



Bulls Position in Toll Brothers for Housing Recovery

Ticker/Price: TOL (\$27.35)

Analysis:

Toll Brothers (TOL) with 4500 January \$28 calls bought \$4.65 to \$4.70 to open on 5/8 that follows the purchase of 6500 January \$23 calls back on 3/30 and 3/31. TOL on 5/6 with a smaller trade that bought 2000 June \$30/\$33 call spreads with earnings expected 5-27. TOL shares came under heavy pressure in March and have rebounded well with a move out of its base last week and a volume pocket showing room to move back to \$34 though the 21 week moving average at \$31 potential resistance. The \$3.3B homebuilder trades 9X EV/EBITDA, 7.4X Earnings and 32.7X FCF with a 1.6% dividend yield. TOL is a higher-end provider noted as America's #1 luxury builder so its demographics likely more insulated from the current economic downturn. It also has a strong balance sheet with \$3B of liquidity. Like many builders it has focused on an evolving land acquisition strategy and quicker inventory turns. TOL builds in 23 states and more than 50 markets and has a growing affordable luxury business of sub-\$500,000 homes now representing 21% of deliveries. TOL's markets are mainly focused on coastal states as well as strong markets like Arizona, Colorado, and Texas. TOL is coming off a quarter it executed poorly citing delayed closings in a few markets, notably Northern California where sixty missed closings were valued at \$67M but sees those delivering in Q2. It did cite strong demand with Q1 contracts +31% in units and +28% in dollars. TOL also remains active with acquisitions and three recent deals positioned it in dynamic markets like Atlanta, Nashville, Charleston, Greensboro and Myrtle Beach. Analysts have an average target near \$30 and short interest at 6% of the float which is down 20% Q/Q. On 4/15 Citi started shares Neutral with a \$25 target noting homebuilder share prices are at a historically attractive level following the coronavirus damage, and sees recoveries as 2021 visibility improves. Goldman cut shares to Sell with a \$17 target in early April citing a challenging operating environment and TOL's less defensive land position with high exposure to luxury price points. Wedbush with a note in early March noting comps will be easy for TOL in 2020 and sees profitability ramping into 2021 due to price increases, an Outperform rating and \$48 target. Hedge Fund ownership rose 1.26% in Q4 filings.

Hawk Vision:



Hawk's Perspective: TOL has nice rebound potential here even up to the 200 MA at \$36.25 and the 21 day a good level to trade against.

Confidence Ranking: \$\$