

Home Depot INC Ticker: HD Sector: Consumer Discretionary Industry: Home Improvement Retail	Intrinsic Value: \$ 162.7 Current Price: \$108.34 Stop Loss: \$ 85.79 Upside Review: \$ 150	TTM P/E: 25.15 Forward P/E: 24.16 Beta: 0.96	Market Cap: \$ 140.958B Dividend Yield: \$1.88 (1.78%) 52 Week Range: \$ 73.96 – \$109
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**Business Summary:**

The Home Depot, Inc is a home improvement retailer sells a wide assortment of building materials, home improvement and lawn and garden products and provide a number of services. Home Depot operates throughout the U.S., Canada, China, and Mexico

**Industry Trends:** While the housing market in general remains challenged after peaking in the summer of 2006, it now appears to be improving after many difficult years. S&P Economics estimates a 10% increase in starts to 1,020,000 in 2014. The aging of homes, coupled with the retirement of many baby boomers, provides a solid demographic driver and should lead to continued home improvement expenditures. In addition, the U.S. home ownership levels will drive market growth, because homeowners tend to spend more to maintain and improve homes than do renters. The U.S. Census Bureau reported that in the 2014 second quarter, home ownership stood at 64.7%, levels last seen in 1995.

**Investment Thesis:**

Home Depot is currently the biggest Home Improvement Retailer listed in US stock market. HD's retail sales continuously increase reflecting new retail store openings and an approximately 4.6% increase in same store sale. In addition its operating margins widening driven by continued tight expense control, supply chain benefits from the recent investment in rapid deployment centers, and an improving mix. We believe HD is a buy.

**5 Year Stock Performance:**



(Yahoo!)

**Competitor Comparison:**

Comp Source	Bloomberg	% Rev. by Industry - FY2014	Region	North America	Relative Valuation
01 Home Products Stores	100%				HD: 23.90, 15.34, 39.11
					Low: 5.43, -5.67, 30.00
					High: 13.86, 1.89, 15.94
					Median: 5.20, -4.90, 22.00

  

Name	Mkt Cap (USD)	Last Px (USD)	Chg Pct 1D	Chg Pct	Rev - 1 Yr Gr:Y	EPS - 1 Yr Gr:Y	P/E	ROE	Dvd Yld	ESG Sta:Y-1
Average	23.35B	62.43	1.90%	2.29%	9.10%	14.26%	26.39	21.32%	0.79%	18.17
001 HOME DEPOT INC	141.32B	107.24	2.69%	3.68%	5.43%	24.75%	24.88	49.16%	1.68%	27.27
002 LOWE'S COS INC	67.74B	69.63	1.78%	2.85%	5.73%	26.63%	27.15	21.81%	1.18%	27.75
003 HDNA INC	11.99B	10.53	-0.91%	-1.11%	-5.69%	-	24.32	4.19%	1.07%	22.49
004 TRACTOR SUPPLY COMPANY	11.30B	83.11	2.14%	6.46%	10.59%	14.47%	31.24	29.20%	0.73%	12.92
005 BEACON ROOFING SUPPL	1.22B	24.76	3.68%	11.13%	3.85%	27.33%	23.14	6.85%	0.00%	11.16
006 LUMBER LIQUIDATORS H...	1.73B	64.11	0.93%	0.52%	22.98%	64.91%	26.60	21.96%	0.00%	12.92
007 BED BATH & BEYOND INC	14.39B	77.53	2.47%	1.94%	5.40%	4.98%	15.85	26.50%	0.00%	26.32
008 WILLIAMS-SONOMA INC	7.25B	79.82	1.49%	6.64%	8.53%	11.58%	26.00	25.63%	1.63%	22.01
009 SMITH (A.O.) CORP	5.45B	60.89	1.62%	8.71%	9.39%	23.91%	26.59	15.34%	0.99%	11.16
010 PIER 1 IMPORTS INC	1.54B	17.15	1.66%	13.88%	3.92%	-15.57%	19.71	20.75%	1.40%	12.92
011 RESTORATION HARDWARE...	3.64B	91.95	3.21%	-3.35%	30.00%	-	44.85	13.10%	0.00%	12.92

Information from: Bloomberg, Value Line, S&P Net Advantage, Yahoo

**Competitive Analysis:**

Home Depot has maintained a consistent strategic framework comprised of three key initiatives: Customer Service; Product Authority; and Disciplined Capital Allocation, Productivity and Efficiency. By introducing innovative new products, creating an emotional connection with its customer, and providing a seamless shopping experience across multiple channels, Home Depot gains a strong market position.

**Pros:**

- Home Depot is the world largest home improvement retailer, results in advantage over competitors by obtaining favorable pricing and higher priority in having orders filled by suppliers.
- Interconnected Retail enable customers to buy how, when and where they want.
- Have both quality assurance and engineering resources that are dedicated to overseeing the quality of all of products

**Risk Factors:**

- A recovery in housing activity will take longer than anticipated.
- Uncertain costs related to a massive data breach
- Not timely identify or effectively respond to consumer needs, expectations or trends, which could adversely affect customer relationship, the demand for products and services, and market share.

**Total Return Estimates**

3 Yr FV Reversion: 12%

5 Yr FV Reversion: 7%

**Key Valuation Assumptions**

Est Revenue Growth: 7.1%

WACC: 7.605%

Expected Inflation: 1.7%

Terminal Growth Rate: 4%

10 Yr Risk Free Rate: 2.82%

Equity Risk Premium: 5.9%

Tax Rate: 37%

**Key Financial Data**

Est 2014 EPS: \$4.48

Est 2015 EPS: \$5.2

3-5 Yr Est EPS Growth: 10%

PEG (TTM): 1.56

Credit Quality: A (Fitch)

ROE: 56%

ROA: 14.01%

Price/Book: 14.13

Price/Cash Flow: 18.65

Debt/Equity: 1.65

Current Ratio: 1.37

Quick Ratio: 0.31

**CSR Characteristics (Home Depot/Industry)**

Human Rights: 0/0 Business Ethics Policy: 1/1

ESG Disclosure: 27.27/22.05 Equal Opportunity: 1/1

Emission Reduction: 1/1 Environment Disclosure: 21.88/18.11

Prepared by Xiaoying Gan (Feb 4, 2014)