Home Bancshares, Inc. (HOMB)

Updated March 19th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$21.2	**5 Year CAGR Estimate:**	13.6%	**Market Cap:**	$4.38B
Fair Value Price:	$22.0	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	05/17/2023
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.8%	**Dividend Payment Date:**	06/08/2023
Dividend Yield:	3.4%	**5 Year Price Target**	$35	**Years Of Dividend Growth:**	12
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

A group of investors led by John W. Allison and Robert H. "Bunny" Adcock Jr. founded Home Bancshares, Inc., a bank holding company, in 1998. Customers in Arkansas, Florida, Alabama, and New York can access a variety of financial services via Centennial Bank, the company's main subsidiary. More than 300,000 consumers are served by the company's more than 222 branch sites. Home Bancshares holds a competitive position in the banking sector and places a high priority on offering excellent client care and creative financial solutions. The business derives income from several markets, including commercial loans, residential loans, consumer loans, and deposit accounts, and has a market share of about 1% in the US banking industry.

On January 19th, 2023, the company announced results for the fourth quarter ending December 31st, 2022. HOMB reported Q4 Non-GAAP EPS of $0.53, in line with market estimates. The company reported revenues of $272.3 million for the quarter, up 59.2% year-over-year. For 2022, Home Bancshares reported revenue of $870.2 million, up 22% from the previous year. The company also reported a net income of $115.7 million, up 6.4% from the $108.7 million profit in the previous year.

The net interest margin increased by 16 basis points from Q3 and 79 basis points from a year earlier to 4.21% in Q4 because of the improvement in the earning asset mix. Event interest income for the fourth quarter was $871,000 compared to $943,000 for the third quarter of 2022. The efficiency ratio was 42.4% for the fourth quarter of 2022, and the non-interest expense was $118.9 million. Lastly, Home Bancshares, Inc. lost roughly $600 million in deposits as interest rates rose dramatically in the fourth quarter of 2022, falling to $17.9 billion and significantly reducing their cash reserves. Even though the bank's structure and leverage are generally a little tighter, the management is convinced that there will be plenty of chances to deploy capital in the upcoming quarters modestly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$0.57	$0.85	$1.01	$1.26	$0.89	$1.73	$1.73	$1.30	$1.94	$1.57	***$2.00***	***$3.22***
DPS	$0.15	$0.18	$0.28	$0.34	$0.40	$0.46	$0.51	$0.53	$0.56	$0.66	***$0.72***	***$1.06***
Shares	116.5	132.7	137.1	140.7	151.5	174.1	167.8	165.4	164.9	195.0	***207.0***	***279.0***

In addition to the net interest margin's expansion, the bank's loan yield has improved to 6.23% in Q4, compared to 5.63% in the previous quarter. Thus, we forecast an EPS of $2.00 in 2023 in-line with analysts' estimates, and amidst the rising interest rate environment, the bank can grow faster in the following years, with a projected annual EPS growth of 10.0%, HOMB's EPS can reach $3.22 by 2028. Home Bancshares, Inc.'s DPS had a nine-year and five-year CAGR of 17.9% and 28.5%, respectively. However, the company's approach to managing its capital and liquidity supports the payment of competitive cash dividends. Thus, we have assumed an annual DPS growth of at least 8.0%.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	13.2	15.2	15.6	17.4	28.0	12.6	10.8	12.5	12.5	14.8	***10.6***	***11.0***
Avg. Yld.	1.2%	1.1%	1.5%	1.6%	1.6%	2.1%	2.7%	3.3%	2.3%	2.8%	***3.4%***	***3.0%***

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Home Bancshares, Inc. is trading at a forward P/E of 10.6, lower than its nine-year and five-year average P/E of 15.3 and 12.6, respectively. The recent banking crisis and fears of the contagion effect in the sector have suppressed bank stocks' valuations. However, considering the bank's resiliency, we have assumed a stable P/E of 11.0 to value the company in 2028 slightly lower than its historical averages, which accounts for the higher uncertainty attached to the sector, suggesting a target price of $35, and a 67% upside from current levels.

