

THE MONTHLY RESEARCH CONFERENCE CALL

THE HOUSING ECONOMY: PICKING WINNERS IN A COMPLEX SPACE



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ARGUS RESEARCH COMPANY



WHAT'S NEW AT ARGUS

AUGUST 2018

■ The Argus Semi-Annual Performance Review

- We focus on providing full range of services, but...performance matters!
- Investars: Argus analyst/quant BUYs beat index on 1- thru 5-year basis
- Bloomberg BARR: Analysts ranked consistently in top 5
- Model Ports: Institutional, Growth, and G&I topping market on 1-year basis
- Focus List: median return 10.7% vs. 7.7% for S&P
- Our goal is high-quality research & high client returns

■ New to Coverage

- Diageo plc (DEO) - global drinks leader
- New Relic Inc. (NEWR) - cloud-based data storage & management
- Orange SA (ORAN) - communications services worldwide

■ Argus Quick Notes: Recent Weeks

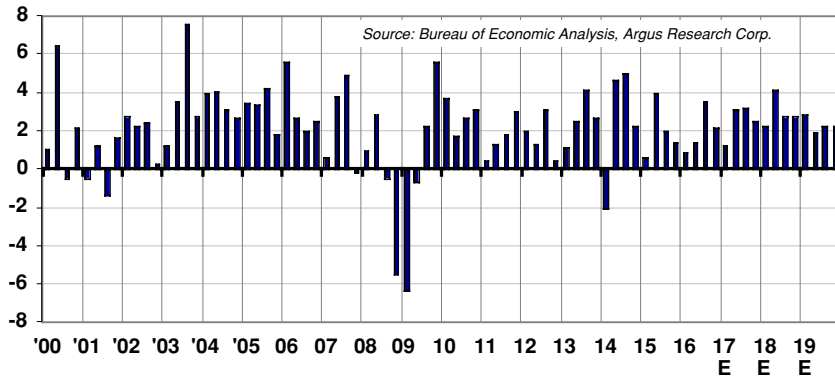
- Min Vol Stocks
- Double Digit Dividend Growers
- The Impact of Trade Wars

■ Argus Podcast

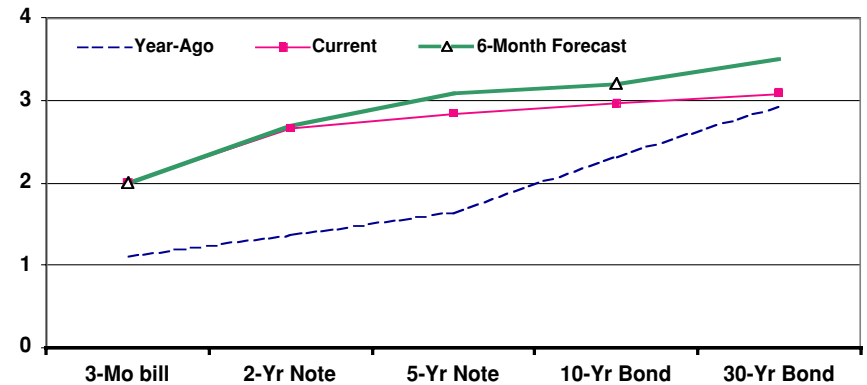
- Potential Impacts of Trump Tariffs — with John Eade

MACRO FORECASTS

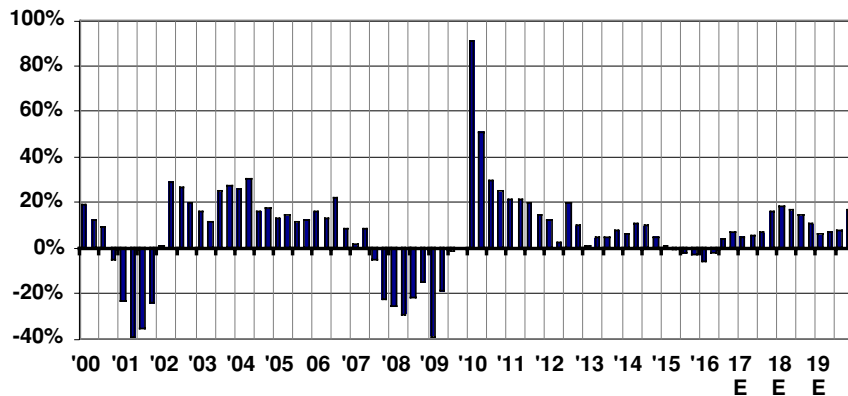
REAL GDP W/FORECASTS (%)



TREASURY YIELD CURVE (%)

