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Toll Brothers profit falls on housing slump

By Scott Malone 26 minutes ago

Luxury home builder Toll Brothers (NYSE:TOL - news) said quarterly profit fell 79 percent, hurt by the U.S. housing slump, but its shares rose along with those of other builders on Thursday after government data showed a better-than-expected rise in new home sales.

A Commerce Department report showed that new home sales rose 16.2 percent in April, the sharpest gain in 14 years, though prices fell sharply as builders sought to move inventory.

Net income fell to \$36.7 million, or 22 cents a share, in the second quarter ended April 30 from \$174.9 million, or \$1.06 a share, a year earlier. Analysts on average expected 14 cents a share, according to Reuters Estimates.

"The results were bad, everyone knew they were going to be bad," said Eric Landry, equity analyst at Morningstar, in Chicago.

Early this month, Toll warned it would miss its earlier forecast of quarterly profit of 43 cents to 57 cents a share.

Asked on a conference call with analysts whether he had become more or less confident about the company's outlook since that time, Chairman and Chief Executive Robert Toll said, "A little more confident, but I would emphasize the little."

SHARP FALLOFF

For about a year, home construction has fallen off sharply on weakening demand and rising interest rates. This followed a long run-up in property values in many parts of the United States, as Americans took advantage of low interest rates and unconventional financing, like interest-only mortgages, to purchase larger and more luxurious homes.

"This is not a low-end type of phenomenon," Landry said of the slowdown. "The entire housing chain has been affected."

Analysts said much of the increase in April new home sales came in lower price tiers than Toll's market. The company sells homes worth around \$700,000.

"The increase is taking place below our space, which means that we're not out of the woods yet," Toll said. "I would say we've not got the bad times behind us, yet."

Second-quarter revenue fell 19 percent to \$1.17 billion.

Net contracts were down 25 percent to \$1.17 billion. Net of cancellations, contracts totaled 1,647 units, down 24 percent.

The second-quarter cancellation rate was 18.9 percent, down from the prior quarter's rate of 29.8 percent, but still higher than the company's historical average of about 7 percent.

"Given the uncertainty surrounding sales paces, and market direction and, thus, the potential for and size of future impairments, we are not comfortable giving full earnings guidance," Chief Financial Officer Joel Rassman said in a statement.

The company said it expected home building revenue of \$4.26 billion to \$4.88 billion for 2007 and \$990 million to \$1.28 billion in the third quarter. Analysts, on average, had expected full-year revenue of \$4.43 billion and third-quarter revenue of \$1.09 billion, according to Reuters Estimates.

The company noted that there remain some "glimmers of strength" in a soft real-estate market, citing the New York City metropolitan area, as well as areas around Philadelphia; the state of Delaware; Raleigh, North Carolina; the Texas cities of Austin and Dallas, and Northern California.

Toll Brothers shares rose 37 cents, or 1.2 percent, to \$30.14 in afternoon trading. Shares of D.R. Horton Inc. (NYSE:DHI - news), the largest U.S. home builder, were up 20 cents, or 0.9 percent to \$23.83, while shares of No. 2 Pulte Homes Inc. (NYSE:PHM - news) rose 61 cents, or 2.2 percent, to \$27.79. All three company's shares trade on the New York Stock Exchange.

Toll shares have declined 7 percent so far this year, a less-steep drop than the 9.3 percent slide in the Dow Jones U.S. home builders index (^DJUSHB - news), and trade at about 19.8 times the company's forecast 2007 earnings, a discount to the forward price-to-earnings ratio of 22.2 for that index.

(Additional reporting by Paritosh Bansal in New York)

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