

**Rating**  
BUY

**Company**  
Builders FirstSource



**Analyst**  
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Equity Analyst



**UASBIG Sector**  
Industrials  
Homebuilding Products

**Exchange Ticker**  
NYSE: BLDR

**Buy In Date**  
10/17/2023

**Buy In Market Value**  
\$119.17

**Price Target**  
\$180.80

Builders FirstSource, headquartered in Irving, Texas, stands as the largest supplier of structural building products and value-added components and services in the United States. Operating across 42 states in over 550 locations, BLDR is strategically positioned to cater to the professional markets. The company's core mission is to deliver an integrated homebuilding solution, encompassing manufacturing, delivery, installation, and a comprehensive range of specialty building products.

The current dynamics of the housing market reveal a landscape characterized by a high cost of ownership and historically low inventory levels. Over the past 18 months, mortgage rates have witnessed an upward trajectory, with the 30-year fixed rate recently reaching its highest point in 22 years at 8%. This surge in mortgage rates has not only elevated the cost of homeownership but has also led to a scarcity of available inventory. Currently, the market holds a mere 2 months of inventory, significantly lower than the historical average of 6 months.

With over 85% of current mortgage holders benefiting from rates lower than the current market rates, reluctance to relinquish mortgages secured during the record-low interest rates of 2020 and 2021 is evident. The shortage in the number of homes for sale has further intensified, experiencing a 17.5% year-over-year decrease, reaching historic lows. This scarcity has driven up home prices and spurred demand for new construction as a viable alternative. Homebuilders like BLDR are well-positioned to capitalize on the escalating trend of new housing starts and building permits.

As homeowners opt to stay put, compete with new construction and aim to boost their property values, the industry is poised for a surge in renovation and remodeling (R&R) activities. BLDR's recent emphasis on the high-margin value-added products (23% increase since 2021) such as windows, doors and decking positions itself to meet the evolving R&R needs of homeowners across the nation.

Builders FirstSource continues to distinguish itself by leveraging technological advancements. Key initiatives, such as the digital platform myBLDR.com, introduced in Q2 of 2023, alongside proprietary 3D home configuration and automated take-offs, underscore the company's commitment to technological innovation. Management views the digital transformation of the homebuilding industry as a lucrative billion-dollar opportunity but have yet to reveal tangible revenues.

Despite a cooling housing market, competitiveness remains high. BLDR has strategically concentrated the correct, flourishing, builder-friendly and affordable markets such as Texas, Arizona, Florida and the rest of the Sun Belt. BLDR should continue to benefit from the demand that continues to outstrip supply, highlighted by an 18.6% year-over-year decline in available homes for sale. Notably, 36.2% of homes are selling above list price, emphasizing the persistent competitiveness within the sector.

While the housing market is showing signs of cooling, its overall competitiveness remains intact. The current scenario, with a decreased but still significant number of homes selling above list price, signifies that prospective buyers are increasingly inclined toward new home purchases. Considering current challenges, the strategic focus on technological innovation, the shift to a high-margin revenue segment and the market's overall resilience will be advantageous for home prices and, by extension, the preeminent homebuilders like Builders FirstSource.

## Key Data

Market Capitalization	\$15.11B
Price (10/13/23)	\$117.98
Price Target	\$180.80
52 Week Range	\$53.79 – \$156.85
Net Debt	\$3.56B
Beta	1.53

## Valuation Summary

DCF	\$179.25
Comparable	\$206.82
Historical	\$156.39

## EPS Estimates

	YRS	2023E	2024E	2025E
FY		\$12.35	\$11.53	\$14.06
Q1		\$2.41	\$2.35	\$2.96
Q2		\$3.16	\$2.96	\$3.58
Q3		\$3.88	\$3.66	\$4.64
Q4		\$2.90	\$2.56	\$2.88

## Operating Items

Sales	17.32B	19.13B	21.45B
YoY Growth	-23.8%	10.5%	12.1%
EBITDA	2.8B	2.66B	2.95B
Margin	16.2%	13.9%	13.7%

## Current Valuation

FY	2022A	2023E
P/E	4.96x	10.92x
EV/EBIT	4.39x	8.79x
EV/EBITDA	3.88x	7.06x

## United States Housing Market

Millions	Aug-23	YOY % Change
Median Sales Price	420,385	2.9%
Homes Sold	480,850	-13.5%
Homes for Sale	1,533,031	-17.5%