US EQUITY RESEARCH

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Home Depot

Hold off on works for time being

Analysts
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Company Overview

The Home Depot, Inc. is a home improvement retailer, and it offers a wide assortment of building materials, home improvement products, lawn and garden products, decor products, and facilities maintenance, repair, and operations products. It also provides various services, including home improvement installation services and tool and equipment rental. As at end 2023, the Company operates approximately 2,335 stores located throughout the United States including the Commonwealth of Puerto Rico and the territories of the U.S. Virgin Islands and Guam, Canada, and Mexico. The Home Depot stores average approximately 104,000 square feet of enclosed space, with approximately 24,000 additional square feet of outside garden area. It also maintains a network of distribution and fulfillment centers, as well as various e-commerce websites in the United States, Canada, and Mexico. The Company serves two primary customer groups: do-it-yourself (DIY) Customers and Professional Customers (Pros).

Investment Overview

Largest home improvement retailer in the world. Home Depot has built itself to be the world's largest home improvement company with approximately 17% share in a fragmented ~USD950 billion addressable market, focusing on homeowners DIY customers, professional renovators and contractors (referred to as Pros), and customers that involve homeowners using Pros to complete their project and installation. The company's edge is its wide store network and vast selection offering high-quality products at competitive prices, along with team of knowledgeable sales associates. Its commitment to embrace digital transformation, investing in e-commerce platforms, apps and tools to enhance shopping experience provides it with a competitive advantage. Its strategy for growth can be encapsulated into providing best interconnected experience, growing Pro wallet share through its unique ecosystem, and building new stores – with a plan for 80 new stores over next five years.

A strong track record, but recent acquisition of SRS will put share repurchase on hold for deleveraging. HD has a good track record, posting c.7% revenue CAGR in the last 10 years, with net profit at c.10% CAGR. Home Depot is the leading home improvement with positive traits and set to benefit from positive medium-term tailwinds of an aging house inventory but growth in near term is muted. This is due to still high interest rates impacting larger projects and deceleration in consumption growth leading to company's guidance of just approximately 1% diluted EPS growth for 2024. It has recently announced the definitive agreement to acquire SRS Distribution Inc. for an enterprise value of c.USD18.25bn, which will accelerate its growth in the residential professional customer segment. The acquisition is strategic - HD's largest to date, is expected to be EPS dilutive from a GAAP perspective due to amortisation but accretive from cash EPS in the first year. It will be financed through cash on hand, commercial paper and new unsecured notes, which will lead to a leverage of 2.5x. Management guided that deleveraging will take place over a 24-month period to target 2x leverage, by pausing share repurchases.

Continued moderation in year ahead, with back half of 2024 better. 2023 was a year of moderation for HD with total company sales down by 3% y/y, post the previous three years of exceptional growth. The headwinds from deceleration in personal consumption growth is expect continue, and higher-for-longer interest rates could likely pressure demand for larger projects. For 2024, in its 1Q24 update, management maintains guidance of 1% sales growth, outpacing comp sales, helped by 53rd week contribution, acquisitions made and new stores opened and planned. Management is expecting GPM of 33.9% up 50bp from 2023, operating margin of 14.1% and EPS growth of 1%.

HOLD, TP USD340. Given the softer start on sales in 1Q24 (-2.3% y/y), and expectations of higher for longer interest rates which could continue to impact larger discretionary projects, this could result in potential headwinds to guidance notwithstanding HD's track record of delivering results. We retain our HOLD recommendation with a lowered TP of USD340. This is now based on 5-year historical PE of 21x, but we roll over to FY25F earnings (from +1.5SD above average at 24.6x on FY24F earnings). We believe shares could trade broadly sideways till better clarity on stronger topline growth, while share repurchase takes a back burner with deleveraging on its priority post the recently announced acquisition of SRS.

Risks

Personal consumption growth, housing downturn and elevated interest rates serves as dampener to Home Depot and home improvement retailers' sales and earnings. Upside risks stems from better than expected tail winds in 2H and earnings beat should bigger interest rates cuts materialise leading to higher project spending, hence sales for HD. rates cuts materialise leading to higher project spending, hence sales for HD.

