

KB Home 3Q Loss Narrows; Shares Tumble

By Dawn Wotapka
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NEW YORK (Dow Jones)--KB Home's (KBH) third-quarter loss was shaved by a dollar, helped by lower write-downs and improved margins, and the company reported a surge in orders.

Revenue slightly beat expectations, but land-related charges fueled a wider-than-expected loss, sending the stock tumbling: It was recently down more than 6.4% at \$17.35, making it by far the sector's biggest decliner.

There have been mixed signals in recent months as the sector works to recover from its worst downturn in decades. Buyer traffic has increased, and some analysts have become more positive on the sector. Still, hurdles remain, including rising foreclosures, high unemployment and the looming Nov. 1 expiration of an \$8,000 tax credit for first-time home buyers. Should the credit not be extended, builders will likely see sales soften in coming quarters.

Thursday, the National Association of Realtors said August's existing-home sales fell, surprising many who were looking for an increase. On Friday came news that new-home sales rose slightly in August, but missed expectations.

Rival builder Lennar Corp. (LEN) Monday posted a wider quarterly loss as demand remained weak, but the sector giant was optimistic that improving orders and a strong backlog will help it return to profitability in the next fiscal year.

Jeff Mezger, KB Home's chief executive, was cautious Friday as he described a market in transition. The home-building company reported increased year-over-year orders in all regions and it re-entered the Washington, D.C., market, a sign of increased confidence. But continued headwinds "make the timing and extent of a sustained rebound still uncertain," he said.

For the quarter ended Aug. 31, the Los Angeles-based company reported a loss of \$66 million, or 87 cents a share, compared with a prior-year loss of \$144.7 million, or \$1.87 a share. Write-downs were reduced to \$47.7 million, from \$82.2 million. Analysts polled by Thomson Reuters most recently were looking for a loss of 58 cents a share on revenue of \$458 million.

Revenue fell 33% to \$458.5 million as new-home deliveries dropped 20% and average selling prices fell 15% to \$202,800. The company has been building smaller and more-affordable homes to compete with bargain-priced foreclosures, a well-received approach dubbed "The Open Series."

"This strategy should help the company withstand the downturn," said UBS analyst David Goldberg.

Housing gross margin improved to 11.1% in the third quarter, from 3.9% a year earlier, a sign of increased efficiency. "That's key," said Steve Hagenbuckle, managing principal of TerraCap Partners, a real-estate private-equity fund. "They're sticking to just a few basic floor plans that make sense and they're limiting features and finishes, which are both high-cost areas."

Orders surged 62% to 2,158 homes, but that was down 26% from 2,910 in the prior quarter. As fewer buyers abandoned deals, the cancellation rate declined to 27% from 51% a year earlier, but climbed from 20% in the previous quarter.

Backlog, a forward-looking indicator, fell 22% to 3,722 homes from 4,774 a year earlier. The current backlog represents potential revenue of \$734.1 million, down from \$1.13 billion a year earlier.

KB Home, the nation's fifth-largest builder by 2008 closings, "likely pulled demand forward in its second quarter, and may have given back some of that gained market share this quarter," explained Zelman & Associates analyst Ivy Zelman.