

Builder

Earnings Strong Again for The New Home Company

Increases in new home sales revenue, average home price drive profits

By: Brian Croce
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The busy week of builder earnings continued Thursday with The New Home Company reporting a massive revenue increase, fueled by growth in equity in net income, backlog dollar value, and wholly owned community count.

Revenues shot up 204% to \$87 million thanks in part to \$57.9 million in home sales, compared to \$8.2 million in the prior year period and 30 new home deliveries, compared to 10 in the prior year period. The average selling price of those homes jumped to \$1.9 million from \$820,000, primarily due to a product mix shift to higher-priced coastal Southern California communities coupled with the initial deliveries from the company's new Lafayette luxury condominiums in the Bay Area.

The California-based company's CEO Larry Webb was happy with the results. "I am extremely pleased with The New Home Company's execution this quarter," he said in a press release. "We delivered another quarter of significant year-over-year growth in each of our operating segments and posted solid earnings per share of \$0.27."

J.P. Morgan's Michael Rehaut said he expects a modestly negative reaction due to a slightly lowered guidance and results marginally above the Street's estimate. The company lowered its 2015 EPS guidance to \$1.20-\$1.35 from \$1.30-\$1.45, driven entirely by JV income guidance, which was lowered by \$4 million to \$16-\$18 million, according to Rehaut.

Still, Rehaut rates the company neutral. "While we remain highly impressed by NWHM management team's long and successful track record in the industry, and believe it will continue to execute upon its strategy of building a larger and more profitable home building company over the next several years," he said, "we believe the stock's current

valuation fairly reflects the company's earnings prospects over the next one-to-two years."

Webb, when speaking about his company's third quarter performance, likes where New Home is positioned. "Our wholly owned business increased revenues six-fold, thanks to a 200% jump in unit deliveries and a 135% increase in average selling price," he said. "We also ended the quarter with 150% more wholly owned active communities as compared to the third quarter of 2014, and the dollar value of our backlog was up 132%, setting the table for continued growth in the future. Our fee building business generated strong revenues and profitability, driven by significant starts and increased joint venture management fee activity. Our joint venture operations also contributed solidly to the bottom line. These achievements demonstrate our company's commitment to being the premier builder of high-end homes in unique, one-of-a-kind locations and to delivering meaningful growth and profitability to our shareholders."