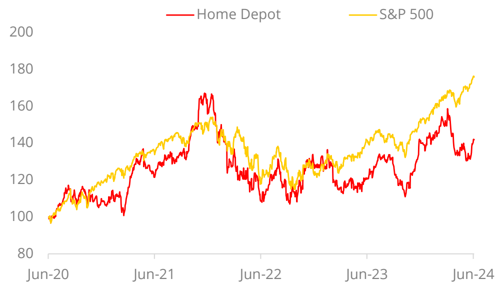
Key Financial Data

Bloomberg Ticker	HD US
Sector	Consumer Discretionary
Share Price (USD)	353.44
DBS Rating	HOLD
12-mth Target Price (USD)	340.0
Market Cap (USDb)	350.5
Volume (m shares)	3.7
Free float (%)	99.9
Dividend yield (%)	2.5
Net Debt to Equity (%)	4,669.6
Fwd. P/E (x)	22.9
P/Book (x)	192.6
ROE (%)	1,363.0

Closing Price as of 20 Jun 2024

Source: Bloomberg, DBS

Indexed Share Price vs Composite Index Performance



Source: Bloomberg

FINANCIAL SUMMARY (USD, M)

FY Jan	FY2022A	FY2023A	FY2024A	FY2025F	FY2026F
Sales	151,157	157,403	152,669	153,735	157,843
% y/y	*14.4*	*4.1*	*(3.0)*	*0.7*	*2.7*
Gross Profit	50,832	52,778	50,960	52,069	53,582
% y/y	*13.3*	*3.8*	*(3.4)*	*2.2*	*2.9*
EBITDA	25,426	26,494	24,362	24,492	25,574
% y/y	*24.6*	*4.2*	*(8.0)*	*0.1*	*4.4*
Net Profit	16,433	17,105	15,143	15,113	15,878
% y/y	*27.7*	*4.1*	*(11.5)*	*(0.1)*	*5.1*
FCF	14,005	11,496	17,946	16,140	16,510
CAPEX	2,566	3,119	3,226	3,157	3,169
EBITDA Margin %	16.8	16.8	16.0	15.9	16.2
Net Margin %	10.9	10.9	9.9	9.8	10.1
ROA (%)	23.1	23.1	19.8	19.0	19.0
ROE (%)	2,050.3	25,529.9	1,162.2	716.9	751.8
Tax Rate %	24.4	23.9	24.0	24.2	24.4

Source: Visible Alpha

VALUATION METRICS

FY Jan	FY2022A	FY2023A	FY2024A	FY2025F	FY2026F
P/E	23.6	19.0	21.6	21.4	20.2
P/B	nm	207.8	313.1	54.1	37.9
Dividend Yield	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	1.7	1.9	2.0	2.0	1.9
FCF Yield %	0.0	0.0	0.1	0.0	0.1

Source: Visible Alpha

CREDIT & CASHFLOW METRICS

FY Jan	FY2022A	FY2023A	FY2024A	FY2025F	FY2026F
Debt / Equity	2,728.1	3,224.3	5,004.1	4,241.0	1,595.8
Net Debt / Equity	(25.9)	30.5	46.4	7.1	4.6
Debt / Assets	64.4	65.9	68.3	62.1	59.7
Net Debt / Assets	0.6	0.6	0.6	0.5	0.5
EBITDA / Int Exp	nm	nm	nm	nm	nm
ST Debt / Total Debt	0.1	0.0	0.0	0.0	0.0
Debt / EBITDA	1.8	1.9	2.1	2.1	2.0
[Cash + CFO] / ST Debt	0.5	1.3	1.6	4.2	5.6
Receivables Days	8.3	7.7	8.0	8.2	8.0
Days Payable	32.5	26.5	24.0	26.3	26.5
Inventory Days	53.3	57.7	50.1	51.6	50.9

Source: Visible Alpha

Target Price & Ratings History

#	Date of Report	Closing Price	12-m Target Price	Rating
1	05 Apr'24	357.87	376.00	HOLD
2	29 May'24	325.91	340.00	HOLD

Source: DBS
Analysts: Zheng Feng Chee
Andy Sim

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**Share price appreciation + dividends*

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