

ValuationBot.ai

D.R. Horton, Inc. (DHI)

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1. Executive summary

Company: D.R. Horton, Inc.

Ticker: DHI

Recommendation: Strong Buy

Current price: US\$158.86

Estimated value: US\$254.16

Upside: 60.0%

Expected IRR: 11.7%

I believe D.R. Horton is undervalued at US\$159. The market is pricing in a slow, late cycle profile with 2.4% revenue growth, 8.5% net income margin, and 10.2% return on equity. I see a different picture. The data suggest stronger fundamentals—scale and Forestar backed lot control support 3.5% growth, low 20s gross margins and SG&A discipline support a 12.5% net margin, and capital returns keep ROE near 15%. Compared with peers trading around 9.5x P/E, 1.3x P/S, and 1.7x P/B, I estimate fair value at about US\$231–US\$277 per share, with a base case of US\$254. That implies about 60% upside from today. My view is that the market underestimates margin resilience and equity efficiency. Earnings updates across November 2025 to May 2026 and buyback execution will test this view. The main risks are rates staying high, elevated land and option charges, and slower Forestar lot delivery. Taking all this together, I rate the shares a Strong Buy over the next 12–18 months.

2. Overview

Company	D.R. Horton, Inc.
Ticker	DHI
Analysis date	Oct 28, 2025
Expected IRR	11.7%
Latest filing	10-Q, Jul 23, 2025
Industry	Residential Construction
Sector	Consumer Cyclical
Recommendation	Strong Buy
Upside potential	60.0%
Exchange	NYSE
Market cap	\$47.36bn
Current price	US\$158.86
Estimated value	US\$254.16

3. Investment summary

Recommendation: Strong Buy DHI (D.R. Horton, Inc.) shares at US\$159.

Thesis: Investors treat Horton as a thin margin cyclical. I think integrated land access and financing, plus disciplined capital returns, sustain 3.5% growth, a 12.5% net margin, and a 15% ROE that the market underappreciates.

Catalysts: Q4 FY2025 results around November 12th 2025 (unconfirmed), Q1 FY2026 around February 7th 2026 (unconfirmed), and Q2 FY2026 around May 8th 2026 (unconfirmed) showing backlog conversion, normalising incentives, and continued buybacks that point to 3.5% growth, 12.5% margins, and 15% ROE.

Valuation: Intrinsic value is US\$231–US\$277 with a base case of US\$254, implying 45%–74% upside from US\$159 and about 60% to the base case.

Risks: Rates stay higher for longer, incentives persist, or Forestar lot supply lags, keeping growth near 2.4%, margins near 8.5%, and ROE near 10.2%, which would shift fair value toward the low end of our range.

4. Company background

Industry

Residential Construction

Description

D.R. Horton is the largest US homebuilder. It buys and develops land (via majority owned Forestar), builds single family homes across price points, and sells them with integrated mortgage, title, and closing services. It also develops residential lots and owns rental and other real estate. Most revenue comes from home closings; financial services and land development provide additional profit and support conversions.

Key products

Single family homes across D.R. Horton, Express, Emerald, and Freedom; mortgage origination via DHI Mortgage; title and closing services; residential lot development via Forestar; rental properties.

Business model

Value proposition: Provide affordable to move up homes nationwide with consistent delivery and financing convenience.

Revenue engine: Home closings drive sales; Forestar supplies lots; mortgage and title services improve conversion.

Cost drivers and investment focus: Land and development spend, construction inputs, incentives; invest in lot pipeline, community count, and SG&A efficiency.

Unit economics

Key unit: Home closing.

Revenue per unit: ~US\$372,000.

Cost per unit: ~US\$291,000 (implied by low 20s gross margin).

Contribution margin: ~US\$60,000 per home (~16% of revenue) after SG&A.

Competitive landscape

Direct competitors: Direct competitors: Lennar, PulteGroup, Toll Brothers, KB Home, NVR.

Relative positioning: Relative positioning: Scale leader with integrated land pipeline and financing that lowers unit costs and speeds turns.

Key threat/trend: Affordability pressure from mortgage rates and input costs keeps incentives elevated and mix skewed lower.

Operating segments

Homebuilding (92%): Core construction and sale of single family homes across brands and price points.

