

Initiated 2026-10-25 · Price \$47.05 (as of 2026-10-23 close, stockanalysis.com) · Mkt cap \$2.86bn · Consumer discretionary / homebuilding · Model: verified

Rating: Sell — Conviction: Low

KB Home's earnings are still falling: orders -12%, housing gross margin 16.5%, homebuilding operating margin 5.2%. Meanwhile land inventory and revolver debt are rising into a 5% 10-year and mortgage rates near 7%. At 0.75x book the stock looks cheap, but book only earns a ~6% ROE against an ~11.7% cost of equity. Both valuation methods put the base case below the price, and the bull case needs a margin recovery the rate backdrop doesn't yet support.

Conviction tests (3a-v-c): T1 fail (Sell → Hold at -1pp: Base midpoint -1.6%) · T2 pass · T3 pass · T4 pass

MODEL VALUE RANGE VS PRICE



Business overview

KB Home builds entry-level and first-move-up single-family homes in western, southwestern, central and southeastern US markets. It mostly builds to order: almost three-quarters of Q3 FY2026 deliveries were built-to-order. FY2025 (year to November) revenue was \$6.24bn from 12,902 deliveries at an average \$481,400. Financial services (insurance, title, and the KBHS mortgage JV) added \$35.0mm of pretax income. FY2026 is guided to 10,500–11,000 deliveries and \$4.90–5.10bn of housing revenue, down ~20%. Earnings turn on three things: absorption (monthly orders per community, 3.1 in Q3 vs 3.8), housing gross margin (price and incentives against land and build cost), and community count (277, up 5%). Mortgage rates drive all three.

Competition

KB Home competes for the same rate-sensitive first-time buyer as D.R. Horton, Lennar, Meritage and Pulte, and against resale listings. Pressure shows up in price first. Lennar's Q3 2026 (quarter to August) incentives were ~12.0% of price, with home-sale gross margin at 15.8% vs 17.5% (company release via HousingWire, September 2026). KB Home's 16.5% sits in the same band, but without Lennar's or Horton's scale on purchasing and mortgage buydowns. The market already separates the two groups. D.R. Horton and Pulte trade at 1.74x and 1.71x book. Lennar and Meritage, both margin-compressed, trade at 0.94x and 0.83x. KB Home is at 0.75x (stockanalysis, 2026-10-23).

Bull case

1. **Margins recover from a trough.** FY2025 adjusted housing gross margin was 19.1% and FY2024's was 21.1%. A return toward 19–20% on lower incentives would push EBITDA margin back to ~13%. Plays out if 30-year mortgage rates fall well below 7% and the cost of buydowns falls. *Model: ebitda_margin, exit_ev_ebitda*
2. **Volume returns on a bigger platform.** Backlog rose for the first time in four years (4,398 homes, +2%; \$2.05bn, +3%), and average community count is up 8%. Absorption back near 3.8 a month would compound into double-digit revenue growth. Plays out if deferred demand releases with rate relief. *Model: rev_growth*
3. **Inventory converts to cash.** About 60% of the 61,581 lots are owned. Slowing land spend would turn a \$5.98bn inventory back into cash and debt paydown, which is what supports a 0.75x-book price. Plays out if land investment, up 40% in Q3 to \$722mm, falls back. *Model: nwc_pct_rev*

