

PulteGroup Inc.

4Q mixed, but reiterate Buy on better orders and gross margin outlook

Reiterate Rating: BUY | PO: 120.00 USD | Price: 105.55 USD

Reiterate Buy; Raise PO on stronger 2024 ROE outlook

We reiterate our Buy rating on PulteGroup (PHM) following 4Q earnings. Our key takeaways are: 1) net order growth and order average selling prices were both better than expected in 4Q despite the spike in rates early the quarter, 2) PHM's gross margin outlook is more resilient than anticipated for 2024, and 3) absorption pace improved in December and into January with lower rates. We raise our 2024E EPS by 14% on a stronger revenue and gross margin outlook. We raise our PO to \$120 (now 2.2x 24E price-to-book from 2.0x) to reflect a higher return-on-equity outlook (~22% for 2024).

Orders improved as rates fell during the quarter

PHM orders of 6.2K were 12% above our forecast driven by growth across all segments. Orders increased 57% YoY and declined (12%) QoQ, which is better than normal seasonality. Move-up orders increased at the fastest pace (+78% YoY) followed by 1st time buyers (+70% YoY) and active adult (+15% YoY). Management noted that January buyer trends remained positive following the lower rates in December.

Gross margin outlook well ahead of expectations

Gross margin of 28.9% (in line with expectations) declined ~60 bps QoQ primarily due to incentives increasing 50 bps QoQ to ~6.5% of price (\$36K per home) vs. 4.3% in 4Q22. Pulte guided to 1Q and 2024 gross margins between 28.0-28.5%, which was well ahead of 27% forecast. PHM's gross margin outlook is supported by flattish pricing and a benign input cost environment. Going forward, we expect cash costs of construction to rise at a faster rate, which will flow-through PHM's margins in late 2024 and 2025.

4Q23 deliveries miss

PHM reported 4Q23 EPS of \$3.28, above our \$3.23 forecast and \$3.22 consensus driven by lower SG&A, including an insurance benefit of \$65M (added \$0.20 to EPS). Home sales revenue fell (18%) YoY to \$4.2bn (below our \$4.4bn est). Deliveries fell (14%) YoY (low-end of guidance) due to weaker spec sales with higher rates at the beginning of 4Q. Average delivered price fell (6.7%) YoY. GM increased ~4 bps YoY to 28.9%, in line with our forecast and low-end of guide.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	10.87	11.55	11.90	12.33	13.30
GAAP EPS	11.08	11.76	11.90	12.33	13.30
EPS Change (YoY)	47.7%	6.3%	3.0%	3.7%	7.8%
Consensus EPS (Bloomberg)			11.74	12.57	13.26
DPS	0.61	0.68	0.69	0.69	0.69
Valuation (Dec)					
P/E	9.7x	9.1x	8.9x	8.6x	7.9x
GAAP P/E	9.5x	9.0x	8.9x	8.6x	7.9x
Dividend Yield	0.6%	0.6%	0%	0%	0.7%
EV / EBITDA*	3.6x	3.6x	3.6x	3.6x	3.6x
Free Cash Flow Yield*	2.2%	8.4%	0.3%	6.0%	6.8%

* For full definitions of *IQmethod*SM measures, see page 5.

31 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	110.00	120.00
2024E EPS	10.19	11.90
2025E EPS	9.64	12.33
2026E EPS	NA	13.30

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Stock Data

Price	105.55 USD
Price Objective	120.00 USD
Date Established	31-Jan-2024
Investment Opinion	B-1-7
52-Week Range	52.24 USD - 110.75 USD
Mrkt Val (mn) / Shares Out (mn)	24,934 USD / 236.2
Free Float	99.3%
Average Daily Value (mn)	209.99 USD
BofA Ticker / Exchange	PHM / NYS
Bloomberg / Reuters	PHM US / PHM.N
ROE (2024E)	22.9%
Net Dbt to Eqty (Dec-2023A)	7.1%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 31 January 2024 06:31AM EST

iQprofileSM PulteGroup Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	24.4%	21.3%	19.5%	17.7%	16.8%
Return on Equity	31.5%	26.7%	22.9%	20.3%	18.9%
Operating Margin	21.0%	20.8%	19.3%	18.0%	17.4%
Free Cash Flow	556	2,105	87	1,489	1,706

