

Homebuilder Dividend Stocks With Hidden High Yields

by Robert Hauver

With all of the recent market volatility and dividend cuts in Energy-related dividend stocks, income investors are looking to other sectors for income stability.

(We maintain [High Dividend Stocks By Sectors Tables](#) which feature many high yielding stocks for each sector.)

Although it's not known for having any high dividend stocks, you may want to consider the Housing industry for some income plays and potential price appreciation.

We've found 3 homebuilder stocks which have been beating the S&P 500 over the past week, month and quarter. Two of these three stocks have also outperformed the market over the past year:

Ticker	Performance (Week)	Performance (Month)	Performance (Quarter)	Performance (Year)	52-Week High	52-Week Low	Relative Strength Index (14)
DHI	2.94%	1.89%	27.67%	16.20%	-6.26%	30.66%	52.5
PHM	6.91%	7.90%	33.39%	15.38%	-4.51%	34.81%	61.75
TOL	1.62%	7.69%	18.57%	-4.08%	-14.49%	18.12%	53.29
S&P 500	-1.30%	0.90%	7.20%	9.60%	-3.93%	15.73%	NA

Strong Growth Ahead in Housing: Economists are predicting a big rise in household formations in 2015, a key figure for Housing. IHS predicts that 2015 will see the addition of 1.08 million new households, with economic growth driving up the rate of new formation. Single family housing production is expected to rise 26% in 2015. DHI and PHM both get a large part of their revenue from sales in warmer states, where home sales growth is expected to continue to outpace national growth, at a pace of 24%. TOL caters more to the upscale market, and has good exposure to the high end areas of New York City, and Washington, DC.

Dividends: PHM cut its quarterly dividend from 2009 through 2012, and reinstated in August 2013 at \$.05. It maintained it at \$.05 until December 2014, when it raised it by 60%, to \$.08. TOL doesn't pay a dividend yet, but, as you'll see further below, it does have attractive options yields.

Ticker	Forward Dividend Yield	Most Recent Quarterly Dividend	Next Ex-Dividend Date (approx.)	Dividend Payout Ratio	5-Year Dividend Growth Rate
DHI	1.00%	\$0.063	2/5/15	7.20%	6.58%
PHM	1.44%	\$0.080	3/6/15	13.90%	increased by 60% in Dec. '14

Covered Calls Options: You can greatly improve upon these quarterly dividends by selling options. These 3 trades all have call premiums which pay much more than PHM's or DHI's next quarterly dividends. In fact, the DHI call option pays over 15 times DHI's next 2 quarterly dividend payouts.

Ticker	PRICE PER SHARE (1/14/15)	DIVIDEND PER SHARE \$ PAID PRIOR TO CALL EXPIRATION	ANNUAL'D DIVIDEND YIELD %	CALL OPTION EXPIRATION MONTH & STRIKE PRICE	CALL BID PREMIUM	ANNUAL'D CALL YIELD	TOTAL ANN'D STATIC YIELD	POTENTIAL ASSIGNED YIELD	ANNUAL'D TOTAL POTENTIAL YIELD	BREAK-EVEN PRICE
DHI	\$25.14	\$0.13	0.85%	8/22/2015 \$26.00	\$2.07	13.79%	14.63%	5.73%	20.36%	\$22.94
PHM	\$22.23	\$0.16	1.43%	7/18/2015 \$23.00	\$1.24	11.07%	12.49%	6.87%	19.36%	\$20.91
TOL	\$34.16	\$0.00	0.00%	6/20/2015 \$35.00	\$1.90	13.01%	13.01%	5.75%	18.77%	\$32.26

Our free [Covered Calls Table](#) will give you more details for these and over 30 other trades.