Safety, Quality, Competitive Advantage, & Recession Resiliency

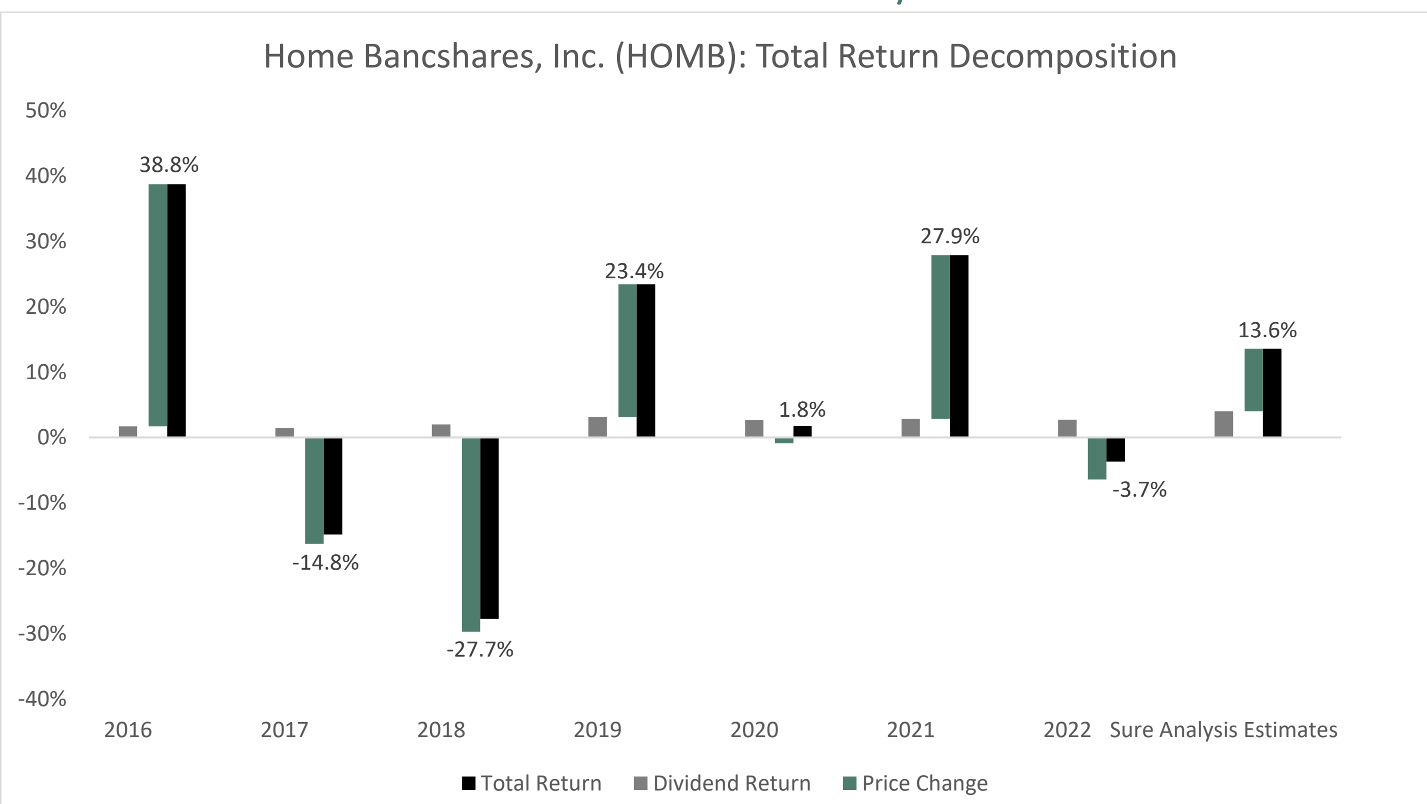
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	26%	21%	28%	27%	45%	27%	29%	41%	29%	42%	***36%***	***33%***

Home Bancshares, Inc. has proved its resiliency. Despite economic headwinds, the bank's entire franchise delivered a strong performance in 2022, as seen in its $115.7 million net income for the fourth quarter and $305.3 million for the year. The bank has a fortress balance sheet, with a total risk-based capital of 16.5% of its assets in Q4, which makes it one of the best-capitalized banks in the country. We believe HOMB is well-positioned to navigate a banking crisis without a material impact on its operations.

Final Thoughts & Recommendation

Following the banking crisis, the sector outlook remains uncertain. However, Home Bancshares, Inc's strong financial position and well capitalization supports the bank's position in the market, making it less vulnerable to contagion effects. Thus, following the pullback, the buy rating is premised upon the 13.6% annualized total returns for the medium term, derived from the forecasted earnings-per-share growth of 10.0% and 3.4% dividend yield.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	248	381	423	486	544	655	654	685	700	919
SG&A Exp.	75	100	115	133	148	180	188	179	186	260
D&A Exp.	6	46	32	15	17	19	19	20	19	32
Net Profit	67	113	138	177	135	300	290	214	319	305
Net Margin	26.8%	29.7%	32.7%	36.5%	24.8%	45.8%	44.3%	31.3%	45.6%	33.2%
Free Cash Flow	100	245	195	173	135	296	233	280	379	404
Income Tax	38	64	80	106	136	95	96	63	98	89

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	6,812	7,403	9,289	9,808	14,450	15,302	15,032	16,399	18,052	22,884
Cash & Equivalents	166	113	256	217	636	658	491	1,264	3,650	725
Acc. Receivable	23	24	29	31	46	49	45	61	47	103
Goodwill & Int.	324	346	399	396	977	1,001	995	1,004	998	1,457
Total Liabilities	5,971	6,388	8,089	8,481	12,245	12,953	12,521	13,793	15,286	19,357
Accounts Payable	5	29	56	51	42	68	102	128	114	197
Long-Term Debt	411	759	1,467	1,366	1,667	1,841	991	770	771	1,090
Total Equity	841	1,015	1,200	1,327	2,204	2,350	2,512	2,606	2,766	3,526
LTD/E Ratio	0.49	0.75	1.22	1.03	0.76	0.78	0.39	0.30	0.28	0.31

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.2%	1.6%	1.7%	1.9%	1.1%	2.0%	1.9%	1.4%	1.9%	1.5%
Return on Equity	9.8%	12.2%	12.5%	14.0%	7.6%	13.2%	11.9%	8.4%	11.9%	9.7%
ROIC	6.9%	7.5%	6.2%	6.6%	4.1%	7.5%	7.5%	6.2%	9.2%	7.5%
Shares Out.	116.5	132.7	137.1	140.7	151.5	174.1	167.8	165.4	164.9	195.0
Revenue/Share	2.13	2.87	3.08	3.45	3.59	3.76	3.90	4.14	4.24	4.71
FCF/Share	0.86	1.85	1.42	1.23	0.89	1.70	1.39	1.69	2.30	2.07

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.