Financial services (4%): Mortgage origination and title/closing services that support buyer

conversion.

Forestar land development (3%): Acquisition, development, and sale of residential lots, largely to Horton communities.

Rental and other (1%): Development, ownership, and sale of rental properties plus other real estate.

Geographic segments

United States (100%): Nationwide footprint with scale in Sun Belt markets and balanced exposure across regions.

5. Financial summary

All financial figures in \$ millions

Fiscal year	2024	2023	2022	2021	2020
Revenue	36,801	35,460	33,480	27,774	20,311
YoY growth	3.8%	5.9%	20.5%	36.7%	15.4%
Adjusted net profit	4,991	4,980	6,139	4,468	2,504
Margin	13.6%	14.0%	18.3%	16.1%	12.3%
Reinvestment	2,849	3,405	4,630	3,285	1,849
FCFE	2,142	1,576	1,508	1,183	655
Adjusted equity	27,801	24,950	21,415	16,624	13,286
Return on equity (ROE)	18.0%	20.0%	28.7%	26.9%	18.8%
Sales to equity ratio	1.32	1.42	1.56	1.67	1.53

6. Investment thesis

Investors treat Horton as a thin margin cyclical. I think integrated land access and financing, plus disciplined capital returns, sustain 3.5% growth, a 12.5% net margin, and a 15% ROE that the market underappreciates.

Lot control and community count support steady growth: The market prices in only 2.4% growth, but I expect 3.5% as supply access and breadth drive steadier volumes. A large controlled lot bank via Forestar and broad community coverage historically support share gains when demand stabilises. Backlog depth and an affordable mix underpin orders even with incentives. As rates ease and cycle times normalise, faster backlog conversion should lift revenue above market expectations.

Integration and scale sustain double digit margins: I see a 12.5% net margin versus the market at 8.5% because integration reduces leakage and boosts conversion. Low 20s home sales gross margins and tight SG&A support through cycle profitability despite incentives. Forestar access moderates land cost spikes and DHI Mortgage supports pricing and close rates. As incentives fade and mix stabilises, margins should land well above what the market assumes.

Forestar pipeline and buybacks anchor mid teens ROE: The market discounts ROE to 10.2%, while I see 15.0% as sustainable. Integrated land, disciplined capital returns, and nationwide scale raise asset turns and protect unit economics. A conservative balance sheet and steady buybacks lift equity efficiency without high leverage. This moat supports durable mid teens returns.

7. Catalysts

Backlog conversion and orders re accelerate Q4 FY2025 results around November 12th 2025 (unconfirmed) and Q1 FY2026 around February 7th 2026 (unconfirmed) should show 3%–4% revenue growth and healthier net orders. This would force the market to revise growth from 2.4% to about 3.5%. A move toward the 50th percentile of simulated intrinsic values near US\$253 implies roughly 59% upside from today.

Incentives normalise and SG&A discipline flows through: By Q2 FY2026 results around May 8th 2026 (unconfirmed), management can point to steady low 20s gross margins and lower incentives, lifting net margins toward 12%–13%. That would reset expectations from 8.5% to near 12.5%. A re-rating toward the 25th–50th percentile of simulated intrinsic values (about US\$231–US\$253) would add roughly 45%–59% to the share price.

Capital returns confirm mid teens ROE Updates on buyback execution and Forestar lot availability by May 2026 (unconfirmed) should support a 15.0% ROE view. Acceptance of mid teens returns rather than 10.2% would justify movement toward the 75th percentile of simulated intrinsic values near US\$277, implying about 74% upside.

8. Valuation

Current price: US\$158.86

Base case value: US\$254.16

Upside potential: 60.0%

Expected IRR: 11.7%

Currency: USD

Report date: Oct 28, 2025

Latest annual financials: Sep 30, 2024

[Base case assumptions](#) [DCF model](#) [Bull/Bear scenarios](#)

Story:

D.R. Horton is a mature, scaled homebuilder with a broad national footprint and an integrated platform across lots, rentals, and mortgage. The base case assumes volumes stabilise and then grow slowly as affordability improves and backlog converts, while incentives moderate over time. Scale, Forestar lot access, and in-house financial services support mid-cycle profitability, but mortgage rate sensitivity and land costs cap upside. The firm compounds steadily with disciplined reinvestment and investment-grade discipline, trending to modest growth and mid-teens returns in maturity.

