Street Takeaways - Home Depot Q4 Earnings
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- **Overview:**
    - Stock was up 1.4% yesterday following Q4 results, which showed EPS $0.11 ahead of consensus while comps +5.8% beat by 210 bp. Gross margin declined slightly and fell below consensus, while 110 bp of SG&A leverage outpaced estimates and more than offset the gross margin miss. Lower tax rate also highlighted as driving some of the earnings beat. Initial FY17 guidance called for EPS growth of 10.5%, or $7.13 vs consensus $7.16, with comps +4.6% vs consensus +4.1%.
    - Discussion of the quarter was largely upbeat, with notes highlighting strong top-line trends as comps were steady throughout the quarter (Nov +5.7%, Dec +7.1%, Jan +4.7%) and across all product lines. Seemingly not a lot of concern around the below-consensus EPS guidance for FY17 as analysts consistently highlighted management's conservative history with initial targets as well as housing trends that continue to be a tailwind - notably management indicated that despite a difficult comparison for February (+11.8% US), they were planning for a positive comp and are thus far beating the plan. Increase in dividend payout ratio and repurchase authorization also well-received, if not unexpected.
    - Thoughts on the stock continue to be largely upbeat with 72% of firms at buy, which compares to average of 49% for the S&P. Bullish theses continue to center around housing momentum and belief that the cycle has plenty of life left in it, coupled with management's strong execution history and the likelihood for estimates continue to increase steadily - this led to a slew of target increases following the quarter, with analysts talking up increased conviction in forecasts along with rolling over multiples to the coming year. More cautious firms generally concede the current operating momentum and management's execution, but believe that the housing cycle is in later stages and that most of the good news is already baked in. Average price target of $153.43 represents a 6% premium to yesterday's close.
- **Analyst Commentary:**
    - **Credit Suisse** analyst Seth Sigman - increases target
        - Says they were encouraged by strong Q4 results, short-term commentary and numerous initiatives that should support double digit EPS growth in 2017
        - Highlights that sales momentum continued into February, which is the most difficult comparison in Q1 - believes weather helped but was not the primary driver
        - Notes that gross margin was guided to decline 15 bp and be offset by SG&A leverage - comments that the company has historically been able to deliver SG&A leverage ahead of guidance provided early in the year
        - Rating is Outperform, target to $154 from $148 - reflects 21.4x 2017 and 19.1x 2018 EPS, applying a premium to the market that is consistent with recent history; while noting the stock is not cheap and it's well owned, sees steady gains through 2017 with upside to EPS and potentially relative valuation as well after the recent pullback
    - **Telsey Advisory** analyst Joseph Feldman - increases target
        - Labels the Q4 results impressive with a good outlook for 2017 - despite concerns around the housing recovery being in the mid-to-late stages, sees performance and commentary indicating stability in the trend
        - Believes the home improvement sector remains well positioned to benefit from continued modest GDP growth, home price appreciation, and increased household formation
        - Sees these trends reflected in the company's strong outlook, with potential upside from: robust demand for home improvement, automation, and maintenance products; productivity initiatives driving better expense leverage; and ongoing share buybacks
        - Rating is Outperform, target to $154 from $150 - based on P/E of 21.5x to new 2017 EPS
    - **Nomura Instinet** analyst Jessica Schoen Mace - increases target
        - Believes that 2016 results and 2017 guidance show the company's ability to reach 2018 targets ahead of schedule - including the 14.5% operating margin, which they expect to be achieved in 2017
        - Says they are also encouraged by strong anticipated returns to shareholders in new

capital allocation plans
        - Says they have a high level of confidence in company's ability to achieve targeted expense control (50 bp leverage in 2017), following strong performance in 2016 when SG&A leveraged by 70 with opex growth ~40% of sales growth (ex-data breach)
        - Rating is Buy, target to $160 from $155 - implies 22.4x 2017 EPS and 19.9x 2018 EPS, said to reflect a slight premium to the five-year average, which they see as appropriate given company's strong track record and market share opportunity seen in newer parts of the business
    - **RBC** analyst Scot Ciccarelli - increases target
        - Highlights above-consensus comps despite difficult holiday selling season and likely some election-related disruptions early in the quarter - firm believes investor expectations were in the 5.0-5.5% range
        - Notes that initial guidance has been very conservative over the last several years - new FY17 EPS is $7.20 vs guidance for $7.13
        - Believes the most important macro factors driving home improvement remain favorable: housing inventories, home prices, PFRI
        - Rating is Outperform, target to $158 from $153 - cites roll forward of model by one period
    - **Piper Jaffray** analyst Peter Keith - increases target
        - Notes that there was healthy sales performance across the board during the quarter - gross margin slightly below consensus while better than expected SG&A leverage and lower tax rate drove the beat
        - Notes that if there was any disappointment, it was with the 2017 initial guidance - but notes that the company has a long history of beat and raises
        - Target to $144 from $121 - slightly increased multiple to 18x (from 17x) to account for better than expected EPS growth and are now basing target on 2018 EPS
        - Maintains Neutral - says they remain on the sidelines for following reasons: tough compare for Q1 despite solid trends thus far; concerns on the rise in the 30-year rate; and potential for slight moderation in the remodel trend due to a slowdown in cash-out refis

Reference Links:

- The Home Depot to Present at Raymond James 38th Annual Institutional Investors Conference

Industries: Retail (Home Improvement)
Primary Identifiers: HD-US
Related Identifiers: HD-US
Subjects: Street Takeaways, Street Takeaways - Earnings
Related Stories:

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- StreetAccount Consensus Metrics Preview - Home Depot Q4 Earnings