Green Brick Partners
(NASDAQ: GRBK - $5.46)

Who wants to buy into a company with little leverage, backed by David Einhorn and Dan Loeb, but pay prices almost 50% lower than they paid not even 6 months ago? Green Brick Partners sells at a pretty low valuation of 0.77 times book despite having a solid value backed by land in very attractive areas around Dallas and Atlanta, and little leverage. With a solid strategy and a CEO with almost 40 years of experience, GRBK has potential to almost double in value once the indiscriminate selling stops.

A uniquely built homebuilder

Green Brick is uniquely structured as a land development and homebuilding company. GRBK owns land lots and also owns 4 homebuilders through 50% controlling interests. The company then sells the lots and provides lot acquisition and vertical construction financing to their controlled builders. This also allows them to develop and sell land to other homebuilders.

GRBK claims that this structure gives them flexibility and will allow them to generate unlevered 20% IRRs. This structure also allows their controlled builders to participate in the upside and the homebuilders are required to finance all construction through GRBK, which should essentially guarantee a certain level of profitability with upside as well through their 50% interest in profits at their homebuilder's subsidiaries. It is also a big positive that all land is controlled at the GRBK corporate level, giving shareholders serious asset protection.

Focused on Dallas and Atlanta with almost 5,000 lots

GRBK owns or controls over 4,600 lots (76% owned) with 60% of the lots in Dallas and 40% in Atlanta. Both cities are very attractive because of a shortage of homes and a strong job market.

Dallas in particular only has 2.4 months of homes available for sale, when 6 months is considered normal. At the peak of the housing market in 2006-2007, Dallas saw building permits of nearly 50,000 permits. It is now at about half that rate of 25,000.

There have also been a slew of corporate relocations to Dallas, including the new HQ for Toyota, Liberty Mutual and a new 6,000-worker campus for J.P. Morgan. This is part of an area of Dallas called the Five Billion Dollar Mile and GRBK just announced a $170 million development in the very same area.

With strong job growth and limited available homes, it is not surprising that Dallas is one of the strongest housing markets. In December Dallas home prices were up 9.3% year over year, the fifth strongest housing market in the country.

Atlanta is also really attractive with only 3.8 months of available inventory, a very strong job market and corporate locations such as Porsche's new HQ. The jobless rate fell from a peak of 11.4% and is now only 5%. And again, GRBK is focused on the best parts of Atlanta such as Sandy Springs, where the unemployment rate is only 3.9%

Both Dallas and Atlanta need more homes and GRBK should earn very good returns with such a strong lot position in some of the best housing markets, which are backed by excellent long term demographic trends.

Backed by David Einhorn and Dan Loeb with seasoned CEO Jim Brickman

GRBK was actually co-founded in 2008 with David Einhorn's Greenlight Capital. The company was called JGBL. In 2014, this was contributed into a shell company called Biofuel Energy, which was subsequently named Green Brick Partners. In July of 2015, Dan Loeb from Third Point joined forces with Einhorn and infused GRBK with $175 million in an offering priced at $10 per share and all debt related to the 2014 transaction was paid off.

David Einhorn and Jim Brickman created this vehicle together in 2008. Apparently Brickman and Einhorn have known each other for quite sometime and Brickman comes with nearly 40 years of real estate experience including as Chairman and CEO of Princeton Homes.

Reasons for the selloff

Dan Loeb and David Einhorn's support and backing of Green Brick drove the stock to a high of almost $15 per share in the summer of 2015.

Then the bottom dropped out. The company missed earnings in the third quarter, which caused a dramatic selloff. The company cited a number of factors including weather, labor shortages and an extended building cycle that pushed off closings. Then to compound the situation, they parted ways with the chief operating officer, clearly for not handling the operational problems that emerged.

In two weeks, the stock halved itself from almost $12 to $6 per share and the latest market turmoil has driven it down to around $5.50 per share.

Valuation

At current levels, the stock offers significant value. First, the company only has about $20 million in debt, yet trades at 0.77 times book value. Other small cap homebuilders such as AV Homes (NASDAQ: AVHI) trade at similar multiples but are heavily indebted and as such have greater risk profiles.

GRBK also trades below the value of the company when it was first contributed, two years ago, despite substantially higher land prices.

That book value is probably understated by at least 10-20%, indicating a NAV of somewhere between $8 to $9 per share, just for the land and no value for profitable homebuilding platform they have built that will pump out $22 to $25 million of profit in 2015.

GRBK also has $85.2 million of NOLs due to its former shell entity; this as well is being valued at zero.

Insider buying

There has been insider buying worth nearly $300k from the CEO, CFO and head of land acquisitions, and insiders own about 9% of the company. Greenlight Capital owns 49.4% and Third Point (Dan Loeb) owns 16.6% of the company. That means insiders basically own 75% of the company. (Please note that the CEO Jim Brickman owns stakes in the company that represent 8.4% of the company, but some of his interest are in the names of his family members and other trusts)

That means that there are only about 12.1 million shares in the float, and the stock has probably seen peak selling. Consider that on January 15th volume equaled almost 1 million shares.

Summary

At the current share price, one would think GRBK was a levered housing company that was losing money. Instead, we find little leverage, operating profit and a valuation that makes little sense at a discount to book and a substantial discount to the market value of its land. The company also trades at about 10 times 2015 earnings, a year in which they encountered operational problems and unexpected costs.

With a shortage of homes in both of its markets and an attractive land position, GRBK should trade back to around $10 per share, and offers investors a potential 83% gain, with little downside from such a low current valuation.