Student Investment Fund

Consumer Discretionary Group

Daniel Carpenter, Nikiel Kim, Lee Nero

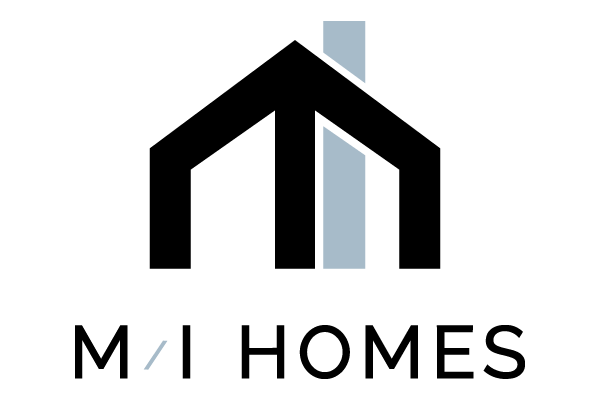
Trade Recommendation for MHO

The Consumer Discretionary group for the University of Oklahoma is writing this document to recommend selling the Fund’s 1800 shares in M/I Homes. The shares are trading for $44.36 as of end of day November 17, 2020. The groups analyst report on M/I Homes is located on the next page.

Consumer Discretionary Analyst Report: Daniel Carpenter, Nikiel Kim, Lee Nero

Michael F. Price Student Investment Fund

November 10, 2020



Date: November 18, 2020 Forward P/E: 6.52

Company Ticker: MHO Sector Forward P/E: 9.70

Sector: Consumer Discretionary Market Price: $44.54

Industry: Household Durables Forecasted Price: $35.83

**Recommendation: Sell**

**Company Summary**M/I Homes is a single-family homebuilder who also offers mortgage-banking services to home buyers and title services. Their homebuilding operations are designing, marketing, and construction, and sales of single-family homes and attached townhomes. M/I Homes operates across three major business segments: Northern Homebuilding, Southern Homebuilding, and Financial Services. The Financials Services segment provides mortgages, title insurance, and closing services through its subsidiary, M/I financial.

**Industry Outlook**  
Per IBISWorld, revenue for the US homebuilder industry is expected to grow at a yearly rate of 2.6% over the next five years. A short-term burst in activity is likely for homebuilders, as near-zero interest rates will lead to an increase in the construction of homes. However, we believe that a return to moderate interest rate levels in the short-to-mid-term will ease growth in the housing market – resulting in increased inventory levels and a decline in new contracts. Following economic recovery from COVID-19, the industry faces uncertainty in consumer creditworthiness, a continuing increase in the price of raw materials needed for home construction, and an unlikely increase in millennial demand for homeownership. MHO is uniquely exposed to these factors because of its homebuilding operations.

**Earnings Forecast**



Our earnings forecast for M/I Homes is based on numerous drivers such as revenue growth year over year, mortgage loans held for sale as a percentage of sales, etc. (see our earnings forecast to review all drivers used). Some of these drivers are basic but some are industry specific. Our earnings forecast uses data from as far back as Q1 2016 and forecasts all the way out to Q3 2021. Almost all line entries are based on the drivers mentioned above, which are based on historical averages and regression analysis.

**Valuation**





A standard long-term growth rate of 3.50% is used, while the short-term growth rate comes from historical trends (averages) year over year. The short-term growth rate we calculated was 15.28%. The cost of equity we calculated was 13.81%. The Cost of equity is dependent on the long-term growth rate and the firm forward P/E ratio. Additionally, the Q3 Earnings Call revealed that management did not plan to aggressively service existing debt. Although the cost of equity may seem relatively high, we believe these factors and forward P/E ratios among comparable firms justifies this decision. The sector forward P/E ratio was pulled from Yardeni Research’s November 11th, 2020 report.

**Sensitivity Analysis**

While we have an idea of what the most likely equity value, and subsequently, the equity value per share is, we have also sketched out other equity value, and the probabilities of these values. The equity value per share that we believe is the most likely is $34.02.



**Conclusion**

Based on the analysis provided above, we recommend selling our position in M/I Homes. Based on our analysis and calculations, we believe that M/I Homes shares are overvalued by around 23%, with a value of $34.02.