Bear case

1. **Pricing pressure has not bottomed.** Housing gross margin fell to 16.5% from 18.2%, and the Q4 guide of 16.0–16.6% shows no turn. SG&A deleverage took the operating margin to 5.2% from 8.1%. Orders fell 12% and cancellations rose to 18%. Plays out if mortgage rates stay near 7% with the 10-year at ~5%. *Model: rev_growth, ebitda_margin*
2. **The balance sheet is absorbing the slowdown.** Notes payable rose to \$2.11bn from \$1.69bn, including \$415mm drawn on the revolver, and debt-to-capital rose to 35.7% from 30.3%. Inventories rose 5% while deliveries fell 19%, and \$175mm of buybacks ran on top of that. Plays out if land stays on the balance sheet into another soft spring. *Model: nwc_pct_rev; FY0 credit.debt*
3. **Sub-scale returns earn a sub-book multiple.** ROE is 5.9% and ROIC 4.2% (stockanalysis TTM). Until returns clear the cost of equity, book value is a ceiling on the multiple, not a floor. Plays out if KB Home keeps trailing larger builders on margin. *Model: ebitda_margin, exit_ev_ebitda, wacc*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
P/B (book \$62.56/sh at 2026-08-31)	0.75x	n/a (unverified)	DHI 1.74x · PHM 1.71x · LEN 0.94x · MTH 0.83x	stockanalysis.com, 2026-10-23
Forward P/E (stockanalysis consensus)	13.7x	n/a (unverified)	DHI 13.8x · PHM 13.0x · MTH 12.6x · LEN 17.9x	stockanalysis.com, 2026-10-23
EV/EBITDA, aggregator TTM (EBITDA excludes capitalized-interest amortization)	14.2x	n/a (unverified)	DHI 11.2x · LEN 12.7x · MTH 12.2x · PHM 9.0x	stockanalysis.com, 2026-10-23
EV/EBITDA, model basis (EV \$4.81bn = mkt cap + \$2.11bn debt – \$159mm cash; EBITDA incl. capitalized-interest amortization)	6.9x FY2025 (\$699mm); 11.4x TTM (est. \$420mm)	FY2022–25 EBITDA \$1.25bn → \$0.70bn	n/a (peers not restated)	model-inputs.json ; releases
FCF yield (TTM)	1.0%	n/a (unverified)	MTH 9.9% · DHI 7.8% · PHM 5.8% · LEN 4.0%	stockanalysis.com, 2026-10-23

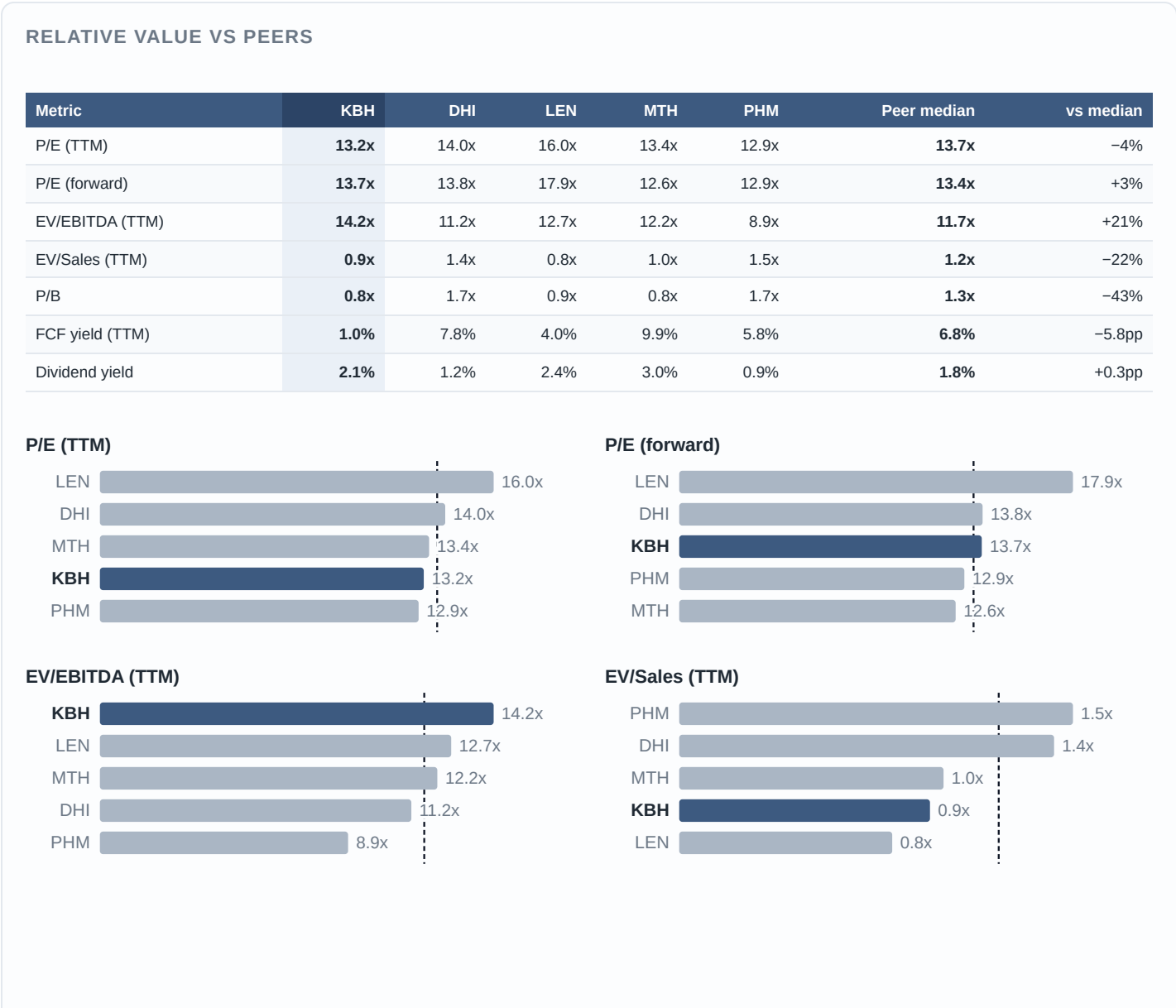
Model-implied value range (from `model-summary.json` ; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$7.82 · Base \$38.23 · Bull \$82.74 per share, i.e. implied returns of –83.4% / –18.8% / +75.9% vs \$47.05. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* The price sits closer to Base than Bull. The market is paying for part of a margin recovery while margins are still falling. Base `value_a` (\$36.88) and `value_b` (\$39.58) agree within 10%. Both embed a re-rating: the 8.0x Base exit multiple is ~16% above today's 6.9x on FY2025 EBITDA, though below the 11.4x on depressed TTM EBITDA. The bear case is a break, not a plateau: margin 5.5–7.5% and a 6.0x exit, with leverage at 2.8x. Book value is not modeled as a floor. Its

