RealMoney Investment & Trading Ideas

Another Lousy Quarter From HOV

By Scott Rothbort
RealMoney Contributor
3/11/2008 4:10 PM EDT

Updated from 3:17 p.m. EDT on March 10.

Hovnanian (HOV) pretty much delivered what we expected -- another lousy quarter jam-packed with impairments -- but the real homebuilding headlines for the day can be attributed to other sources. First was **Toll Brothers** (TOL) , which announced that it may have to record losses in conjunction with its joint ventures. Second was the **FOMC's** announcement to increase availability of liquidity to banks and accept mortgage collateral in the process. The last bit of news has helped to put a bid under the homebuilders, and, as a result Hovnanian is up nearly 10% on the day.

Hovnanian took a calculated risk when holding a big sale in the fall, and this has hurt the company in the short run. That effect, however, has worn off. Whereas Hovnanian had tough comps vs. the early part of 2007, there are some indications that, slowly but surely, the sales environment is beginning to improve. The real test will be next quarter, which is the heart of the selling season. As for now, short-covering and speculation is going to whip Hovnanian around. Investors still need to be patient and act with caution.

Hovnanian reported a loss of $2.07 per share on revenue of $1.094 billion for first quarter 2008.

Sales overview:

- Hovnanian's "deal of the century" sales promotion captured extra sales in September while cannibalizing sales in October and November (the latter month being part of first quarter 2008).
- Sales were "decent" in December and January.
- December sales were off 39% year over year, and January sales slumped 39% year over year.
- February, which is part of second quarter 2008, showed some improvement, with 804 net contracts but still represents a 31% year-over-year decline.
- The current sales pace is about 25% below last year's rates.
- Right now, sales are on track with the company's internal budget.

Hovnanian expects to generate cash for fiscal 2008 on top of the $376 million that was generated in fourth quarter 2007. Bank borrowings will increase modestly in the first half of 2008, however, and will be reduced in the second half. The bank facility was reduced to $900 million.

Lots owned by Hovnanian fell 25% from peak July 2006 levels of 27,372 lots. The company ended the quarter with 31,729 lots under option. It terminated and walked away from 1,600 lots under land contracts during the quarter, taking a $16.3 million charge in the process. Total land impairment charges totaled $73.8 million in the quarter. Tax losses will be carried forward for 20 years. Land positions will continue to be worked down.

Houses sold and unsold per community has declined from an average of 5.1

(over the past 10 quarters) to 4.7 at the end of first quarter 2008. The number of Alt-A mortgages declined to 19.7% from 27.3% of volume in 2007. The contract backlog stood at 3,745 homes, or $1.3 billion.

HOV Preview: Are There Any Glimmers of Hope?

Hovnanian (HOV) , the nationwide home builder, is scheduled to report first-quarter results and conduct its quarterly conference call on Tuesday morning. HOV is in the house of pain just like the rest of its sector peers, many of whom have recently reported their results, such as **Toll Brothers** (TOL) and **Lennar** (LEN) .

Since the company reports for the period ended Jan. 31, we are not likely to see any backward looking data that indicates that the housing market is improving. Perhaps, looking ahead, HOV will reveal, as did Robert Toll of TOLL discussed, there are some signs of a bottoming in certain markets and that we could be seeing glimmers of hope for the housing market.

For the record, HOV is expected to lose $1.96 on revenues of $911.4 million. In the year-ago quarter HOV lost 91 cents on sales of $1.17 billion. Embedded in all that we should see land and asset impairments, high levels of contract cancellation and escalating incentives to home buyers.

RELATED STORIES
Looking for a Bottom in the Homebuilders -- Part 2
Looking for a Bottom in Homebuilders
TOL: 'Glimmers of Hope'

At the time of publication, Rothbort had no positions in any of the stocks mentioned, although positions can change at any time.

Scott Rothbort has over 20 years of experience in the financial services industry. In 2002, Rothbort founded LakeView Asset Management, LLC, a registered investment advisor based in Millburn, N.J., which offers customized individually managed separate accounts, including proprietary long/short strategies to its high net worth clientele.

Immediately prior to that, Rothbort worked at Merrill Lynch for 10 years, where he was instrumental in building the global equity derivative business and managed the global equity swap business from its inception. Rothbort previously held international assignments in Tokyo, Hong Kong and London while working for Morgan Stanley and County NatWest Securities.

Rothbort holds an MBA in finance and international business from the Stern School of Business of New York University and a BS in economics and accounting from the Wharton School of Business of the University of Pennsylvania. He is a Professor of Finance and the Chief Market Strategist for the Stillman School of Business of Seton Hall University.

For more information about Scott Rothbort and LakeView Asset Management, LLC, visit the company's Web site at www.lakeviewasset.com. Scott appreciates your feedback; click here to send him an email.

Read our conflicts and disclosure policy.