

SMART YIELD

Income Fund

Finding Efficient Frontiers

D·R·HORTON
America's Builder

INVEST/STAY CONNECTED

INITIAL REPORT April 26, 2022

LAST UPDATED April 26, 2022

D.R. HORTON, INC.

Common shares \$74.19 Recommendation: Buy / Price Target:\$90

[D.R. Horton, Inc](#) (DHI) is the largest homebuilder in the U.S. The company constructs and sells homes under the of D.R. Horton, Emerald Homes, Express Homes, and Freedom Homes brands. DHI also operates mortgage, title insurance and a rental operations segment. Rental operations develop, construct, lease, own and ultimately sell multi-family and single-family rental properties. Recently, DHI reported earnings for the quarter ending in March and showed a 60% increase in net income to \$4.03 per share versus a \$3.37 consensus. The Company's pre-tax income from rental operations grew to \$102 million (28 cents per share) compared to a loss in the prior year. DHI also reported a small decrease in backlog of 6% year over year.

Although we see margins and earnings returning closer to normal levels over the next few years, we project that DHI will have a strong cash build through 2024 of over \$32 per share. Simultaneously we see the possibility of some positive share repricing based on the growing high margin rental operations income. DHI may decide to continue owning some of these projects permanently, which would be a positive. Rental real estate investment trusts Avalon Bay (AVB) and Equity Residential (EQR) trade at earnings multiples of over 60 X 2022 earnings.

On the recent conference call management reported a decrease of 10% in sales orders combined with a 10% increase in value and commented: "New home demand remains very strong despite the recent rise in mortgage rates". And: "We also now expect our total rental platform inventories to grow by more than \$1.5 billion in fiscal 2022 based on current projects in development and a significant pipeline of our future projects. We are positioning our rental operations to be a significant contributor to our revenues, profits and returns in future years".

Our price target of \$90 is based on the return to normal earnings and 10 X our 2024 EPS combined with cash build of over \$30 per share through 2024. We don't believe the shares are overpriced based on the current less than 5 X 2022 consensus PE multiple.

2022 PROJECTIONS IN MM	2022
Revenue	\$34,440
Gross Profit	\$11,021
Operating Income	\$7,979
EPS	\$17.11
EBITDA	\$7,979
Capitalized Expense	\$300
Cash Flow	\$5,764
Equity Dividends	\$319
Equity Dividends per share	\$.90
Cash Flow Dividend Coverage	1807%
Retained Cash Flow	\$5445
Revenue Growth	24%
Cash Flow Yield Vs. Equity	22.5%
EV/EBITDA	3.89
P.E Ratio	4.23
Enterprise Value	\$31,049

[Recent DHI Presentation](#)



BROXTON CAPITAL ADVISORS

D.R. HORTON, INC. as of 3/31/2022

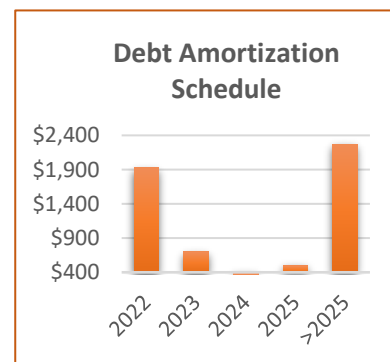
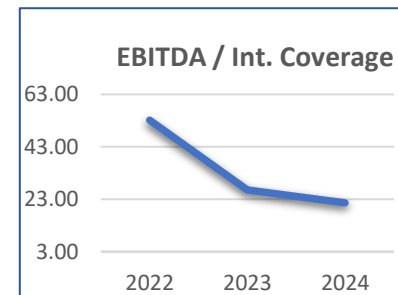
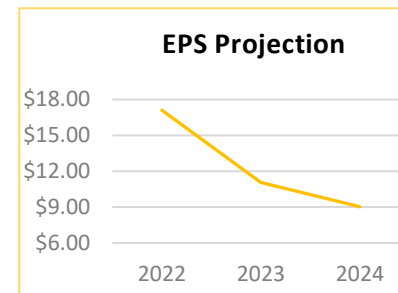
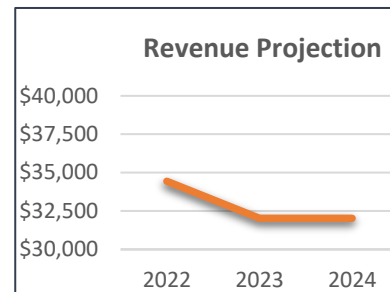
Tuesday, April 26, 2022