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.3x	0.9x	0.1x	0.6x	0.7x
Asset Replacement Ratio	1.6x	1.1x	1.0x	1.0x	1.0x
Tax Rate	23.5%	24.5%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	17.8%	7.1%	16.9%	15.1%	12.7%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	16,144	16,062	17,201	18,086	18,871
% Change	15.9%	-0.5%	7.1%	5.1%	4.3%
Gross Profit	5,015	4,907	5,033	5,049	5,134
% Change	NA	NA	NA	NA	NA
EBITDA	3,581	3,589	3,644	3,594	3,644
% Change	31.5%	0.2%	1.5%	-1.4%	1.4%
Net Interest & Other Income	(32)	42	(8)	(8)	(8)
Net Income (Adjusted)	2,567	2,554	2,486	2,436	2,462
% Change	34.3%	-0.5%	-2.7%	-2.0%	1.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	2,567	2,554	2,486	2,436	2,462
Depreciation & Amortization	71	81	86	90	94
Change in Working Capital	(2,236)	(681)	(2,434)	(980)	(789)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	266	242	32	32	32
Capital Expenditure	(113)	(92)	(83)	(88)	(92)
Free Cash Flow	556	2,105	87	1,489	1,706
% Change	NA	NA	NA	NA	NA
Share / Issue Repurchase	(1,089)	(1,012)	(1,200)	(1,300)	(1,400)
Cost of Dividends Paid	(144)	(142)	(144)	(136)	(128)
Change in Debt	(3)	(159)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,053	1,807	592	645	824
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	13,484	14,048	16,387	17,404	18,222
Property, Plant & Equipment	0	0	0	0	0
Other Non-Current Assets	218	190	190	190	190
Total Assets	14,755	16,044	17,170	18,239	19,235
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	3,035	2,940	2,848	2,886	2,917
Long-Term Debt	2,632	2,536	2,536	2,536	2,536
Other Non-Current Liabilities	215	302	302	302	302
Total Liabilities	5,882	5,778	5,687	5,725	5,755
Total Equity	8,873	10,266	11,483	12,514	13,480
Total Equity & Liabilities	14,755	16,044	17,170	18,239	19,235

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Homebuilders

Company Description

PulteGroup is the third largest public homebuilder in the US and has broad product offering with a diverse mix of homebuyer type, concepts, geographies and price points. PHM builds homes for first-time buyers (Centex), move-up buyers (Pulte) and active adults (Del Webb and DiVosta) with move up being the biggest driver of revenue. PHM offers homes in 40 markets across 24 states with none of its 6 geographical segments making up more than 24% of trailing twelve month deliveries.

Investment Rationale

We rate PHM shares Buy: (1) PHM is generating a higher ROE than most peers in our coverage, and (2) PHM has a strong history of capital return.

Stock Data

Average Daily Volume 1,989,496

Quarterly Earnings Estimates

	2023	2024
Q1	2.36A	2.39E
Q2	3.01A	2.98E
Q3	2.91A	3.14E
Q4	3.30A	3.40E

Exhibit 1: PulteGroup 4Q23 earnings variance compared to BofA estimates

4Q earnings beat on orders and order ASP

Income Statement	YoY Change			Variance vs BofAe		
	4Q22	4Q23	YoY	BofAe	4Q23A	Δ
Home Sales (\$ in mms)	\$5,054	\$4,165	(17.6%)	\$4,383	\$4,165	(5%)
Homebuilding Gross Margin ex-impairments	28.8%	28.9%	4 bps	29.0%	28.9%	-11 bps
Homebuilding SG&A % of revenue	8.2%	7.4%	-83 bps	8.8%	7.4%	-140 bps
Homebuilding Operating Margin	20.7%	21.4%	63 bps	20.1%	21.4%	128 bps
Pre-tax Margin	20.9%	22.1%	115 bps	20.6%	22.1%	145 bps
Operating EPS	\$3.85	\$3.28	(15%)	\$3.23	\$3.28	1%
GAAP EPS	\$3.87	\$3.30	(15%)	\$3.23	\$3.30	2%
Regional Results	4Q22	4Q23	YoY	BofAe	4Q23A	Δ
Deliveries (units)	8,848	7,615	(13.9%)	8,131	7,615	(6%)
Average Delivered Price (\$000s)	\$586.2	\$547.0	(6.7%)	\$539.0	\$547.0	1%
Total Orders	3,964	6,214	56.8%	5,574	6,214	11.5%
Average Selling Price (\$000s)	\$541.6	\$540.7	(0.2%)	\$539.5	\$540.7	0.2%
Northeast orders	254	349	37.4%	284	349	22.9%
Southeast orders	819	1,264	54.3%	1,106	1,264	14.3%
Florida orders	1,241	1,507	21.4%	1,303	1,507	15.7%
Texas orders	664	1,073	61.6%	996	1,073	7.7%
Midwest orders	581	871	49.9%	872	871	(0.1%)
West orders	405	1,150	184.0%	1,013	1,150	13.5%
Backlog Units	12,169	12,146	(0.2%)	10,990	12,146	10.5%
Backlog Value (\$ in mms)	\$7,674	\$7,320	(4.6%)	\$6,749	\$7,320	8.4%
Avg Price in Backlog	\$630.6	\$602.6	(4.4%)	\$614.1	\$602.6	(1.9%)
Backlog Conversion Ratio	51.9%	56.2%	433 bps	60.0%	56.2%	(6.3%)

Source: BofA Global Research, Company Data

BofA GLOBAL RESEARCH



Price objective basis & risk

PulteGroup Inc. (PHM)

Our \$120 PO on PHM shares is based on a 2024E book value multiple of roughly 2.2x, a premium to other builders in our coverage given PHM's higher ROE profile.

