

NVR, Inc. (NYSE: NVR)

Sector: Homebuilder (NAICS: 236117)

Intrinsic Value	Current Price	52 Week High	52 Week Low	Beta	P/E	Market Cap	Dividend Yield
\$1,180.00	\$930.70	\$1100.00	\$830.00	0.95	17.72	\$4.2B (Mid Cap)	N/A

Industry Trends

The homebuilding sector has continued its recovery from the economic downturn in 2008. In August, single-family homes starts hit a five-year high pointing to resilience in the housing market recovery in the face of higher mortgage rates. With the Federal Reserve keeping interest rates at nearly 0% for the near future historically low mortgage rates will help the housing recovery continue.

Investment Thesis

NVR is a conservative homebuilder who is unique in respect to its lot acquisition strategy. Management has a proven record of returning equity to shareholders through their stock buyback programs. NVR's backlog is up over 30% year over year and I am expecting 2014 FCF to approach \$300mm. With a market cap of \$4bn net debt, NVR has a free cash flow yield of 7.5%.

Business Summary

NVR constructs and markets single-family detached homes, townhouses, and condominium buildings. NVR also operates a mortgage banking business through a wholly owned subsidiary, NVR Mortgage Finance, Inc. They operate in four geographic locations including, Mid-Atlantic, Northeast, Mideast, and Southeast. In 2012, the Washington D.C. and Baltimore metro areas accounted for roughly half of all homebuilding revenues. NVR's lot acquisition strategy is predicated upon avoiding the financial requirements and risks associated with direct land ownership and development. Instead NVR acquires finished lots at market prices from various third party land developers pursuant to fixed price purchase agreements. These purchase agreements require deposits, typically ranging up to 10% of the aggregate purchase price of the finished lots. This strategy allows NVR to minimize market risk and to operate with less capital, thereby enhancing rates of return on equity and total capital.

NVR 5-year stock performance vs. S&P 500:



Corporate Social Responsibility:

ESG Disclosure Rating	14.05 (Ind. Avg.: 14.64)
Environmental Disclosure Score	N/A (Ind. Avg.: 7.95)
Carbon Disclosure Score	N/A (Ind. Avg.: 22.50)
Social Disclosure Score	8.77 (Ind. Avg.: 12.12)
Governance Disclosure Score	51.79 (Ind. Avg.: 50.22)
Equal Opportunity Policy	0 (Ind. Avg.: 0)
Community Spending	N/A
Total Energy Consumption	N/A

Competition:

- Three of NVR's major competitors are: DR Horton Inc. (\$5.9bn), PulteGroup, Inc. (\$6.2bn) and Ryland Group Inc. (\$1.8bn).

Pros:

- Conservative homebuilder that has been profitable for the past sixteen years.
- Management's commitment to buying back shares (300,000 shares, or 6% of shares outstanding, in the latest quarter).
- Low capital commitments associated with the lot acquisition strategy.
- Current backlog shows a growth of home sales under contract of 33% year over year.

Cons:

- Geographic Risk with 50% of NVR's revenue in the D.C., Baltimore metro area.
- Investment thesis is relying on NVR's ability to move its backlog into revenue for 2014.
- The ability of the housing market to continue its recovery and not go into a double dip recession.
- Regulation on the banks making it very difficult for homeowners to take out mortgages to purchase homes.

Value Estimate:

\$1120 - \$1520

(2016-2018)

Estimated Real Annual Return:

6%-14%

Overall Rating:

Expected inflation	3%
Current EPS	54.00
Forecasted EPS Growth	15%
Credit Quality	BBB
ROE	14.0%
ROA	8.8%
Price/Book	3.01
Debt/Equity	0.5
Debt/Capital	0.27
Current Ratio	4.09
Price/Cash Flow	17.44
10 yr. Risk Free Rate	2.8%
WACC	8.7%

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