



Home Depot (HD)

Updated November 19th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$408	5 Year CAGR Estimate:	5.1%	Market Cap:	\$408 B
Fair Value Price:	\$317	5 Year Growth Estimate:	8.0%	Ex-Dividend Date¹:	11/27/2024
% Fair Value:	129%	5 Year Valuation Multiple Estimate:	-4.9%	Payment Date¹:	12/12/2024
Dividend Yield:	2.2%	5 Year Price Target	\$466	Years of Dividend Growth:	15
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Home Depot was founded in 1978 and since that time has grown into a juggernaut home improvement retailer with over 2,300 stores in the US, Canada and Mexico that generate around \$153 billion in annual revenue. The stock has a market value of \$408 billion, making it one of the larger companies by market capitalization in the US. It trades under the ticker symbol HD on the NYSE.

On February 20th, 2024, Home Depot announced a 7.7% increase to the dividend to \$9.00 per share annualized.

On June 18th, 2024, Home Depot completed its acquisition of SRS Distribution, a leading residential specialty trade distribution company, for an enterprise value of \$18.25 billion. This acquisition will expand Home Depot's total addressable market by \$50 billion to \$1 trillion.

Home Depot reported third quarter 2024 results on November 12th, 2024. The company reported sales of \$40.2 billion, up 6.6% year-over-year. However, comparable sales in the quarter decreased 1.3%. Net earnings equaled \$3.6 billion, or \$3.67 per share, compared to \$3.8 billion, or \$3.81 per share in Q3 2023. Adjusted EPS was \$3.78.

The company spent \$649 million on common stock repurchases year-to-date, compared to \$6.5 billion in the prior year. Average ticket declined 0.8% compared to last year, from \$89.36 to \$88.65. Additionally, sales per retail square foot decreased 2.1% from \$595.71 to \$582.97.

As of the end of 3Q24, Home Depot had cash and cash equivalents equal to \$1.5 billion.

Management updated its guidance for 2024 and expects total sales growth of 4% due to the 53 weeks in the fiscal year and the SRS acquisition, and comparable sales to decline by 2.5% for the 52-week period. Home Depot expects adjusted EPS to decrease by 1% in 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.56	\$5.34	\$6.45	\$7.46	\$9.73	\$10.25	\$11.94	\$15.53	\$16.69	\$15.11	\$15.10	\$22.19
DPS	\$1.88	\$2.36	\$2.76	\$3.56	\$4.12	\$5.44	\$6.00	\$6.60	\$7.60	\$8.36	\$9.00	\$13.22
Shares²	1307	1252	1203	1158	1121	1088	1078	1058	1025	1002	985	930

Home Depot's earnings momentum has been enormous in the past decade as it has been able to fully capitalize on the housing and construction boom that ensued following the Great Recession. Then, in the depths of the COVID pandemic, business boomed as the demand for home remodeling and renovations surged. We see five-year annual earnings per share growth of 8.0%, consisting of comparable sales in the low single digits, a low single-digit tailwind from buybacks, a potential low single-digit tailwind from operating margin improvements, and acquisitions. Average ticket sales increases will also continue to add to the top line.

On the share repurchase front, Home Depot spent nearly \$8.0 billion and \$6.7 billion in 2023 and 2022, respectively. Effective August 15th, 2023, the company inked a new share repurchase authorization of \$15 billion.

¹ Estimate based on last year

² In millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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In addition, the company's streak of meaningful dividend growth should continue as we see the payout rising at the rate of earnings, reaching \$13.22 per share in five years. Home Depot's 2.2% yield is in line with its historic average. The company has ample room to continue raising the payout in the years to come. Additionally, as it matures it may institute a higher payout ratio target for the dividend, further boosting its dividend growth prospects.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	19.1	22.1	20.3	21.6	19.4	21.0	23.5	24.2	19.6	19.0	27.0	21.0
Avg. Yld.	2.2%	2.0%	2.1%	2.2%	2.2%	2.3%	2.3%	2.0%	2.3%	2.6%	2.2%	2.8%

The share price of Home Depot has improved recently, and the stock trades above our estimate of fair value. Shares trade for 27.0 times our earnings estimate for this year, while we see fair value at 21 times earnings. As a result, we see the potential for a valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

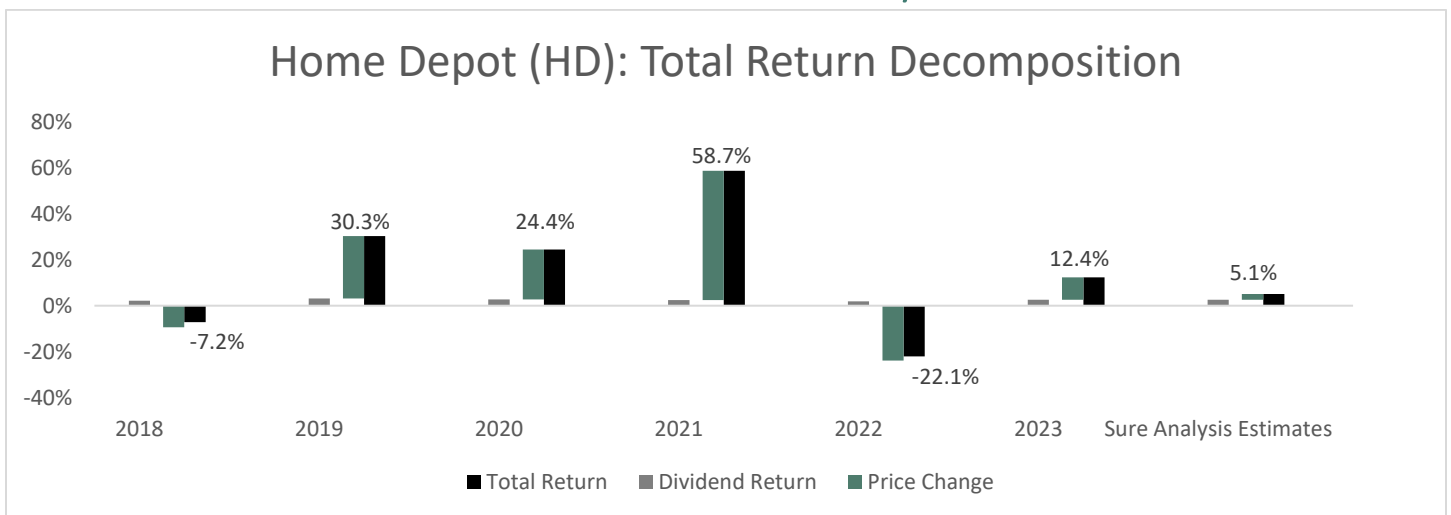
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	41%	44%	43%	48%	42%	53%	50%	42%	46%	55%	60%	60%