land would have to be sold below cost or developed at sub-cost-of-capital margins, so 0.75x book is the strongest argument against the call, not a refutation of it.

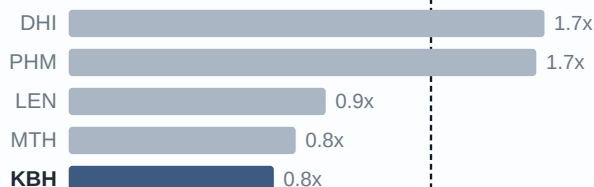
Balance sheet: net leverage 2.79x FY2025 EBITDA (model; 5.1x on Base Y1), EBITDA/interest 5.7x. Liquidity \$942.4mm (\$159mm cash plus \$783.4mm revolver availability). Nearest material maturity: the 6.875% notes due 2027 (amount n/a (unverified)). Ratings: n/a (unverified).

Model note: tier `full`, status `built`, verification `verified` (3,207 formula cells matched in LibreOffice). Unverified inputs: none. Assumptions without basis: none. Scenario consistency `OK` on all 14 rows.

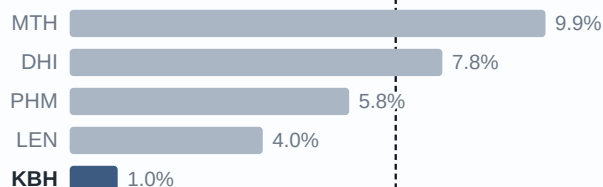
- Data path.** Revenue comes from EDGAR XBRL. EBITDA and NWC components come from the Q4 FY2025 and Q4 FY2023 releases (8-K ex. 99.1): KB Home's operating and balance-sheet lines are not in standard XBRL tags, and `OperatingIncomeLoss / InventoryRealEstate` returned no recent years.
- Debt.** Total debt is the 10-Q's \$2,109.1mm, split into the \$415mm revolver and \$1,694.1mm of senior notes and other (tranche amounts not retrieved). Coupons and the revolver maturity are not value-bearing.
- Working capital.** NWC is ~81–105% of revenue, so falling revenue releases cash. The S2/S4/S6 overlays carry margin shocks for incentives and impairments, because otherwise a slump would raise value.
- EPS.** The company gives no EPS guidance. Base Y1 EPS of \$2.76 implies Q4 ~\$0.76 vs \$1.05 in Q3: the model charges 6.5% on all net debt and a 24% tax rate.



