|  |  |  |  |
| --- | --- | --- | --- |
| **Company: Home Depot** | **Ticker: HD Current Price: $ 180.19** | **Industry: Consumer Discretionary** | |
| Target Price: $210  Stop Loss: $153 (15%)  52 Week High/ Low: $207.61 / $144.25 | TTM P/E: 24.35  Forward P/E: 18.99  EPS: $9.46 | Beta: 1.02  Credit Rating: A (S&P)  Rating Outlook: Stable | Market Cap: $210.241B  Avg Vol (3M): 5.38m  Dividend Yield: 2.29% |

|  |
| --- |
| **Company Background:** |
| Home Depot, is the world’s largest home improvement retailer based on Net Sales for the fiscal year ended January 29, 2017 ("fiscal 2016"). The Home Depot sells a wide assortment of building materials, home improvement products and lawn and garden products and provides a number of services. The Home Depot stores average approximately 104,000 square feet of enclosed space, with approximately 24,000 additional square feet of outside garden area. As of the end of fiscal 2016, there are 2,278 The Home Depot stores located throughout the United States, including Puerto Rico and the territories of the U.S. Virgin Islands and Guam, Canada and Mexico. |
| **Industry Outlook: (Bloomberg Intelligence)** |
| Consumer hardline retailers face ongoing turbulence in 2018 as they try to balance macroeconomic factors with secular industry trends. They are increasingly dependent on burgeoning online penetration and experiential retail to drive traffic and sales. Any gains are offset by promotions, competition -- particularly from Amazon.com – and technology spending. The pace of the housing recovery may moderate on rising interest rates that could shift spending to renovations, while unseasonable weather compresses demand. Home Depot, Lowe's, Ulta, Bed Bath & Beyond, Pier 1 Imports, Williams-Sonoma and GNC, among others, have increased sales by investing in omnichannel strategies. Tepid customers, political uncertainty under President Donald Trump and rising competition may hurt sales and margin. (12/11/17) |
| **Investment Thesis: (BTIG Equity Research, Alan Rifkin 2/20/2018)** |
| 4Q Accentuates a Record Year, Strong Growth Predicted for 2018 –BUY HD reported operating EPS of $1.69, exceeding our in-line estimate of $1.61 and guidance of $1.60. Comps increased +7.5%, with 170 bp attributable to hurricane recovery. HD issued bullish 2018 guidance for EPS of ~$9.31 on +5.0% comps. EPS guidance represents robust +22% growth excl. $0.19/sh benefit from the 53rd week. Guidance for modest EBIT margin contraction appears conservative, in our view, given likely fixed cost leverage, improving fuel costs trends, and better profitability on hurricane-related sales. While we appreciate HD is investing in its One Home Depot initiative, we believe HD will continue its track record of exceeding guidance given the very positive outlook for home improvement spending and mgnt’s consistently strong execution. We remind investors HD’s initial 2017 guidance called for EPS of $7.13 (vs. $7.46A) and +4.6% comp growth (vs. +6.8%A). We are adjusting our 2018 and 2019 EPS estimates to $9.56 and $10.50 vs. $9.89 and $10.94, with the decrease due entirely to tax rate. Our prior tax rate estimate was (250) bp lower than the 26% guidance. Our gross margin and EBIT margin estimates remain unchanged. We rate shares of HD Buy with a $215 PT based on: 1) positive industry tailwinds; 2) productivity gains and cost reduction; 3) marketshare gains; and 4) FCF and balance sheet capacity. |
| **Investment Risks:** |
| Strong competition could adversely affect prices and demand for our products and services and could decrease our market share; Meeting consumer needs/demands; Controlling labor costs and attracting talented employees; Adopting technology information systems; Uncertainty regarding the housing market, economic conditions, political climate and other factors beyond HD control. Disruptions in the supply chain. Inflation and deflation of commodity prices could affect profits. |
| **Most recent quarter financial highlights (July- Sept 2017):** |
| * Fiscal 2017 sales grew $6.3 billion to $100.9 billion, and an increase of 6.7 from fiscal 2016, while diluted earnings per share grew 13.0% to $7.29. * Versus prior year, our online sales grew 21% in the fourth quarter and 21.5% in fiscal 2017, now representing 6.7% of our total sales * Board announced a 15.7% increase in our quarterly dividend to $1.03 cents per share * Expect 2018 to be another year of growth, with expected sales growth of approximately 6.5% and diluted earnings per share of approximately $9.31. * Total sales per square foot increased 6.7% to $417, the highest level since fiscal 1999. * Tax rate to fall to 26% in 2018 * Plan to repurchase approximately $4 billion of outstanding shares during the year. |