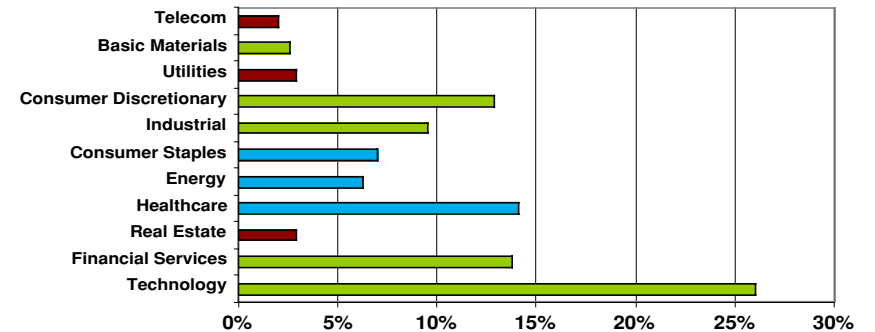


S&P 500 QUARTERLY EARNINGS GROWTH



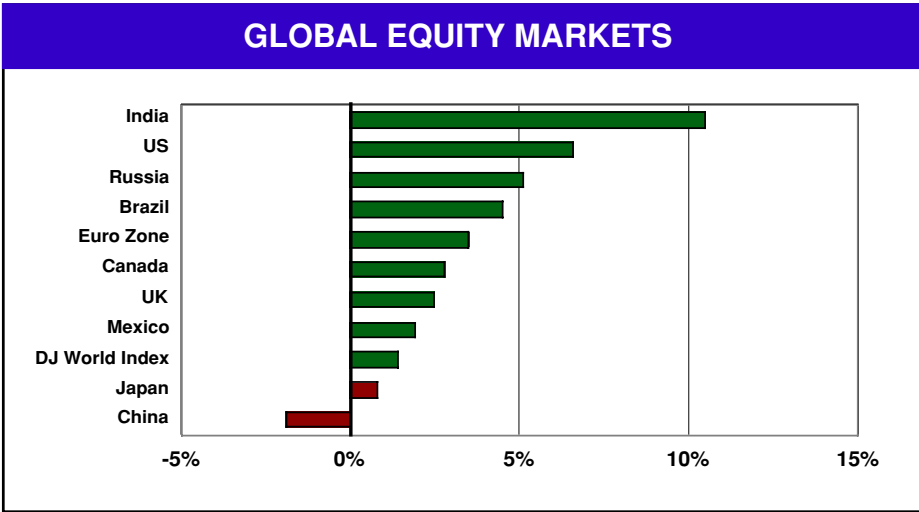
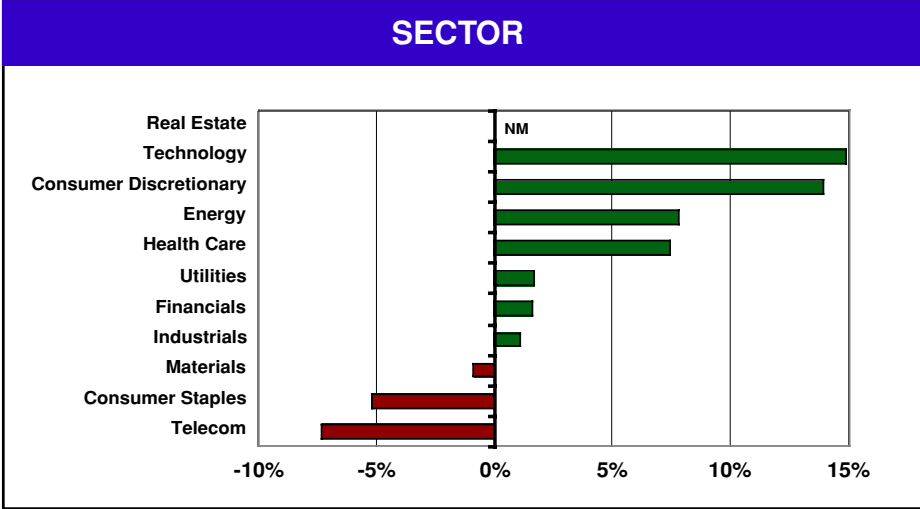
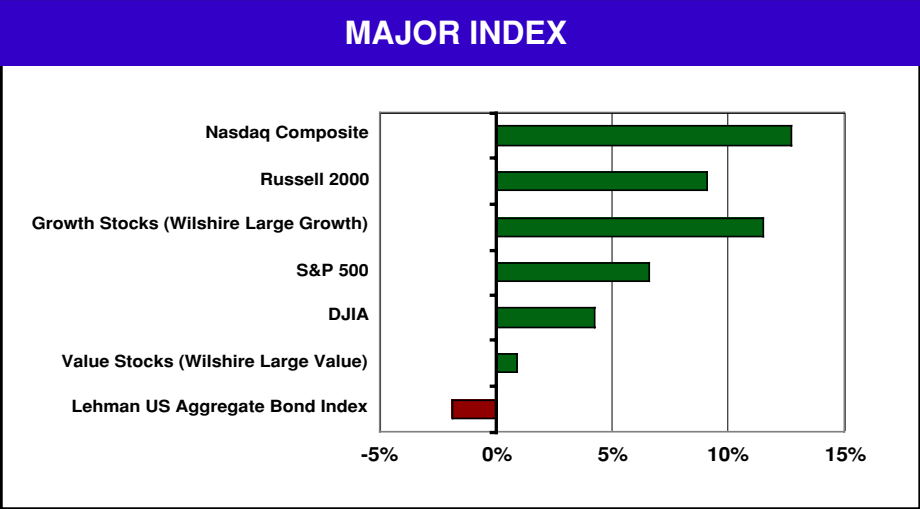
MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500

Sectors in Green are Recommended Overweight; Blue are Marketweight; Red are Underweight



MARKET PERFORMANCE

DATA AS JULY 30, 2018



HOUSING 2018

■ What's going on with housing stocks?