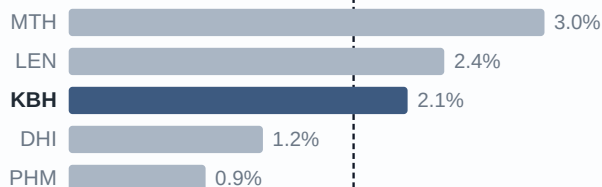
P/B



FCF yield (TTM)



Dividend yield



As of 2026-10-25. One source and one definition for every company: TTM multiples, forward P/E on stockanalysis consensus, EV/EBITDA on stockanalysis EBITDA (excludes capitalized-interest amortization in cost of sales). Not the model's own EV basis. Quotes are 2026-10-23 closes, fetched 2026-10-25 (weekend). Dashed line = peer median. Source: stockanalysis.com /stocks/<ticker>/statistics/, fetched 2026-10-25.

Notes. Omitted: stockanalysis shows no PEG for KBH.

Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

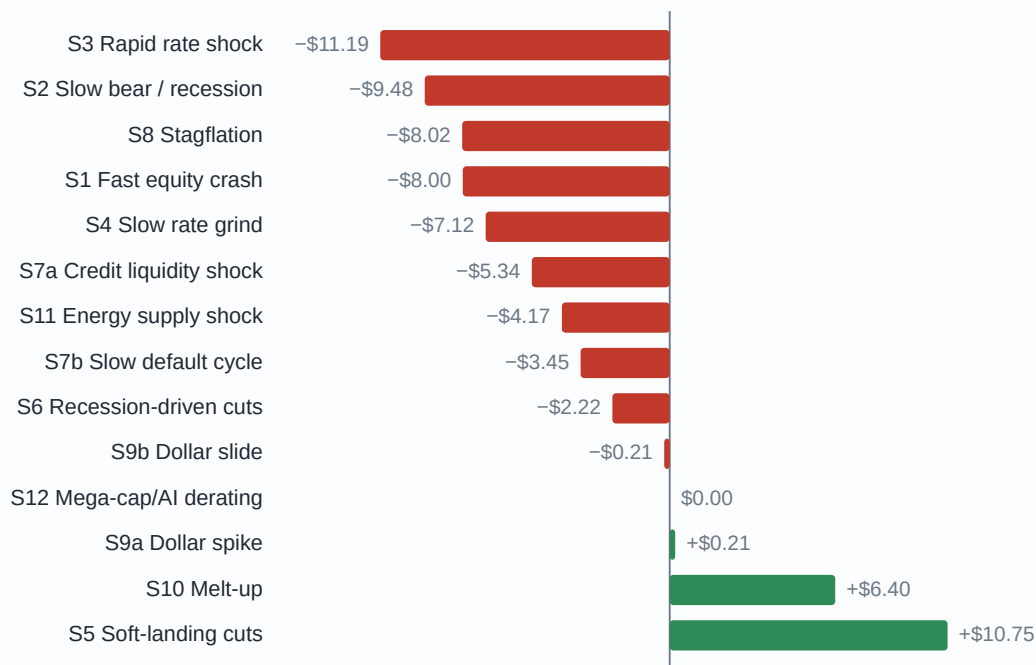
Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	Beta-1.34, 15.6%-shorted cyclical de-rates; no operating channel over weeks	Med	–\$8.00
S2 Slow bear / recession	–	Entry-level orders fall with jobs; incentives and impairments on fixed land cost. Milder than Base – Bear (\$30.41) on purpose: two years, not permanent, and inventory liquidates into cash	High	–\$9.48
S3 Rapid rate shock	–	Mortgage rates spike; first-time buyer affordability breaks; buydowns cost margin; higher discount rate	High	–\$11.19
S4 Slow rate grind	–	Same channels, compounding over years	Med	–\$7.12
S5 Soft-landing cuts	+	Lower mortgage rates release deferred demand and cut incentive cost	High	+\$10.75
S6 Recession-driven cuts	–	Rate relief arrives with job losses; land-option write-offs; partly offset by inventory release	Low	–\$2.22
S7a Credit liquidity shock	–	Revolver-funded builder de-rates with high yield; notes are long-dated	Med	–\$5.34
S7b Slow default cycle	–	Tighter mortgage and land-banking credit; weaker buyer credit	Low	–\$3.45
S8 Stagflation	–	Materials and labor inflate while higher rates cap price	Med	–\$8.02
S9a Dollar spike	+	Cheaper imported materials; revenue all US	Low	+\$0.21
S9b Dollar slide	–	Mirror of S9a	Low	–\$0.21
S10 Melt-up	+	Risk appetite re-rates a below-book, heavily shorted cyclical	Med	+\$6.40
S11 Energy supply shock	–	Oil shock feeds inflation and rates; buyer confidence falls	Low	–\$4.17

