

## KB Home

# F4Q beats; F2024 outlook roughly in-line, but could be conservative

Reiterate Rating: NEUTRAL | PO: 64.00 USD | Price: 63.20 USD

## F4Q beats on deliveries; Reiterate Neutral

KBH reported F4Q23 EPS of \$1.85, above our \$1.79 forecast and consensus of \$1.66 driven by better deliveries, higher gross margin and lower share count. We raise our F2024E EPS estimates by 4% primarily to reflect lower share count. We raise our PO to \$64 (from \$60), now based on 1.2x (was 1.1x) 12-month forward book value to reflect a higher ROE outlook. We reiterate Neutral rating; we believe KBH shares are fairly valued trading near 1.15x price-to-book with a F2024 return-on-equity (ROE) of roughly 15%.

## F4Q orders improving sequentially with lower rates

Net orders of 1.9K increased 176% YoY against a low base from last year (~80% YoY) but were 19% below our forecast and the absorption rate declined more than normal seasonality. Mortgages spiked during the quarter and peaked around 7.8% in October, which pressured demand. Quarter-to-date, KBH order trends have improved as mortgage rate have declined with 904 net orders in the first five weeks of F1Q vs. roughly 500 last year (although comparisons are more difficult in January/February).

## KBH lowers revenue outlook, but still sees YoY growth

KBH lowered its F2024 revenue target to \$6.4bn-\$6.8bn from \$6.5bn-\$7.0bn driven by a slightly lower community count growth (12% vs. prior of 15%) and the order shortfall in F4Q. KBH expects community count to decline slightly in F1Q before growing sequentially each quarter beginning in F2Q24, ending the year with 270 communities. KBH's backlog is down 28% YoY heading into F2024, but revenue growth should be supported by continued improvement in build cycles, higher community count and a slight increase in spec inventory.

## Gross margin outlook could prove conservative

Homebuilding gross margin of 20.7% beat our forecast of 20.5% in F4Q. Management is guiding to 21% gross margin in F1Q24 and full year F2024. We believe the implied F2Q-F4Q guidance could prove conservative given: 1) F1Q gross margin is typically the low-point of the year due to seasonality, 2) KBH's current backlog has slightly higher margins than the guidance, and 3) mortgage rates are now declining and homes sold going forward could have lower incentives.

Estimates (Nov) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	9.14	7.08	7.42	8.25	9.64
EPS Change (YoY)	51.5%	-22.6%	4.8%	11.2%	16.8%
Consensus EPS (Bloomberg)			7.20	7.65	7.20
DPS	0.60	0.70	0.80	0.80	0.80
Valuation (Nov)					
P/E	6.9x	8.9x	8.5x	7.7x	6.6x
Dividend Yield	0.9%	1.1%	0%	0%	1.3%
EV / EBITDA*	5.2x	7.1x	7.0x	6.8x	6.4x
Free Cash Flow Yield*	2.6%	17.6%	0.7%	1.2%	6.9%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

11 January 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	60.00	64.00
2024E EPS	7.14	7.42
2025E EPS	7.44	8.25
2026E EPS	NA	9.64

**Rafe Jadrosich**  
Research Analyst  
BofAS  
+1 646 855 5815  
[rafe.jadrosich@bofa.com](mailto:rafe.jadrosich@bofa.com)

**Shaun Calnan, CFA**  
Research Analyst  
BofAS  
[shaun.calnan@bofa.com](mailto:shaun.calnan@bofa.com)

**Victoria Piskarev**  
Research Analyst  
BofAS  
[victoria.piskarev@bofa.com](mailto:victoria.piskarev@bofa.com)

### Stock Data

Price	63.20 USD
Price Objective	64.00 USD
Date Established	11-Jan-2024
Investment Opinion	B-2-7
52-Week Range	33.53 USD - 64.00 USD
Mrkt Val (mn) / Shares Out (mn)	5,270 USD / 83.4
Free Float	87.9%
Average Daily Value (mn)	66.88 USD
BofA Ticker / Exchange	KBH / NYS
Bloomberg / Reuters	KBH US / KBH.N
ROE (2024E)	14.4%
Net Dbt to Eqty (Nov-2023A)	25.3%
<b>ESGMeter<sup>TM</sup></b>	<b>High</b>

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: 11 January 2024 12:30AM EST

# iQprofile<sup>SM</sup> KB Home

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	17.9%	12.3%	11.9%	11.6%	11.5%
Return on Equity	24.5%	15.8%	14.4%	13.6%	13.2%
Operating Margin	15.3%	11.6%	11.2%	11.1%	11.1%
Free Cash Flow	138	925	36	61	366