|  |  |
| --- | --- |
| **Financial Performance:** | **Discounted Cash Flow** |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | Millions USD | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 Est | 2020 Est | | Revenue | 78,812.0 | 83,176.0 | 88,519.0 | 94,595.0 | 100,904.0 | 107,767.9 | 111,854.4 | | Operating Income | 9,166.0 | 10,469.0 | 11,774.0 | 13,427.0 | 14,681.0 | 15,741.2 | 16,522.0 | | Net Income | 5,385.0 | 6,162.0 | 7,092.2 | 7,981.1 | 8,757.0 | 10,881.7 | 11,409.0 | | Revenue Growth % | 5.4 | 5.5 | 6.4 | 6.9 | 6.7 | 6.8 | 3.8 | | EBITDA% | 13.9 | 14.8 | 15.6 | 16.3 | 16.6 | 16.7 | 17.0 | | Operating Income % | 11.63 | 12.63 | 13.45 | 14.23 | 14.55 | 14.61 | 14.77 | | Net Income Margin | 6.8 | 7.4 | 8.0 | 8.4 | 8.7 | 10.1 | 10.2 | | D/E | 117.59 | 184.48 | 335.91 | 544.68 | 1858.87 | n/a | n/a | | EPS | 3.76 | 4.57 | 5.52 | 6.47 | 7.40 | 9.46 | 10.20 | | PE Ratio | 20.44 | 22.83 | 22.76 | 21.38 | 28.01 | 19.08 | 17.70 | | Current Ratio | 1.42 | 1.36 | 1.32 | 1.25 | 1.17 | n/a | n/a | | ROE | 35.55 | 58.09 | 89.64 | 149.44 | 298.25 | n/a | n/a | | ROA | 13.20 | 15.77 | 17.11 | 18.74 | 19.73 | n/a | n/a | | Dividend P/S | 1.56 | 1.88 | 2.36 | 2.76 | 3.56 | 4.03 | 4.69 | | FCF | 6,691.2 | 7,327.9 | 8,454.5 | 8,781.2 | 10,799.9 | n/a | n/a | | |  |  |  | | --- | --- | --- | |  | 2013-18 | 2019-23 | | Avg Revenue growth | 6.2% | 5% | | Avg EBITDA Margin | 15% | 17% | | Avg Net Income Margin | 7.9% | 10.1% | | Avg Debt/Equity | 248.67% | 250% | | Avg FCF / EBIDTA Margin | 58.53% | 55.46% | | Cost of Debt | | 2.2% | | Tax Rate | | 36.94% | | Cost of Equity | | 10.4% | | WACC | | 9.6% | | Perpetuity growth rate | | 3.3% |   **Analyst Opinion**   |  |  |  | | --- | --- | --- | | Buy:26 | Hold: 9 | Sell:0 | | Target Price Range | 165-240 | Avg. 213.07 | |  |  |  | | Source: Bloomberg | | | |

|  |  |
| --- | --- |
| **Relative Valuation** | **Total Return** |
| |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | Home Depot | Lowes | Tractor Supply | William Sonoma | Industry Median\* | | P/E | 24.29 | 19.75 | 19.13 | 14.63 | 19.12 | | P/B | 180.68 | 14.34 | 6.60 | 3.32 | 3.40 | | Dividend Yield | 1.98% | 1.81% | 1.69% | 3.02% | 2.89% | | Revn Grth | 6.67% | 5.54% | 7.03% | 2.16% | 5.54% | | NI Grth | 9.72% | 5.77% | -2.22% | -1.2% | -2.22% | | Operating Margin | 13.35% | 7.09% | 9.41% | 8.53% | 7.29% | | Debt / Equity | 1858.87% | 289.38% | 32.58% | 0.00% | 54.85% | | Market Cap | 209.27B | 72.49B | 7.99B | 4.35B | 2.96B | | Revenue TTM | 100.9B | 68.62B | 7.26B | 5.19B | 2.36B | | Net Income TTM | 8.63B | 3.45B | 422.6M | 308.41M | 102.79M | | FCF TTM | 10.13B | 3.94B | 381.05M | 309.11M | 309.11M |   \* Resource: Bloomberg, all data updated to the latest quarter except for Revenue, Net Income, and FCF | |  |  |  |  | | --- | --- | --- | --- | |  | HD | Comparable | S&P 500 | | YTD | -4.95% | -7.42% | 1.64% | | 2017 | 22.89% | 5.24% | 19.33% | | Last 3 Years | 57.04% | -26.87% | 40.56% | | Last 5 Years | 161.14% | 11.72% | 83.8% |   **CSR Characteristics**   |  |  |  | | --- | --- | --- | |  | HD | Industry | | Governance Disclosure Score | 60.71 | 51.79 | | ESG Disclosure: | 33.01 | 19.44 | | Social Disclosure Score | 22.81 | 19.3 | | Environmental Disclosure Score | 22.92 | 17.19 |   Data: Bloomberg data of FY 2016 (CSR) |