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S12 Mega-cap/AI derating	0	no material effect, not modeled	Low	\$0.00

Currently active/on watch per the playbook:

- S3 (partially active): the 10-year is back at 5.00% (macro log, 2026-10-23). S3 is this name's largest downside row.
- S8, S10 and S11 are on watch. S11 is near (Brent ~\$117, 2026-10-24/25 weekend log), and its channel here is through rates.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if:

- Housing gross margin turns up (above 17%) with absorption back at or above 3.5 a month; or
- Inventories and revolver borrowings fall while deliveries hold, so book starts converting to cash.

Downgrades if: already Sell. Conviction would rise if:

- FY2027 guidance implies another year of falling housing revenue; or
- Debt-to-capital rises above ~40%, or another inventory-related charge exceeds \$25mm in a quarter.

Watch items

- **W1:** Q4 FY2026 adjusted housing gross margin against the 16.0–16.6% guide, and FY2027 margin guidance. Source: Q4 release, ~mid-January 2027. *Model: ebitda_margin*
- **W2:** Q4 orders per community against 3.1, and backlog value against \$2.05bn. Source: Q4 release. *Model: rev_growth*

- **W3:** Year-end inventories against \$5.98bn, and revolver borrowings against \$415mm. Source: Q4 release / FY2026 10-K. *Model: nwc_pct_rev*
- **W4:** FY2026 10-K (~January 2027). It rolls FY0 and gives the senior-note tranche split and the 2027 maturity amount. Source: EDGAR. *Model: none (trigger)*

Sources

- SEC EDGAR XBRL companyconcept, CIK 0000795266, RevenueFromContractWithCustomerExcludingAssessedTax — <https://data.sec.gov/api/xbrl/companyconcept/CIK0000795266/us-gaap/RevenueFromContractWithCustomerExcludingAssessedTax.json> — accessed 2026-10-25
 - KB Home Q3 FY2026 earnings release (8-K ex. 99.1) — <https://www.sec.gov/Archives/edgar/data/0000795266/000079526626000068/exh991kbh-earningsrelease0.htm> — accessed 2026-10-25
 - KB Home Form 10-Q, quarter ended 2026-08-31 — <https://www.sec.gov/Archives/edgar/data/0000795266/000079526626000071/kbh-20260831.htm> — accessed 2026-10-25
 - KB Home Q4/FY2025 earnings release (8-K ex. 99.1) — <https://www.sec.gov/Archives/edgar/data/795266/000079526625000109/exh991kbh-earningsrelease1.htm> — accessed 2026-10-25
 - KB Home Q4/FY2023 earnings release (8-K ex. 99.1) — <https://www.sec.gov/Archives/edgar/data/795266/000079526624000004/exh991kbh-earningsrelease1.htm> — accessed 2026-10-25
 - Statistics: KB Home <https://stockanalysis.com/stocks/kbh/statistics/> · Lennar <https://stockanalysis.com/stocks/len/statistics/> · D.R. Horton <https://stockanalysis.com/stocks/dhi/statistics/> · PulteGroup <https://stockanalysis.com/stocks/phm/statistics/> · Meritage <https://stockanalysis.com/stocks/mth/statistics/> — accessed 2026-10-25
 - HousingWire, Lennar Q3 2026 earnings — <https://www.housingwire.com/articles/lennar-q3-2026-earnings/> — accessed 2026-10-25 (via search summary)
 - Daily macro log (10Y, S3/S11 status), `logs/macro-2026-10.md`, 2026-10-23 to 2026-10-25 entries
-

Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.