- Performance
- Sector dynamics

■ What is our multi-year thesis?

- Will I be able to make 360 monthly payments?
- Do I see my home as a cost or an investment?

■ What are the risks?

- Affordability
- Materials costs
- Labor availability

HOUSING-RELATED RECOMMENDATIONS

■ **Home Depot (HD)**
Target Price: \$215

■ **Williams-Sonoma (WSM)**
Target Price: \$67

■ **Lowe's (LOW)**
Target Price: \$110

■ **Masco (MAS)**
Target Price: \$50

■ **Lennar (LEN)**
Target Price: \$70

■ **Sherwin-Williams (SHW)**
Target Price: \$505

■ **D.R. Horton (DHI)**
Target Price: \$57

MULTIFAMILY REITS

■ Equity Residential

Recent Price: \$64 / Target Price: \$69

- **Thesis: Above-average rental prices/rises, margins, economic and competitive positioning.**
- **Risks: Rising supply and interest rates**
- **Valuation: P/FFO, NOI growth vs. peers**
- **Both stocks are down slightly and offer above-average dividend yields.**

■ AvalonBay Communities

Recent Price: \$172 / Target Price: \$185

- **Thesis: Upscale apartment market with high barriers to entry, experienced management, and strong balance sheet.**
- **Risks: Same risks but offsets oversupply in cities with suburb communities.**
- **Valuation: P/FFO, NOI growth vs. peers**

MULTIFAMILY REITS

■ Extra Credit

— ACC – recent downgrade on valuation (recent 20% run-up) and lower outlook but positive operating history and eventual outperformance

— Office and retail with 1%-2% residential business:

- BXP. Price: \$122 > Target \$132
- VNO. Price: \$70 > Target \$82
- BDN. Price: \$16. HOLD
- SPG. Price: \$173 > Target \$190

HOUSING-RELATED RECOMMENDATIONS

■ Ingersoll-Rand (IR)

12-Month Target Price of \$114, up from \$100

- **Exposure across the worksite: security (locking systems & access), climate (residential HVAC), compressors, and tools**
- **In 2Q18, 9% organic sales growth and 17% organic growth in bookings for Climate segment (80% of sales)**
- **Positives in the outlook:**
 - **Broad-based growth, including in Residential HVAX**
 - **Momentum in Industrial segment as well**
 - **Management raises guidance after strong 2Q**

HOUSING-RELATED RECOMMENDATIONS

■ United Technologies Corp. (UTX)

12-Month Target Price of \$150

- Diversified technology and manufacturing company with exposure to both commercial and residential construction
- In 2Q18, revenue rose 4% and operating income increased 2% in Climate Controls & Security segment (29% of sales)
- Positives in the outlook:
 - NA HVAC sales up 5%, orders up 8%

HOUSING-RELATED RECOMMENDATIONS

■ Honeywell Inc. (HON)

12-Month Target Price of \$180

- **Diversified industrial, technology and manufacturing company with exposure to both commercial and residential construction**
- **In 2Q18, revenue rose 3% and margin expanded 60 bps in Home & Building Technology segment (23% of total company sales)**
- **Positives in the outlook:**
 - **“Strong construction industry fundamentals”**
 - **Continued strength in residential thermal products and thermostats (smart meters)**
 - **Homes business to be spun off by end of 3Q, along with Transportation Systems business**

HOUSING-RELATED RECOMMENDATIONS

■ 3M Corp. (MMM)

12-Month Target Price of \$240

- **Diversified industrial and manufacturing company with exposure to residential construction**
- **In 2Q18, revenue rose 4% and margin expanded 2100 bps in Consumer segment (15% of total company sales)**
- **Positives in the outlook:**
 - **Notable growth in Home Improvement**
 - **New CEO Mike Roman**

HOUSING-RELATED RECOMMENDATIONS

■ Illinois Tool Works (ITW)

12-Month Target Price of \$175

- Global manufacturer of engineered industrial products and equipment
- In 2Q18, 4% sales growth in Construction Products (12% of sales) translated into 50 bps operating margin expansion, to 24.5%
- Positives in the outlook:
 - Leader in next-generation fastening systems as builders retire hammers and screwdrivers
 - Focus on safety, energy efficiency, & battery technology
 - Multiple brands (Alpine, Ramset) well-known on job sites

HOUSING-RELATED RECOMMENDATIONS

■ Emerson Inc. (EMR)

12-Month Target Price of \$81

- Global leader in the design, manufacture and sale of electrical, electromechanical, and electronic products
- In fiscal 2Q18, underlying 4% sales growth in Commercial & Residential Solutions segment (35% of sales)
- Positives in the outlook:
 - Demand strengthening in global HVAC
 - Expect strong 2H results in NA
 - ComfortGuard Smart HVAC Technology from Emerson

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