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.2x	1.6x	0.1x	0.2x	0.7x
Asset Replacement Ratio	1.3x	0.9x	1.1x	1.1x	1.1x
Tax Rate	23.8%	23.5%	24.0%	24.0%	24.0%
Net Debt-to-Equity Ratio	41.2%	25.3%	28.8%	30.9%	26.1%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Nov)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	6,904	6,411	6,520	6,787	7,139
% Change	20.6%	-7.1%	1.7%	4.1%	5.2%
Gross Profit	1,621	1,372	1,394	1,436	1,510
% Change	NA	NA	NA	NA	NA
EBITDA	1,246	916	926	956	1,004
% Change	41.5%	-26.5%	1.2%	3.2%	5.1%
Net Interest & Other Income	17	29	22	22	22
<b>Net Income (Adjusted)</b>	<b>817</b>	<b>590</b>	<b>571</b>	<b>588</b>	<b>618</b>
<b>% Change</b>	<b>44.6%</b>	<b>-27.7%</b>	<b>-3.3%</b>	<b>3.0%</b>	<b>5.1%</b>

## Free Cash Flow Data (Nov)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont. Operations (GAAP)	817	590	571	588	618
Depreciation & Amortization	35	40	39	41	43
Change in Working Capital	(746)	261	(607)	(600)	(327)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	78	71	74	76	79
Capital Expenditure	(45)	(37)	(41)	(43)	(46)
<b>Free Cash Flow</b>	<b>138</b>	<b>925</b>	<b>36</b>	<b>61</b>	<b>366</b>
<b>% Change</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Share / Issue Repurchase	(166)	(301)	(200)	(200)	(200)
Cost of Dividends Paid	(52)	(58)	(62)	(57)	(51)
Change in Debt	(365)	(3)	0	0	0

## Balance Sheet Data (Nov)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	330	727	500	304	418
Trade Receivables	326	367	356	370	389
Other Current Assets	5,968	5,498	6,008	6,555	6,825
Property, Plant & Equipment	0	0	0	0	0
Other Non-Current Assets	87	57	57	57	57
<b>Total Assets</b>	<b>6,711</b>	<b>6,648</b>	<b>6,920</b>	<b>7,286</b>	<b>7,690</b>
Short-Term Debt	1,839	1,690	1,690	1,690	1,690
Other Current Liabilities	1,153	1,148	1,093	1,107	1,125
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	NA	NA	NA	NA	NA
<b>Total Liabilities</b>	<b>2,991</b>	<b>2,838</b>	<b>2,783</b>	<b>2,797</b>	<b>2,815</b>
<b>Total Equity</b>	<b>3,661</b>	<b>3,810</b>	<b>4,138</b>	<b>4,488</b>	<b>4,875</b>
<b>Total Equity &amp; Liabilities</b>	<b>6,652</b>	<b>6,648</b>	<b>6,920</b>	<b>7,286</b>	<b>7,690</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Homebuilders

## Company Description

KB Home is one of the largest US homebuilders with roughly 3% market share. The company builds single family homes, townhomes, and condos for first-time, move up, and active adult buyers. KBH is positioned in roughly 40 markets with around 70% of revenues attributable to the West and Central regions.

## Investment Rationale

We rate KBH shares Neutral. On the positive side, we view KBH as a well-positioned builder given its high exposure to first-time homebuyers and improving ROE. However, we think shares are fairly valued at current levels.