share price (DHI) \$72.34

PROJECTIONS IN MM	2022	2023	2024
Income Statement			
Revenue	\$34,440	\$32,029	\$32,029
Gross Profit	\$11,021	\$8,648	\$8,007
Operating Income	\$7,979	\$5,302	\$4,327
Pre-Tax Income	\$7,979	\$5,302	\$4,327
Net Income	\$6,064	\$3,923	\$3,202
EPS	\$17.11	\$11.07	\$9.03
Homes Closed est.>	89,000	87,000	90,000
EBITDA	\$7,979	\$5,302	\$4,327
Interest*	\$150	\$200	\$200
Capitalized Expense	\$300	\$300	\$300
Cash Flow	\$5,764	\$3,623	\$2,902
Equity Dividends	\$319	\$319	\$319
Cash Flow Dividend Coverage	1807%	1136%	910%
Retained Cash Flow	\$5,445	\$3,304	\$2,583
Retained Cash Flow Sum	\$5,445	\$8,749	\$11,332
Revenue Growth	24%	-7%	0%
Valuations			
Cash Flow Yield Vs. Equity	22.5%	14.1%	11.3%
EV/EBITDA	3.89	5.86	7.18
P.E Ratio	4.23	6.53	8.01
Enterprise Value	\$31,049		
Total Debt	\$5,412		
Equity Market Cap	\$25,637	\$25,637	\$25,637
Debt Ratios			
EBITDA/Interest Coverage ratio	53.19	26.51	21.63
Debt/EBITDA	0.68	1.02	1.25
Liquidity			
Cash	\$1,663		
Borrowing Availability est.	1,000+		
Total Assets	\$26,685		
Total Liabilities	\$9,567		
Book Value per share	\$48		
Debt			
Borrowings	\$5,412		
Total	\$5,412		

NOTES:

*DHI capitalizes interest costs associated with inventory, these costs are charged to cost of sales



Disclosures

Previous reports are available upon request. Smart Yield Fund targets a mix of different security classes that contain the risk of loss. Investors should carefully consider the Fund's investment objectives and risk factors before investing. Investing involves risk, including possible loss of principal. Investors should consider the loss of principle and targeted returns are not guaranteed. Individual investors in Smart Yield are generally required to be accredited investors. Smart Yield is a fund operated through individual accounts creating the composite. Smart Yield Fund is a new product with an inception date of September 30, 2020, and as such does not have historical data. Asset Mix Projections on page 2 and 6, Smart Yield Portfolio Metrics on page 5 are estimated or targets of the fund. Asset class mix and targets may change based on the direction of the managers. Portfolio allocation projected annual return and beta assumption for each asset class on pages 7-10 are estimated. Beta for the fund and each asset class is estimated versus the S&P 500. The average beta for the entire fund is projected to be .32. Beta is a measure of the fund's volatility in relation to S&P 500 Index. This index has a beta of 1.0. The fund targets a total gross return before fees and expenses of 9.24%. The fund projects a blended return based on income securities and capital gains. Smart Yield attempts to continuously improve the value of investment portfolios by investing in corporate bonds, convertible bonds, other types of bonds (investment grade and sub-investment grade, [which may also have limited liquidity]), dividend paying equities, non-dividend paying equities, ETFs, including leveraged ETFs, and other securities. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. All securities types mentioned in this brochure have the risk of loss. Long term strategies purchase securities which are underpriced according to our appraisal methodologies. Broxton uses regression analysis to obtain an average appraisal value for an individual company and places a priority on the securities of companies with improving financial performance and or additional catalysts that provide for increases in earnings and valuation. We use financial modeling, technical analysis, proprietary and third-party research. Smart Yield does not have any capitalization (market size), sector or industry allocation mandates. Asset class allocation percentages may be changed without notice. Broxton deploys technical analysis and momentum as indicators of movement for shorter term strategies, that may not involve deep fundamental analysis. Shorting (selling and then buying) of securities can be used for hedging and as a long term or short-term strategy. 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