $423.10 million during the fourth quarter of fiscal year 2023. In October 2023, the Board of Directors authorized the repurchase of up to $1.5 billion of the company’s common stock, replacing the previous authorization, which at that time had $32.8 million remaining due to repurchases made subsequent to year-end.

DHI’s trailing-12-month cash from operations of $4.30 billion is significantly higher than the industry average of $262.62 million. Its trailing-12-month EBIT and net income margins of

17.65% and 13.38% are 134.9% and 192.9% higher than the industry averages of 7.51% and 4.57%, respectively.

For the fiscal fourth quarter that ended September 30, 2023, DHI's revenues increased 9% year-over-year to $10.50 billion, while income before income taxes stood at $2.02 billion. For the same quarter, its net income attributable to DHI and net income per common share attributable to DHI stood at $1.51 billion and $4.45, respectively.

As of September 30, 2023, DHI's total cash, cash equivalents and restricted cash stood at $3.90 billion, compared to $2.54 billion as of September 30, 2022.

Street expects DHI's revenue and EPS for the fiscal first quarter of 2024 (ended December 2023) to increase 4.4% and 4.2% year-over-year to $7.58 billion and $2.88, respectively. The company surpassed consensus revenue and EPS estimates in each of the trailing four quarters.

The stock has gained 66.9% over the past year to close the last trading session at $157.70. Over the past three months, it has gained 56.7%.

DHI's fundamentals are reflected in its POWR Ratings. The stock has an overall C rating, equating to Neutral in our proprietary rating system.

The stock has an A grade for Momentum and Sentiment and a B for Quality. Within the same industry, it is ranked #9.

To see additional POWR Ratings for Growth, Value, and Stability for DHI, click here.

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DHI shares were unchanged in premarket trading Tuesday. Year-to-date, DHI has gained 3.76%, versus a 1.71% rise in the benchmark S&P 500 index during the same period.

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The stock market dynamics sparked Sristi's interest during her school days, which led her to become a financial journalist. Investing in undervalued stocks with solid long-term growth prospects is her preferred strategy. Having earned a master's degree in Accounting and Finance, Sristi hopes to deepen her investment research experience and better guide investors.

More…

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