Multiples snapshot

Homebuilders trade on low multiples versus history, with peers near 9.5x P/E (32nd percentile), 1.3x P/S (41st percentile), and 1.7x P/B (58th percentile), reflecting rate and cycle risk. Horton trades close to these levels despite superior scale, backlog conversion, and mid-teens through-cycle ROE. Given better growth (3.5% vs 2.4%), higher margins (12.5% vs 8.5%), and stronger returns (15.0% vs 10.2%), I expect a shift toward upper median to upper quartile marks. Using the implied price framework, P/E median suggests about US\$195, P/B upper quartile about US\$222, and P/S

upper quartile about US\$296; triangulating these with fundamentals, a fair near term range of US\$210–US\$240 is reasonable. That still sits below my DCF base of US\$254 and supports a Strong Buy rating.

Price-to-sales: 1.3x (41th percentile vs. peers) with implied share prices from US\$73 to US\$490 across the revenue-weighted peer set.

Price-to-earnings: 9.5x (32th percentile vs. peers) with implied share prices from US\$106 to US\$532 across the revenue-weighted peer set.

Price-to-book: 1.7x (58th percentile vs. peers) with implied share prices from US\$71 to US\$447 across the revenue-weighted peer set.

9. Risks

Mortgage rates stay higher for longer: If rates remain elevated, orders and backlog conversion could lag. Growth would stick near 2.4% rather than 3.5%. Fair value would align nearer the 25th percentile of simulated intrinsic values around US\$231, cutting upside to roughly 45% from today and 9% below our base case.

Incentives persist and land costs rise: If incentives stay heavy and land or option charges remain elevated, net margins could hold near 8.5% instead of 12.5%. Value would cluster around the 10th–20th percentiles of simulated intrinsic values (about US\$211–US\$225), trimming upside to roughly 33%–42% and weakening the re rating case.

ROE drifts toward market levels: If buybacks slow and asset turns weaken, ROE could drift toward 10.2% rather than 15.0%. Applying a 1.5x–1.6x P/B to the current book value per share implied by today's 1.7x multiple (about US\$94) suggests US\$141–US\$150, far below our base case and implying limited near term upside.

10. Appendix

10.1 Base case assumptions

Valuation story

D.R. Horton is a mature, scaled homebuilder with a broad national footprint and an integrated platform across lots, rentals, and mortgage. The base case assumes volumes stabilise and then grow slowly as affordability improves and backlog converts, while incentives moderate over time. Scale, Forestar lot access, and in-house financial services support mid-cycle profitability, but mortgage rate sensitivity and land costs cap upside. The firm compounds steadily with disciplined reinvestment and investment grade discipline, trending to modest growth and mid-teens returns in maturity.

Revenue growth rate

Value: 3.5%

Explanation: Consensus implies low single-digit growth off a softer year, with revenues recovering toward the high \$30B range over multiple years. A 3.5% CAGR for the first four years fits a mature, cyclical leader with scale, lot control via Forestar, and ASP support, yet constrained by mortgage rate sensitivity and incentives. This sits inside analysts' multi-year trajectory from the trough and is therefore plausible.

Stable growth rate

Value: 3.3%

Explanation: Long-run growth should anchor near the economy's nominal pace and housing formation. I set 3.3% below the 3.74% risk-free rate to reflect cyclical and competitive pressures while allowing for population and household growth plus modest share gains.

Years to stability

Value: 8.0

Explanation: An eight-year horizon suits a mature, cyclical homebuilder as margins and volumes normalise over a full housing cycle. It also makes the 3.5% initial rate plausible as a four-year CAGR consistent with the consensus path from the current base to a steady state.

Sales-to-equity ratio

Value: 1.3

Explanation: Turnover has trended around 1.3x in recent years and sits near the industry median. Continued investment in lots, land development, and rentals keeps capital intensity elevated, so I assume a steady 1.3x rather than reversion to prior peaks.