Home Depot's payout ratio is above half of earnings, and we expect it will remain in this range for the foreseeable future. That means the dividend is not only safe, but it has room to grow in the future as earnings expand. Home Depot's competitive advantage is in its enormous footprint, strong brand recognition and inventory variety. Supplanting its dominant position in home improvement will be extremely difficult for all comers, including rival Lowe's. The company is likely to suffer during a recession, but weakness would be a buying opportunity for long-term investors. With the coronavirus pandemic forcing many to stay home, home renovations is how many people spent their time, which was reflected in Home Depot's stock, seeing total returns of 24.4% in 2020 and 58.7% in 2021.

Final Thoughts & Recommendation

Home Depot offers investors the chance to own a stock that is dominant in its industry with terrific long-term earnings and dividend growth outlooks. The share price of HD has improved by 13% since our last research report, in August, and it is now trading at 129% of our fair value estimate. We expect total annual returns of 5.1% going forward, consisting of the current 2.2% yield, and 8.0% earnings-per-share growth, partly offset by -4.9% P/E multiple contraction. HD maintains its hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue (\$B)	78.81	83.18	88.52	94.60	100.90	108.20	110.23	132.11	151.16	152.67
Gross Profit	26,915	28,389	30,265	32,313	34,356	37,160	37,572	44,853	50,832	50,960
Gross Margin	34.2%	34.1%	34.2%	34.2%	34.0%	34.3%	34.1%	34.0%	33.6%	33.4%
SG&A Exp.	16,122	16,280	16,801	17,132	17,864	19,513	19,740	24,447	25,406	26,600
D&A Exp.	1,757	1,786	1,863	1,973	2,062	2,152	2,296	2,519	2,862	3,247
Operating Profit	9,166	10,469	11,774	13,427	14,681	15,777	15,843	18,278	23,040	21,690
Op. Margin	11.6%	12.6%	13.3%	14.2%	14.5%	14.6%	14.4%	13.8%	15.2%	14.2%
Net Profit	5,385	6,345	7,009	7,957	8,630	11,121	11,242	12,866	16,433	15,140
Net Margin	6.8%	7.6%	7.9%	8.4%	8.6%	10.3%	10.2%	9.7%	10.9%	9.9%
Free Cash Flow	6,239	6,800	7,870	8,162	10,134	10,723	11,009	16,376	14,005	17,950
Income Tax	3,082	3,631	4,012	4,534	5,068	3,435	3,473	4,112	5,304	4,781

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	40,518	39,946	41,973	42,966	44,529	44,003	51,236	70,581	71,876	76,530
Cash & Equivalents	1,929	1,723	2,216	2,538	3,595	1,778	2,133	7,895	2,343	3,760
Acc. Receivable	1,398	1,484	1,890	1,570	1,604	1,640	1,738	2,550	2,901	3,328
Inventories	11,057	11,079	11,809	12,549	12,748	13,925	14,531	16,627	22,068	20,980
Goodwill & Int.	1,289	1,353	2,102	2,093	2,275	2,252	2,254	7,126	7,449	8,455
Total Liabilities	27,996	30,624	35,657	38,633	43,075	45,881	54,352	67,282	73,572	75,490
Accounts Payable	5,797	5,807	6,565	7,000	7,244	7,755	7,787	11,606	13,462	10,040
Long-Term Debt	14,724	17,197	21,216	23,601	27,028	29,202	31,483	37,238	40,086	44,110
Total Equity	12,522	9,322	6,316	4,333	1,454	-1,878	-3,116	3,299	-1,696	1,044
LTD/E Ratio	1.18	1.84	3.36	5.45	18.59	-15.55	-10.10	11.29	-23.64	42.25

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	13.2%	15.8%	17.1%	18.7%	19.7%	25.1%	23.6%	21.1%	23.1%	19.8%
Return on Equity	35.5%	58.1%	89.6%	149.4%	298.3%			14061%	2050%	1160%
ROIC	19.3%	23.6%	25.9%	28.7%	30.6%	39.9%	40.4%	37.3%	41.6%	33.7%
Shares Out.	1,434	1,346	1,283	1,234	1,184	1,143	1,097	1,078	1,058	1,002
Revenue/Share	54.96	61.79	68.99	76.66	85.22	94.67	100.48	122.55	142.87	152.36
FCF/Share	4.35	5.05	6.13	6.61	8.56	9.38	10.04	15.19	13.24	17.91

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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