



## Position Update: NVR Inc. (NVR)

**NVR Inc. (NVR: \$3,404/share) – Maintaining Long Position – NVR +59% vs. S&P +11%**

NVR Inc. was selected as a Long Idea on 4/17/17 in [The Market Undervalues this Firm's Cash Flows](#). NVR earned a Very Attractive risk/reward rating at the time due to its high return on invested capital (ROIC), strong profit growth, and low price-to-economic book value (PEBV) ratio.

Following a 59% gain, driven by strong earnings beats, NVR now receives an Attractive risk/reward rating. Despite the price increase and rating downgrade, the stock still remains undervalued. Current fundamental and valuation highlights underlying NVR's [Attractive rating](#) include:

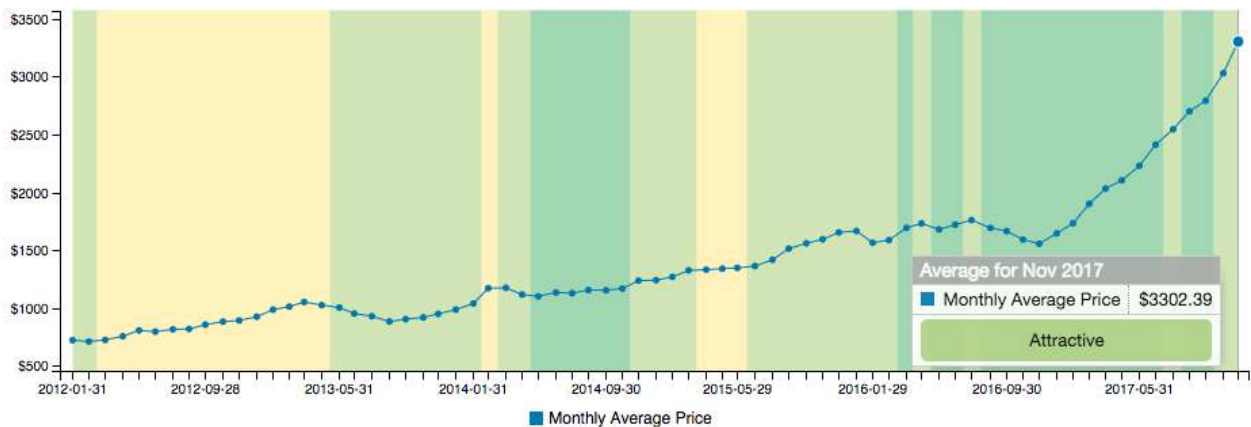
- 12% NOPAT CAGR since 2009
- NOPAT margins near the top of the industry
- Top-quintile ROIC of 22%
- FCF Yield of 3% vs. 1% for Industrials stocks and 2% the S&P 500
- PEBV of 1.4 for NVR vs. 3.2 for Industrials and 3.0 for the S&P 500

In our original article, we highlighted room for growth within the housing market, specifically in new home sales, and this trend has continued. In October 2017, new home sales [reached their highest level in 10 years](#). October also marked the third straight month of increasing new home sales after remaining relatively flat through the beginning of 2017. With the continued improvement in home sales, NVR continues to offer an attractive risk/reward trade-off.

If NVR can maintain 2016 margins of 7.5% (below TTM margins of 8.6%) and [grow NOPAT by 9% compounded annually for the next decade](#), the stock is worth \$3,997/share today – a 17% upside.

**Figure 1: NVR Stock Price and Risk/Reward Rating History**

### ▼ Normalized Rating History - Monthly Average\*



Sources: New Constructs, LLC and company filings

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*Disclosure: David Trainer, Kyle Guske II, and Sam McBride receive no compensation to write about any specific stock, style, or theme.*

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