Stable net profit margin

Value: 12.5%

Explanation: Adjusted margins peaked during the boom then compressed with incentives and mix. A 12.5% stable margin sits near the industry median, reflects durable scale advantages and integrated mortgage/title support, and recognises persistent land and interest costs in maturity.

FY+1 net profit margin

Value: 11.5%

Explanation: Management signals lower near-term profitability due to incentives and mix; consensus net margins also dip. I set 11.5% for FY+1, slightly above reported consensus because we capitalise parts of S&M and G&A, then allow gradual recovery as incentives moderate and volumes leverage SG&A.

Margin convergence

Value: 5.0

Explanation: Five years allows incentives to normalise, SG&A efficiency to flow through, and product mix to rebalance, while staying within the eight year stability window. This pace matches the typical healing phase across a housing cycle for a scaled operator.

Stable ROE

Value: 15.0%

Explanation: In steady state, margin of ~12.5% and sales to equity near 1.3x imply mid teens ROE without leaning on high leverage. I set 15%, above the stable cost of equity, reflecting scale, lot control, and disciplined capital allocation but below prior cycle highs.

Credit rating

Value: Baa1/BBB+

Explanation: Moderate leverage, strong scale, and resilient cash generation support investment grade status, while cyclical and land intensity cap the ceiling. This aligns with peers and the firm's balanced funding mix.

Recovery ratio

Value: 40.0%

Explanation: Homebuilding assets are tangible and collateral backed, aiding recoveries, but land and work in process carry cycle risk. A 40% equity recovery is reasonable for this asset mix and capital structure.

10.2 DCF model

All financial data in US\$ millions unless stated otherwise

	Base year	FY+1	FY+2	FY+3	FY+4	FY+5	FY+6
Revenue	36,801	38,089	39,423	40,802	42,230	43,687	45,173
YoY growth, %	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.4%
All expenses	31,810	33,709	34,810	35,947	37,121	38,314	39,526
Net profit	4,991	4,380	4,612	4,855	5,110	5,374	5,647
Net margin, %	13.6%	11.5%	11.7%	11.9%	12.1%	12.3%	12.5%
Reinvestment	2,849	991	1,025	1,061	1,099	1,121	1,143
Invested equity	27,801	28,792	29,817	30,878	31,977	33,098	34,240
ROE, %		15.2%	15.5%	15.7%	16.0%	16.2%	16.5%
S/E ratio, x	1.3	1.3	1.3	1.3	1.3	1.3	1.3
FCFE	2,142	3,389	3,587	3,794	4,011	4,253	4,504
Stable value							
FCFs to discount		3,389	3,587	3,794	4,011	4,253	4,504
Discount factor		1.0	0.9	0.9	0.8	0.7	0.7
Cost of equity, %	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%
PV of FCFE		3,389	3,308	3,226	3,146	3,075	3,004
	...				FY+7	FY+8	Stability
Revenue					46,686	48,227	49,818
YoY growth, %					3.4%	3.3%	3.3%
All expenses					40,850	42,198	43,591
Net profit					5,836	6,028	6,227
Net margin, %					12.5%	12.5%	12.5%
Reinvestment					1,164	1,185	1,370
Invested equity					35,404	36,590	
ROE, %					16.5%	16.5%	15.0%
S/E ratio, x					1.3	1.3	1.3
FCFE					4,672	4,843	4,857
Stable value							
FCFs to discount					4,672	4,843	94,488
Discount factor					0.6	0.6	0.6
Cost of equity, %					8.4%	8.4%	8.4%
PV of FCFE					2,873	2,747	53,584
Sum of PV of FCFE							78,351.7
Less: Distress adjustments							1,546.3
Distress likelihood, %							2.3%
Recovery ratio, %							40.0%
Value of common equity							76,805.4
Less: Employee options							0.0
Less: Unfunded liabilities							1,035.1
Value of common shareholders' equity							75,770.3
Divide: Share count							298.1
Equity value per share							US\$254.16

10.3 Scenarios

Bear case

Value: US\$162.36

Upside: 2.2%

Story: D R Horton faces a tougher housing cycle in this bear case. Mortgage rates stay

elevated, affordability worsens, and incentives remain high, which slows orders and keeps pricing power weak. Forestar and rentals tie up capital while funding costs and facility risks squeeze profitability. The company operates as a mature, cyclical builder with slower growth and lower, stickier margins as the industry normalises at a weaker level.