Downside risks: (1) worse than expected order growth, (2) failure to execute on PHM's efficiency strategy which could pressure margins and hurt ROE, (3) failure to capture first time buyers, (4) rising interest rates, (5) rising input costs, (6) labor tightness in certain markets, (7) slowing US economic growth

Upside risks: (1) better than expected order growth, (2) ability to execute on PHM's efficiency strategy which could raise margins and ROE, (3) increased traffic from first time buyers, (4) lower interest rates, (5) accommodative interest rates.

Analyst Certification

I, Rafe Jadrosich, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Homebuilders and Building Products Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Armstrong World Industries, Inc.	AWI	AWI US	Rafe Jadrosich
	Builders FirstSource Inc	BLDR	BLDR US	Rafe Jadrosich
	D.R. Horton, Inc.	DHI	DHI US	Rafe Jadrosich
	Latham Group, Inc.	SWIM	SWIM US	Shaun Calnan, CFA
	Leslie's	LESL	LESL US	Shaun Calnan, CFA
	NVR, Inc.	NVR	NVR US	Rafe Jadrosich
	Owens Corning	OC	OC US	Rafe Jadrosich
	PulteGroup Inc.	PHM	PHM US	Rafe Jadrosich
	The AZEK Company Inc.	AZEK	AZEK US	Rafe Jadrosich
	Toll Brothers, Inc.	TOL	TOL US	Rafe Jadrosich
	TopBuild Corp	BLD	BLD US	Rafe Jadrosich
	Trex Company, Inc.	TREX	TREX US	Rafe Jadrosich
NEUTRAL				
	Dream Finders Homes, Inc.	DFH	DFH US	Rafe Jadrosich
	KB Home	KBH	KBH US	Rafe Jadrosich
	Lennar Corporation	LEN	LEN US	Rafe Jadrosich
UNDERPERFORM				
	Fortune Brands Innovations Inc	FBIN	FBIN US	Rafe Jadrosich
	Hayward Holdings, Inc.	HAYW	HAYW US	Rafe Jadrosich
	Masco Corp	MAS	MAS US	Rafe Jadrosich
	Mohawk Industries	MHK	MHK US	Rafe Jadrosich
	Patrick Industries, Inc.	PATK	PATK US	Rafe Jadrosich
	Pool Corporation	POOL	POOL US	Shaun Calnan, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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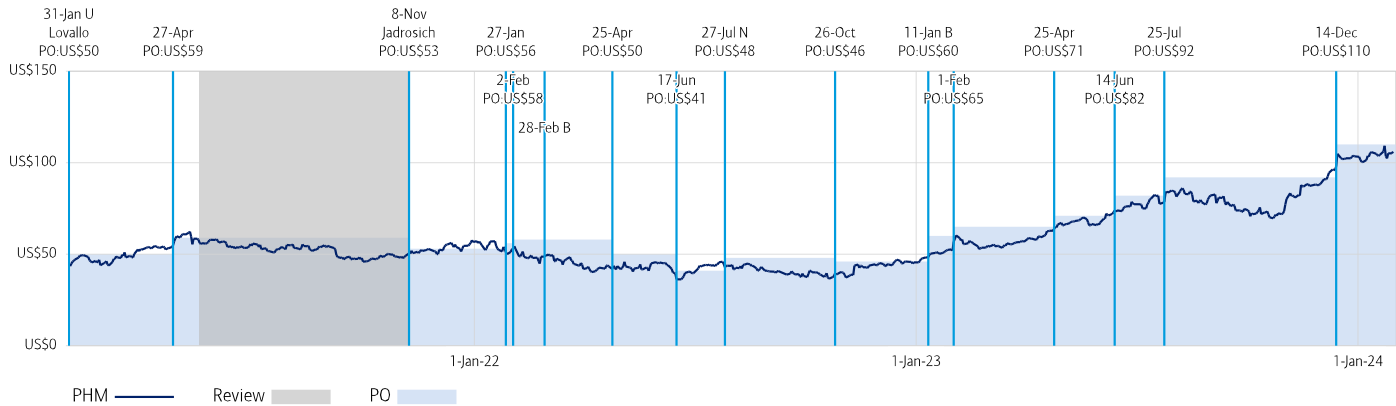
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PulteGroup Inc. (PHM) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Building Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	39	44.83%	Buy	22	56.41%
Hold	18	20.69%	Hold	11	61.11%
Sell	30	34.48%	Sell	8	26.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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