Since its \$26.00 call strike is \$.86 above DHI's \$25.14 price per share, this trade also offers you some potential price gains. Here are the income and gains yields for the 3 main scenarios in this trade:

Ticker	SHARE PRICE	CALL OPTION PREMIUM	DIVIDENDS Pre-Expiration Date	(A): STATIC INCOME (CALL PREMIUM + DIVIDEND)	POTENTIAL ASSIGNED PRICE GAINS (STRIKE PRICE MINUS SHARE PRICE)	(B): POTENTIAL ASSIGNED PRE- EX-DIVIDEND DATE INCOME: PRICE GAIN + CALL OPTION PREMIUM, BUT NO DIVIDENDS	(C): TOTAL POTENTIAL ASSIGNED INCOME: IF ASSIGNED AFTER EX-DIVIDEND DATES
DHI	\$25.14	\$2.07	\$0.50	\$2.57	\$0.86	\$2.93	\$3.43
	Nominal Yields:	8.23%	1.99%	10.22%	3.42%	11.65%	13.64%

Cash Secured Put Options: In addition to giving you immediate income, selling cash secured put options below a stock's price can also give you a lower breakeven for a stock. However, you won't receive any dividends, as you would when selling covered call options. As with selling calls, your account will usually be credited for the option premiums the same day, vs. waiting for the quarterly dividends.

Our free [Cash Secured Puts Table](#) lists more details for these and over 30 other income producing put trades.

Ticker	PRICE PER SHARE (1/14/15)	DIVIDEND PER SHARE \$ EX-DATES BEFORE PUT EXPIRATION	ANNUAL'D DIVIDEND YIELD %	PUT OPTION EXPIRATION MONTH & STRIKE PRICE	PUT BID PREMIUM	ANNUAL'D PUT YIELD	100% CASH RESERVE AMOUNT	BREAK-EVEN PRICE	52-WEEK LOW
DHI	\$25.14	\$0.13	0.85%	8/22/2015 \$25.00	\$2.37	15.87%	\$2,500.00	\$22.63	\$19.29
PHM	\$22.23	\$0.16	1.43%	7/18/2015 \$22.00	\$1.79	16.14%	\$2,200.00	\$20.21	\$16.56
TOL	\$34.16	\$0.00	0.00%	6/20/2015 \$33.00	\$1.75	12.41%	\$3,300.00	\$31.25	\$28.92

Valuations: All 3 stocks have strong earnings growth forecasts for their coming fiscal year. Given their low forward PEG values, PHM and TOL look more undervalued than DHI on a PEG basis.

Ticker	5 Yr. P/E Range	P/E	Forward P/E	PEG: CURRENT FISCAL YEAR	ESTIMATED EPS GROWTH % : CURRENT FISCAL YEAR	PEG: NEXT FISCAL YEAR	ESTIMATED EPS GROWTH % : NEXT FISCAL YEAR
DHI	7.46 to 40.10	16.55	11.59	0.73	22.67%	1.02	16.30%
PHM	3.03 to 33.88	17.85	15.53	-0.98	-18.32%	0.53	33.64%
TOL	11.53 to 73.79	18.80	13.64	2.67	6.52%	0.59	29.59%
INDUSTRY AVGS.	12.22 to 32.11	18.59	11.46				

Ticker	Company	Market Cap	P/Sales	P/Book	Float Short
DHI	DR Horton	\$9.05B	1.13	1.77	3.42%
PHM	PulteGroup	\$8.21B	1.45	1.75	4.07%
TOL	Toll Brothers	\$6.07B	1.55	1.59	4.75%
	INDUSTRY AVGS	\$3.30B	0.66	1.55	10.09%

Earnings Dates: DHI and PHM should be reporting later in January. TOL has the best record for earnings beats over the past 4 quarters.

Ticker	Earnings Date	Avg. EPS Estimate	Avg. Rev. Estimate	Earnings Beats TTM
DHI	1/26/15	\$0.34	\$2.08B	Missed last 2 Qtrs
PHM	1/29/15	\$0.40	\$1.76B	2 of 4 Qtrs
TOL	3/10/15	\$0.30	\$782.39M	All 4 Qtrs

Financials: It's a mixed bag here, with DHI leading for Return On Equity, but PHM leading by far on ROI.

Ticker	Return on Assets	Return on Equity	Return on Investment	Total Debt/Equity	Operating Margin
DHI	6.90%	14.10%	6.10%	0.72	10.00%
PHM	6.40%	11.70%	38.20%	0.41	11.70%
TOL	4.70%	10.30%	3.20%	0.88	10.20%
INDUSTRY AVGS.	4.99%	12.21%	8.27%	0.40	7.05%

Disclaimer: This article was written for informational purposes only. Author not responsible for any errors or omissions.

Disclosure: Author is short put options on DHI, PHM, and TOL.