Revenue growth rate: 0.8%

Stable growth rate: 0.5%

FY+1 net margin: 11.0%

Stable net margin: 10.5%

Sales-to-equity ratio: 1.2

Years to stability: 10.0

Stable ROE: 12.0%

Bull case

Value: US\$323.00

Upside: 103.3%

Story: Bull case: D.R. Horton converts structural US housing undersupply into outsized volume growth, while incentives fade as affordability improves. The firm operates in the mature stage but exploits its scale, Forestar lot pipeline, and an integrated mortgage and title platform to gain share and turn inventory faster. Rental activity broadens demand and creates optionality to recycle capital at attractive returns. Operating discipline and mix normalisation lift adjusted margins back into the high teens at peak and sustain mid to high teens in maturity without resorting to excess leverage.

Revenue growth rate: 4.2%

Stable growth rate: 3.7%

FY+1 net margin: 12.7%

Stable net margin: 13.8%

Sales-to-equity ratio: 1.5

Years to stability: 9.0

Stable ROE: 19.0%

10.4 Other claims

(in US\$ millions unless stated)

Employee stock options

Number of stock options: 0.0

Weighted avg. strike price: 0.00

Weighted avg. maturity: 0.0

Assumed volatility: 0.0%

Assumed dividend yield: 0.0%

Value of options: 0.0

Unfunded liabilities

Pension obligations: 0.0

Post-retirement benefits: 0.0

Healthcare liabilities: 0.0

Deferred compensation: 241.3 – The SERP liability was \$56.8m and the deferred compensation plan net liability was \$184.5m at September 30th 2024, totalling \$241.3m. I used a 100% probability as these are recorded obligations under the plans.

Lawsuit contingencies: 792.8 – Reserves for legal claims were \$949.6m and expected insurance recoveries were \$156.8m, leaving \$792.8m unfunded. I used a 100% probability because the reserve reflects probable payments.

Environmental liabilities: 1.0 – A consent decree (entered in August 2024) requires a monetary penalty and a supplemental environmental project with total cost not expected to

exceed \$1.0m. I applied a 100% probability as the decree is effective and enforceable.

Other: 0.0

Total liabilities: 1,035.1

10.5 Cost of equity

Inputs for risk-free rate

Ten-year bond yield, %	4.0%
Bond yield country	United States of America
Default spread, %	0.3%
Risk-free rate, %	3.7%

Beta calculation

Operating segment	Sales	MC/Sales	Weight, %	Equity beta
Commercial and Residential Mortgage	883	1.4	2.9%	1.0
Finance				
Real Estate Operating Companies	1,685	3.9	15.5%	0.9
Homebuilding	33,962	1.0	79.5%	1.1
Real Estate Development	1,509	0.6	2.1%	1.1

Equity beta	1.10
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Equity risk premium (ERP) calculation

Geographic segment	Sales	Weight, %	ERP, %	Tax rate, %
United States of America	2,762	8.1%	4.3%	21.0%
United States of America	4,915	14.5%	4.3%	21.0%
United States of America	8,877	26.1%	4.3%	21.0%
United States of America	7,652	22.5%	4.3%	21.0%
United States of America	6,073	17.9%	4.3%	21.0%
United States of America	3,683	10.8%	4.3%	21.0%

Company ERP, %	4.3%
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Cost of equity calculation

Risk-free rate, %	3.7%
Beta x ERP	4.7%
Equity beta	1.1
Equity risk premium, %	4.3%
Cost of equity, %	8.4%

Stable cost of equity calculation

Risk-free rate, %	3.7%
Beta x ERP	4.7%
Stable beta (clamped)	1.1
Equity risk premium, %	4.3%
Stable cost of equity, %	8.4%

10.6 Reverse DCF

Expected IRR	11.7%
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Reverse DCF (continued)

Driver	Base value	Market-implied value	Difference
Stable net profit margin, %	12.5%	8.5%	-4.0
Revenue growth rate, %	3.5%	2.4%	-1.1
Stable ROE, %	15.0%	10.2%	-4.8

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