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Lennar's Q2 results point toward solid housing recovery

Lennar Corp (NYSE:LEN) shares rose Tuesday Morning along with the rest of the housing sector as strong U.S. housing data boosted sentiment, and as the company reported second quarter results that beat analyst forecasts.

For the three months that ended May 31, net earnings for one of the U.S.'s largest homebuilders were \$137.4 million, or 61 cents per share, compared to a profit of \$452.7 million, or \$2.06 per share, a year ago. The latest results included a partial reversal of the state deferred tax asset valuation allowance of \$41.3 million, or 18 cents per share, compared to \$403 million, or \$1.85 per share, in the same quarter last year.

Revenue rose 53 per cent to \$1.4 billion as deliveries surged 39 per cent to 4,464 homes and, and the average sales price of homes delivered increased 13 per cent. New orders were up 27 per cent to 5,705 homes.

Analysts surveyed by FactSet expected earnings of 32 cents are share on revenue of \$1.32 billion.

The company said it had a backlog of 6,163 homes at the end of the quarter, up 55 per cent, with a dollar value of \$1.9 billion, a 76 per cent increase. The cancellation rate for the quarter was 14 per cent.

Gross margin on home sales was 24.1 per cent, an improvement of 160 basis points from the year-ago period.

Its homebuilding units pulled in operating earnings of \$158.4 million, up from \$55.8 million a year ago, while its financial services division made \$29.2 million, compared to \$18.0 million in the same quarter last year. Its operating earnings from Rialto Investments fell to \$2.8 million from \$4.3 million.

"Against the backdrop of recent investor concerns over mortgage rate increases, we believe that our second quarter results together with real time feedback from our field associates continue to point towards a solid housing recovery," said CEO Stuart Miller in the release on Tuesday.

"Demand in all of our markets continues to outpace supply which is constrained by limited land availability and fewer competing homebuilders. At the same time, affordability remains high and despite recent interest rate increases, we have seen very little impact on sales or pricing.

The average sales price of homes delivered increased to \$283,000 in the second quarter of 2013 from \$250,000 in the same period last year.

"As we have discussed on prior calls, conflicting macroeconomic data and interest rates reverting to normal levels can create headline risk to an otherwise straight-line recovery. However, the fundamentals of the homebuilding industry continue to be primarily driven by high affordability levels, favorable monthly payment comparisons to rentals, and

Price: 66.64

Market Cap: \$21.17 billion

1 Year Share Price Graph



Share Information

Code: LEN

Listing: NYSE

52 week High Low
68.03 43.26

Sector: Builders and building materials

Website: www.lennar.com

Company Synopsis:

Lennar Corporation is a homebuilder and a provider of financial services. The home building operations include the construction and sale of single-family attached and detached homes, multi-level residential buildings, as well as the purchase and sale of residential land directly, and through unconsolidated entities in which the Company have investments.

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overall supply shortages," he said, adding that land availability will continue to be a constraint for some time, given the length of the downturn.

Selling, general and administrative expenses were \$136.6 million in the second quarter versus \$105.4 million a year ago, but as a percentage of revenues from home sales, these expenses improved to 10.9 per cent from 13.2 per cent.

The company, with cash and equivalents of \$728 million at the end of the quarter, and no outstanding borrowings under its debt facility, saw its shares rise 2.5 per cent late Tuesday Morning, to \$35.87, paring year-to-date losses to 6.7 per cent.

The housing market also benefited Tuesday as the sales of new homes increased 2.1% last month to annual rate of 476,000 - the highest rate since mid 2008, providing more evidence of the strong recovery underway in the U.S. housing market. The figure well beat economists' expectations.

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