

Fixer-Upper

One of the housing bust's more spectacular flameouts, Florida-centric WCI Communities is again alive and kicking after a detour through bankruptcy. Is the market being too reticent in recognizing its revival?

Among housing trainwrecks in the Great Recession, WCI Communities was a standout. With Carl Icahn as its chairman and largest shareholder, the Florida homebuilder flew high in developing luxury condos, only to crash to earth and file for bankruptcy in 2008 after the speculative fervor vanished. "They were one of the least-disciplined builders out there," says Ted Crawford of Roumell Asset Management, "which is saying something."

The company left bankruptcy in 2009 and has rebuilt itself as a self-styled "lifestyle community developer and luxury homebuilder of single- and multi-family homes," exclusively in Florida. It came public again in mid-2013 at \$15 per share.

So far, so good. Under new management, WCI is successfully wooing retirees and second-home buyers to its scaled-down and less-speculative higher-end developments. Last year its homebuilding revenues increased 37%, with all-cash buyers accounting for nearly 60% of sales and with only 5% of deliveries financed with loan-to-value ratios above 80%. The company is now solidly in the black and its shares are pushing post-IPO highs.

That's still undervalued, says Roumell's Crawford, who in recasting WCI's balance sheet sees three areas of potential hidden value. One is a set of 12 undeveloped condo-tower pads, on the balance sheet at 65 cents per share but worth closer to \$3 based on what he considers a conservative discounted-cash-flow assessment of their build-out over the next fifteen years. Two is a block of 3,500 home sites that also reflect fresh-start accounting from 2009. With a low cost basis, these future homes versus other inventory should earn an incremental 5-10% in gross margin as developed over the next five years, the discounted value of which he calculates adds \$3 per share to book. Finally, WCI owns the fourth-largest real estate broker in Florida, a solid business but one not considered a core asset. Marking it to the \$60

million Crawford believes it would eventually fetch in a sale adds another \$1.85 per share in incremental book value.

All in, he pegs the company's real book value at right around the current \$24 share price. That's hardly an ambitious valuation given he believes earnings – excluding the book-value adjustment items – can increase at 40% annually over the next few years as the high-potential Florida market returns to full strength. Florida in 2014 passed New York to become

the U.S.'s third most populous state, but home-building permit issuance is still at only two-thirds the 20-year average.

While large homebuilders trade at 1.7-2.0x correctly marked book value, Crawford uses 1.5x for WCI because it's smaller and less geographically diversified, arriving at a fair share value today of around \$35. "We look for stocks that fall into at least one of three categories," he says, "out of favor, overlooked and misunderstood. This one falls into all three." VII

INVESTMENT SNAPSHOT

WCI Communities (NYSE: WCIC)

Business: Designs, builds and operates residential communities targeting upscale primary and second-home buyers in Florida.

Share Information (@3/30/15):

Price	24.00
52-Week Range	17.08 – 24.76
Dividend Yield	0.0%
Market Cap	\$626.5 million

Financials (TTM):

Revenue	\$407.0 million
Operating Profit Margin	9.0%
Net Profit Margin	5.3%

Valuation Metrics (@3/30/15):

	WCIC	Russell 2000
P/E (TTM)	28.6	89.3
Forward P/E (Est.)	19.3	19.8

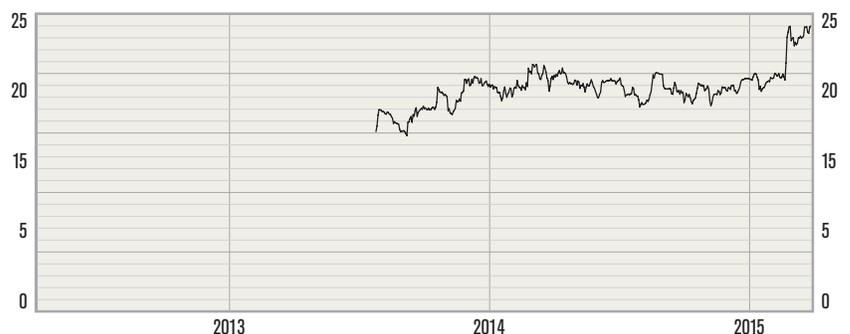
Largest Institutional Owners (@12/31/14):

Company	% Owned
Stonehill Capital	25.7%
Monarch Alternative Capital	12.9%
Brookfield Asset Mgmt	9.0%

Short Interest (as of 3/13/15):

Shares Short/Float	2.8%
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WCIC PRICE HISTORY



THE BOTTOM LINE

Having recast its strategy and balance sheet after bankruptcy, the company has both hidden asset value and significant potential to benefit as the Florida housing market returns to something resembling full strength, says Ted Crawford. At what he considers a conservative 1.5x his estimate of adjusted book value, the shares would trade at around \$35.

Sources: Company reports, other publicly available information

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