## Stock Data

Average Daily Volume

1,058,247

## Quarterly Earnings Estimates

	2023	2024
Q1	1.46A	1.56E
Q2	1.95A	1.67E
Q3	1.81A	1.88E
Q4	1.87A	2.34E

**Exhibit 1: KB Home F4Q23 variance table**

KB Home beat forecasts on deliveries and gross margin

Income Statement	Variance vs BofAe					
	4Q22	4Q23	YoY	BofAe	4Q23	Δ
Home Sales (\$ in mms)	\$1,932	\$1,660	(14.1%)	\$1,727	\$1,660	(4%)
Homebuilding Gross Margin ex-impairments	23.9%	20.7%	(13.1%)	20.5%	20.7%	24 bps
Homebuilding SG&A % of revenue	8.0%	9.9%	22.6%	10.0%	9.9%	-15 bps
Homebuilding Operating Margin	14.4%	10.9%	(24.5%)	10.5%	10.9%	37 bps
Pre-tax Margin	14.7%	11.9%	(18.8%)	11.1%	11.9%	82 bps
<b>Operating EPS</b>	<b>\$2.47</b>	<b>\$1.85</b>	(25.3%)	<b>\$1.79</b>	<b>\$1.85</b>	<b>3%</b>
GAAP EPS	\$2.47	\$1.85	(25.3%)	\$1.79	\$1.85	3%
Regional Results	4Q22	4Q23	YoY	BofAe	4Q23	Δ
Deliveries (units)	3,786	3,407	(10.0%)	3,580	3,407	(4.8%)
Average Delivered Price (\$000s)	\$510.4	\$487.4	(4.5%)	482	\$487.4	1.1%
<b>Total Orders</b>	<b>692</b>	<b>1,909</b>	175.9%	<b>2,345</b>	<b>1,909</b>	<b>(18.6%)</b>
<b>Average Selling Price (\$000s)</b>	<b>\$524</b>	<b>\$489</b>	(6.8%)	<b>471</b>	<b>\$489</b>	<b>3.6%</b>
West orders	330	561	70.0%	710	561	(21.0%)
Southwest orders	193	471	144.0%	502	471	(6.2%)
Central orders	100	466	366.0%	650	466	(28.3%)
Southeast orders	69	411	495.7%	483	411	(14.9%)
Backlog Units	7,662	5,510	(28.1%)	5,773	5,510	(4.6%)
Backlog Value (\$ in mms)	\$3,692	\$2,668	(27.7%)	2,774	\$2,668	(3.8%)
Avg Price in Backlog	\$481.8	\$484.2	0.5%	481	\$484.2	0.7%
Backlog Conversion Ratio	35.2%	48.6%	38.1%	51.1%	48.6%	-247 bps

Source: BofA Global Research estimates, Company Data

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## Price objective basis & risk

### KB Home (KBH)

Our PO of \$64 is based on 1.2x price to 2024E book value, in-line with KBH's historical multiple. KBH's multiple is a discount to our homebuilder coverage universe (1.6x) given its lower return-on-equity profile.

Upside risks: 1) Better than expected gross margins, 2) Faster than anticipated improvement in ROE, 3) De-leveraging through debt paydown, 4) Better than expected pricing power, 5) Better than expected SG&A leverage.

Downside risks: 1) Cost pressures weighing on gross margins, 2) Slower than anticipated improvement in ROE, 3) An inability to de-lever with debt paydown, 4) Softer than expected pricing power, 5) Worse than expected SG&A leverage, 6) Slowing US economy.

## 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
<b>BUY</b>				
	Armstrong World Industries, Inc.	AWI	AWI 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
<b>NEUTRAL</b>				
	Builders FirstSource Inc	BLDR	BLDR US	Rafe Jadrosich
	Dream Finders Homes, Inc.	DFH	DFH US	Rafe Jadrosich
	KB Home	KBH	KBH US	Rafe Jadrosich
	Lennar Corporation	LEN	LEN US	Rafe Jadrosich
<b>UNDERPERFORM</b>				
	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

## **IQmethod<sup>SM</sup> Measures Definitions**

### **Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### **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

### **Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

### **Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### **Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### **Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### **Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### **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**

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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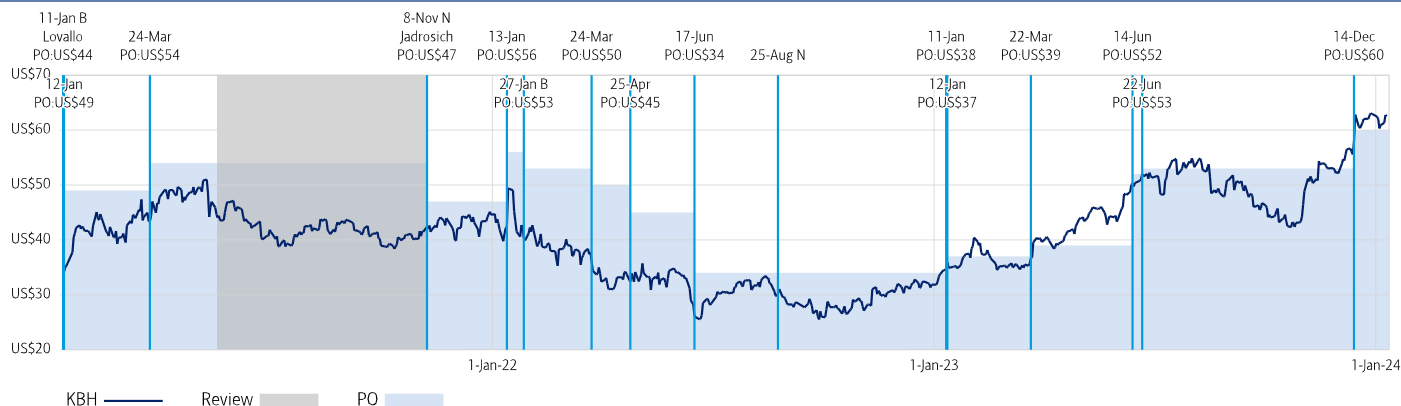
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### KB Home (KBH) Price Chart



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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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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Neutral	≥ 0%	≤ 30%
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